

Sical



South India Corporation (Agencies) Limited

47th Annual Report 2001 - 2002

OPERATING RESULTS AT A GLANCE

(Rs. in Lakhs)

	2001-2002	2000-2001	1999-2000	1998-99	1997-98
Sales & Other Income	1,33,325.50	2,19,181.40	1,93,946.48	1,79,286.99	79,478.62
Profit Before Depreciation, Interest and Tax	8,814.15	11,603.91	10,545.02	9,632.47	6,170.24
Interest	7,011.59	6,920.38	5,775.27	5,367.27	2,828.03
Profit before Depreciation and Tax	1,802.56	4,683.53	4,769.75	4,265.20	3,342.21
Depreciation	1,229.31	1,380.11	1,448.90	1,173.10	1,008.46
Provision for Taxation	364.45	1,151.70	960.14	689.62	814.10
Profit after Tax	208.80	2,151.72	2,360.71	2,402.48	1,519.65
Transfer to :					
Capital Redemption Reserve	-	200.00	23.50	-	-
Contingency Reserve	-	-	150.00	150.00	-
Debenture Redemption Reserve	-	680.00	471.00	481.33	302.00
General Reserve	-	200.00	289.71	500.00	500.00
Networth	16,842.43	19,315.55	19,033.48	18,375.93	12,829.84

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BOARD OF DIRECTORS**Dr. A.C. MUTHIAH***Chairman***Shri ASHWIN C. MUTHIAH***Deputy Chairman***Shri S. CHANDRA DAS***Director***Shri R. MUTHU***Director***Shri DHANANJAY NARENDRA MUNGALÉ***Director***Shri JAWAHAR VADIVELU***Director***Dr. A.M. SWAMINATHAN***Director - IDBI Nominee***Shri TONY ADAM***Managing Director***Shri R. RAVINDRAN***Finance Director***Shri S. VASUDEVAN***Director - Commercial***BANKERS**

ALLAHABAD BANK

BANK OF INDIA

BANK MUSCAT S.A.O.G.

CENTURION BANK LTD

GLOBAL TRUST BANK LTD

HDFC BANK LTD

IDBI BANK LTD

INDIAN BANK

STATE BANK OF INDIA

STATE BANK OF MAURITIUS LTD

THE FEDERAL BANK LTD

THE KARNATAKA BANK LTD

UTI BANK LTD

COMPANY SECRETARY**Shri S. SIVARAMAN****REGISTERED OFFICE**

"Adyar House", Chennai 600 085

AUDITORS**M/s. FRASER & ROSS**

Chartered Accountants,

Temple Towers, 2nd Floor, 672, Anna Salai,

Nandanam, Chennai 600 035.

PRINCIPAL OFFICE

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DIRECTORS' REPORT

REPORT OF THE DIRECTORS TO THE SHAREHOLDERS OF THE COMPANY ON THE ACCOUNTS FOR THE YEAR ENDED 31ST MARCH 2002.

The Board of Directors present their **forty seventh** Annual Report together with the Audited Accounts for the year ended 31st March 2002.

FINANCIAL RESULTS

The financial results for the year ended 31st March 2002 are summarised below:

	(Rs. in crores)	
	Year ended 31st March, 2002	Year ended 31st March, 2001
Sales & Other Income	1333.25	2191.81
Profit before interest, depreciation and tax	88.14	116.04
Interest	70.12	69.20
Cash Profit	18.02	46.84
Depreciation	12.29	13.80
Profit before tax	5.73	33.04
Provision for tax	2.97	10.35
Tax relating to prior year	0.67	1.17
Net Profit	2.09	21.52
Earnings per share (EPS) in Rs.	(0.78)	6.11
Book value per share in Rs.	46.12	59.58

DIVIDEND

The Board of Directors recommend a dividend of 7.5% on the paid-up Equity Share Capital of the Company for the year ended 31.3.2002, by drawing a sum of Rs.57 lacs out of General Reserve subject to deduction of tax and Preference dividend at agreed rates on the Preference Shares issued on private placement basis.

PREFERENCE SHARES

During the year under review, 13% Redeemable Preference Shares amounting to Rs.2.55 crores issued in favour of SICOM Ltd., were redeemed.

