

SHRI SHAKTI LPG LIMITED



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15th ANNUAL REPORT
2007-2008

BOARD OF DIRECTORS

Mr. D.V. Manohar

**Chairman &
Managing Director**

Mr.D.V. Satya Kumar

Director

Mr.D.V. Raja Sekhar

Director

Mr.D.V.L.N. Murthy

Director

Mr.S. Gopala Krishnan

Director

Mr. B.K. Sinha

Director

Mr. R. Prabhakar Rao

Director

Dr. A. Balasetti

Director

Dr. Bharat H. Barai

Director

Dr. Gorantla Govindaiah

Director

Mr. B.K. Bakshi

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 System Ltd

3, Sagar Society

Road No.2, Banjara Hills,

Hyderabad - 500034.

REGISTERED OFFICE

4th Floor, Venus Plaza

Adjacent to Airport,

Begumpet,

Hyderabad - 500016.

Tel : 91-040-27902929

Fax: 91-040-27908989

PLANTS

(1) Nemam Village

Beach Road,

Kakinada - 533005(A.P)

(2) Bibinagar

Near Railway Station

Nalgonda District.(A.P)

NOTICE

NOTICE IS HEREBY GIVEN THAT THE FIFTEENTH ANNUAL GENERAL MEETING OF THE MEMBERS OF THE COMPANY WILL BE HELD ON THURSDAY, THE 25TH SEPTEMBER - 2008 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, 2008.
2. To appoint a Director in place of Dr. Bharat H. Barai, who is retiring at this Annual General Meeting and being eligible, offers himself for re-appointment.
3. To appoint a Director in place of Dr. Gorantla Govindaiah who is retiring at this Annual General Meeting and being eligible, offers himself for re-appointment.
4. To appoint a Director in place of Dr. A. Balasetti, 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 : 28-07-2008

D. V. MANOHAR

Chairman & Managing Director

NOTE:

1. A member entitled to attend and vote at 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 24-09-2008 to 25-09-2008 (both days inclusive).



DIRECTORS' REPORT

To
The Shareholders,
Shri Shakti LPG Limited.

1. INTRODUCTION

Your Directors have pleasure in presenting their report together with audited accounts for the financial year ended 31st March, 2008.

2. FINANCIAL PERFORMANCE

The Financial performance of the Company for the year 2007-08 is indicated below :

	(Rs.000 Omitted)	
Particulars	2007-08	2006-07
Gross Income	35551	57662
Less : Expenditure excluding Interest, Depreciation & prior period and Extraordinary items	37552	39561
Profit / (Loss) before Interest, Depreciation & prior period and Extraordinary items	(2001)	18101
Interest	9707	35860
Profit / (Loss) before Depreciation	(11708)	(17759)
Depreciation	31182	31255
Profit / (Loss) before prior period and Extraordinary items	(42890)	(49014)
Prior period and Extraordinary items	0	3694
Net Profit / (Loss) before provision for Taxation	(42890)	(52708)
Provision for Taxation	0	0
Net Profit / (Loss)	(42890)	(52708)

During the year, the company incurred cash loss of Rs.11,708 thousands, (previous year Loss of Rs.17,759 thousands). After providing for depreciation amounting to Rs.31,182 thousands (previous year Rs.31,255 thousands), prior period / extraordinary items Rs. NIL (previous year Rs.3,694 thousands), the total loss for the year stood Rs.42,890 thousands (previous year Rs.52,708 thousands).

As stated earlier, all term loan and working capital liabilities of your Company have been fully paid-off under the One Time Settlement (OTS) deal. Your Company got a very good deal from all the three lenders based on our strong contention that our Company which was the acknowledged leader of the private sector LPG Industry 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 Crores and accept about Rs.26 Crores in full and final settlement of the overall liability of Rs.106 Crores. We could achieve this with your support and encouragement.

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-subsidized 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. 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.

With crude prices at an all time high level and alongside international LPG prices also soaring higher and higher, the margins in turn are becoming lesser and lesser. The subsidy on domestic gas which was around Rs 65/- ten years ago is now about ten times more which substantially increased the gap between the private sector gas and the government subsidized gas in the domestic market which in turn made this market virtually extinct for the private sector. This price difference has led to large scale diversion of government subsidized gas illegally into the commercial market. The auto LPG prices have also gone up at a far accelerated percentage than the petrol prices which makes auto LPG's fuel economy factor unattractive now.

In the above scenario, your company is exploring all avenues to enhance its revenues through optimum utilization of its infrastructure including more effective utilization of idle assets through tie-ups for tankage, storage etc and disposing of idle assets where required. Your Company is in an advanced stage of discussions for tie-ups / collaborations as above. Your Company is confident of tying up the above arrangements shortly and coming up with better performance in the near future.

15th ANNUAL REPORT

3. Deployment of Funds :

Sources of Funds	(Rs.000 Omitted)	
	31.03.2008	31.03.2007
Share Capital and Reserves	773986	773986
Un-secured Loans and Trade Deposits	209170	218890
Total	983156	992876
Application of Funds		
Net Fixed Assets, Capital Work-in-progress	443403	493965
Investments	10250	10250
Net Current Assets	108844	109691
Miscellaneous Expenditure to the extent not written off	26699	27900
Profit and Loss A/c.	393960	351070
Total	983156	992876

4. SUBSIDIARY COMPANY

Financial Results of your fully owned subsidiary Company viz. Asia LPG Pvt. Ltd. (ALPL) 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 31.03.2008.

6. DEPOSITS

Your Company has not accepted any Deposits during the year.

7. DIRECTORS

In term of Articles of Association of the Company, Dr. Bharat H.Barai, Dr. Gorantla Govindaiah and Dr. A. Balasetti retire as Directors at this Annual General Meeting and being eligible offer themselves for re-appointment. Your Directors recommend their re-appointment.

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 remuneration in excess of the limits prescribed u/s. 217(2A) for the Companies Act, 1956, read with Companies (Particulars of Employee) 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 31st March, 2008, the applicable accounting standards have been followed along with proper explanation relating to material departures;
- (ii) that the Directors have selected such accounting policies and applied them consistently and made judgments 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 31st March, 2008 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 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 the unflinching support and cooperation.

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

Place : Hyderabad
Date : 28-07-2008

Opportunities and Threats :

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

- a) One Time Settlement (OTS) with the term loan and working capital lenders wherein the entire accumulated interest along with considerable part of the principle amount is waived.
- b) Tie up financial arrangements to raise the amounts required for meeting the OTS commitments.
- c) 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 3 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 honour 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 the State Bank of Hyderabad (SBH) in 2006 and IFCI Ltd. (IFCI) in January - 2007.

The Government of India has to remove the subsidy which it has not been doing. Therefore your 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 revenue 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 3 Wheelers.

The LPG business constituted 98% of the total turnover of Rs.295.78 lacs and there are no significant operations from the Auto Conversion Kits Division as of now.

Outlook :

The company is focusing on the non-subsidised markets such as Commercial, Industrial and Auto Fuel markets. It is also tying up with Public Sector Oil Companies and MNC's to share the infrastructure in order to generate revenues. Negotiations are in advance 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 respect 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. Gopala Krishnan, Sr. Partner, PWC and consists of eminent Independent Directors such as Mr. B. K. Bakshi, former CMD, Indian Oil and Mr. D.V.L.N. Murthy, former MD, A.P. Industrial Development Corporation. It reviews the important observations of the Internal Audit and suggests corrective action for the management to implement. It also meets periodically to review and recommend quarterly, half yearly, 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 and results of the audits.

Financial performance Vs. Operations performance :

During the year the company incurred cash loss of Rs.11708 thousands (previous year Rs.17759 thousands). After providing for depreciation of Rs.31182 thousands (previous year Rs.31255 thousands), the total loss for the year stood at Rs.42890 thousands (previous year Rs.52708 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 25 permanent employees at the end of financial year 2007-08.

Cautionary Statement :

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