Performance of the Company

While the operating profits of the Company for the year 2001-02 was in fact good, the bottomline was affected on account of a huge interest burden the Company is saddled with, and despite the hiving off the sugar and distillery divisions which contributed capital profits to the Company, PAT dropped sharply. Serious efforts are underway to complete a financial restructuring that was started sometime ago with the focus on reduction as well as restructuring the residual debts on favourable terms to bring down the huge burden of interest. The Company has mandated IL&FS for this purpose and we hope to achieve our stated objectives quite soon.

The Logistics group continued to perform very well despite losing a part of our TNEB contract at the load ports. As a matter of fact, except for the refractory, vehicle sales and the Boat building divisions, all the other divisions performed in line with their respective budget.

LOGISTICS GROUP

During the year under review, the volume handled by the division dropped to 19 million tons from 30 million tons in the previous year due to the loss of a part of the TNEB contract at the load ports. One part of the 20 year BOT contract for TNEB for handling thermal coal through the new Ennore port commenced in February, 2002 and approximately 3 lakh MT's was handled by end of March, 2002. The second part of the contract involving the use of the state-of-the-art cranes installed by the Company commenced trial operations in May, 2002 and are now fully commissioned and performing very well. This contract will bring in a steady stream of income to the Company and give the Company a leading edge in bidding for similar projects across the country.

This division also bagged another prestigious coal contract with the Karnataka Power Corporation Limited (KPCL) which involves movement of coal from Talcher in Orissa to Raichur thermal power plant of KPCL. This is a three year contract which commenced from July,2001 and the annual volume to be handled is in excess of one million tons. This division also has bagged another contract from KPCL for the all rail movement of coal from western collieries to Raichur. This is another three year contract awarded in 2002 with an annual volume of 1.5 million MT's.

Apart from the thermal coal, the Company for the first time has crossed the 8 million MT's volume in handling of bulk products at all ports in the country and the Goa port has emerged a forerunner with the volumes touching 2.5 million MT's, a 30% increase over last year.

The performance of the Trucking and Warehousing divisions were much better than the previous year and the Company expanded its network in Goa and Karnataka and is now in an advanced discussion with few companies to be a "third party logistic partner" to handle the entire logistics both inward and outward and we are hopeful of emerging successful shortly.

MARKETING GROUP

Building Materials: This division performed well achieving a turn over of Rs.161 crores with a profit of Rs.3.41 crores. Due to a slack demand for steel products in a recession hit economy, the margins on the sale of steel products were affected. However, for the current year, the off-take has improved considerably as well as margins. The Company continues to retain its position as the single largest distributor for TISCO products in the country.

Vehicle Sales: Due to severe competition in the premium segment, margins took a beating and affected the Company's bottomline for the first time in many years. The losses of this division could be contained due to an excellent performance of our workshop which earned a profit over Rs.50 lakhs during this year and the Lancer division which earned a profit of Rs.86 lakhs. The Company has now focussed its attention on the servicing of vehicles to bring in the revenues and all workshops are being fully equipped to achieve growth in volumes through servicing.

AGRO GROUP

Sugar and Distillery : Sugar and Distillery divisions in accordance with the decision taken at the last AGM of the Company were hived off. Both these divisions were transferred with effect from 1st January, 2002.

Oil Palm: During the year under review the Oil Palm Division at Andhra Pradesh had crushed 19534 MT's of Fresh Fruit Bunches (FFB) and produced 3892 MT's of crude palm oil and earned a profit of Rs. 2.29 crores, on a turn-over of Rs.9.46 crores.

Cytozyme : During the year, this division did well by recording a turnover of Rs.3.82 crores and a net profit of Rs.2.27 crores.

MANUFACTURING GROUP

Auto Components: The auto component business in technical collaboration with M/s Johnson Electric Automotive Inc., of Hongkong has performed very well during the year achieving a turn over of Rs.15.72 crores and a profit of Rs.1.72 crores. This division obtained the prestigious QS 9000 certification from UL-USA. For the year, 85969 nos of Radiator Cooling Fan assemblies were produced for automobile majors like FORD, FIAT, TELCO, MUL and Mahindra & Mahindra. This division is also rated as one of the best vendors by FORD, MUL & TELCO as rejection levels at customer point has remained at zero ppm consistently throughout the year.

Refractories : This division's performance continues to be poor and losses for the year were Rs.4.07 crores.

Poor off-take and depressed prices continue to plague this division. There is no improvement in the first quarter of the current year as well and the Company is working on certain strategies to cut back on losses which would include a temporary stoppage of production at one of the plants.

ENGINEERING GROUP

Boat Building : No new orders were received in the Boat Building division and revenues from the ship repair division also came down during the year as the shipping industry itself went through turbulent times. During the year the Company has received an order from the Tuticorin Port Trust for a VIP launch at a value of Rs.3.28 crores. M/s. Bharat Earth Movers Ltd., on behalf of Indian Army has placed an order for 33 numbers motor tug launches at a total cost of Rs.5.94 crores. Two numbers 32 tons Bollard Pull tugs for Chennai Port Trust and three numbers passenger cum cargo vessels for Andaman & Nicobar administration and three numbers mooring launches are under delivery now.

CORPORATE GOVERNANCE

The SEBI / Listing Agreement with Stock Exchanges require the compliance with Corporate Governance practices. Your Company has fully implemented the Corporate Governance practices and the report as approved by the Board and certified by the statutory auditors is set out in the annexure to the Directors' report.

OTHER INTERESTS

SICAL CWT DISTRI PARKS LIMITED: During the year under review, your Company enhanced its stake in this joint venture from 27% to 39% consequent to the purchase of shares from HSBC Private Equity India Fund as per the terms of the Investment agreement and this investment was approved by the shareholders vide AGM resolution dated 24.08.2000. This joint venture Company, had during the year performed reasonably well, despite adverse conditions prevailing at the Chennai Container Terminal whereby the volumes handled at the Port were lower by 15% as against its projections. This Company had handled a record 2253 TEUs in January, 2002 and with the Container Terminal now being privatised, it is expected to do well in the coming years.

PSA SICAL TERMINALS LIMITED: This Company which has a licence agreement with the Tuticorin Port Trust for a thirty year BOT contract effective from 15th July, 1998, has attained international standards in productivity and service levels. During the year under review, it has handled 203079 TEUs from 464 ships as against 150804 TEUs from 445 ships in the previous year. The performance of this Company continued to be excellent and the Company declared a dividend of 30% for the financial year ended 31st December, 2001.

MITSUBA SICAL INDIA LIMITED: This Company achieved a turn over of Rs.15 crores and earned a profit of Rs.54 lakhs for the financial year ended 31st December, 2001. This Company which manufactures washer, wiper and fan motors is also shortly to manufacture AC generator and starter motors for the two wheeler segment and the commercial production for the AC Generator is slated for August, 2002.

DIRECTORS: Mr. Tony Adam, Mr. R. Muthu and Mr. Jawahar Vadivelu, Directors retire by rotation, at this Annual General Meeting and being eligible, offer themselves for re-election.

AUDITORS: The Government of India is considering a proposal to bring in a code in the Corporate Governance to rotate the auditors once in 3 years. As good Corporate Governance, the Board of Directors considered it prudent and proper to appoint a new statutory auditor in place of the existing auditors, M/s. Fraser & Ross, Chartered Accountants, Chennai, who have carried out the audit of the Company over 4 decades in an exemplary manner. M/s. Fraser & Ross, the auditors have willingly accepted the suggestion and requested the Company to appoint another firm of

auditors in their place for the current financial year 2002-2003, as they do not opt for re-appointment. The Board of Directors place on record their appreciation of the valuable services rendered by the auditors through all these years.

It is proposed to appoint M/s. S. Viswanathan & Co., Chartered Accountants, Chennai as the statutory auditors of the Company for the current financial year 2002-2003. The Company has received an intimation from M/s. Viswanathan & Co., consenting to be the auditors, if appointed by the shareholders at the Annual General Meeting and also confirmed that their appointment would be well within the limits of section 224 (1-B) of the Companies Act, 1956.

FIXED DEPOSITS: The provisions of section 58-A of the Companies Act, 1956, with regard to the acceptance / renewal of Fixed deposits have duly been complied with. The number of Fixed Deposits matured and unclaimed as on 31st March, 2002 amounted to Rs.58.13 lakhs in 234 accounts out of which 73 accounts amounting to Rs.12.14 lakhs have since been renewed / refunded during the current year.

DEMATERIALISATION (DEMAT) OF EQUITY SHARES

DEMAT of shares has become compulsory with effect from 28th August, 2000, as per SEBI guidelines and 20920530 equity shares representing 76 % on its paid up share capital stood dematerialised. The shareholders are advised to dematerialise their shares, irrespective of their holdings to avoid the risks associated with holding the share certificates in physical form.

STATUTORY INFORMATION

1. Pursuant to Section 217 (2AA) of the Companies Act, 1956, the Board of Directors report that :
 - (a) in the preparation of the Annual Accounts, the applicable accounting standards have been followed and that no material departures have been made from the same.
 - (b) the necessary accounting policies are applied consistently and judgements and estimates made are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the Profit & Loss account of the Company for that period.



- (c) proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the companies Act, 1956 for safeguarding the assets of the Company and preventing and detecting fraud and other irregularities, have been taken.
 - (d) the annual accounts have been prepared on a going concern basis.
2. The particulars required under Section 217(1)(e) of the Companies Act, 1956, read with the Rules framed thereunder are given in Annexure I, which forms part of this Report.
 3. The particulars required under Section 217(2A) of the Companies Act, 1956, and the Companies (Particulars of Employees) Rules, 1975, are not applicable, as no employee of the Company was in receipt of remuneration exceeding the limits prescribed therein.

Regarding the Auditors' qualification on ultimate shortfall, if any, on disposal of remaining assets related to suspended business activities, certain investments and settlement of debts and advances which are not quantifiable for the year ended 31.03.2002, efforts are being made to realise and reduce the amounts shown as against individual items of qualification by way of disposal of assets at the best possible prices and to recover the debts and advances. The Board of Directors considers the shortfall in the value of the investments

as temporary in nature and also does not anticipate any loss on realisation of the dues from its subsidiary Company. Further, the Company has chalked out a business plan to restructure its core operations, which would enhance revenues and profitability. We therefore do not foresee any adverse effects on the auditors' comments and the notes are self-explanatory.

RELATION WITH EMPLOYEES

Your Directors wish to place on record, their appreciation of the efficient and loyal services rendered by the employees at all levels throughout the Company.

SUBSIDIARY COMPANIES

SOUTH INDIA HOUSE INVESTMENTS LTD

During the year under review, the Company has reported a loss of Rs.1.64 crores.

ACKNOWLEDGEMENT

Your Directors wish to thank the Company's Bankers, Financial Institutions, Port and Customs Authorities, Foreign Collaborators, Customers and the Suppliers for their unstinted support extended to the Company.

For and on behalf of the Board

Dr. A. C. MUTHIAH
Chairman

Place : Chennai

Date : 14th August, 2002

ANNEXURE I TO DIRECTORS REPORT

PARTICULARS REQUIRED UNDER THE COMPANIES (DISCLOSURE OF PARTICULARS IN THE REPORT OF BOARD OF DIRECTORS) RULES, 1988.

A. CONSERVATION OF ENERGY

- a) The Company adopts effective control measures to conserve energy and constantly reviews the consumption of energy.
- b) A new exhaust gas chimney to a height of 60' has been erected near the R.C. Kiln since the old chimney was far off to reduce the power consumption
- c) Total energy consumption per unit of production given below in FORM A.

B. TECHNOLOGY ABSORPTION

Efforts made in technology absorption as per FORM B enclosed.

C. FOREIGN EXCHANGE, EARNINGS AND OUTGO

Total Foreign Exchange:

Earned : Rs. 2745.84 lakhs

Used : Rs. 864.41 lakhs

FORM "A"

DISCLOSURE OF PARTICULARS WITH REFERENCE TO CONSERVATION OF ENERGY

Sl. No.	PARTICULARS	REFRACTORIES
1.	Power & Fuel Consumption	
a)	Purchased units (kwh.)	2136270
	Total Amount Rs.	10810538
	Rate per unit (Rs./kwh)	5.06
b)	Own Generation (Thro' Generator)	
	Unit/kwh produced	80055
	Unit per litre of Diesel oil	2.83
	Through Steam turbine/Generator (unit)	—
	Cost per Unit Rs.	6.75
2.	Coal used in Gas producer / DD Kiln	
	Tonnes	4206
	Total Cost Rs.	10952680
	Average Rate/M.T.	2604
3.	Furnace oil used in S.C., H.T. Kiln & Tunnel Kiln	
	Quantity in Ltrs	696330
	Total Amount Rs.	6021434
	Average Rate/Ltr.	8.65

CONSUMPTION PER UNIT PRODUCTION

1.	Produced (in M.T.)	(Gross)	26426
		(Net)	23662
	Electricity (kwh/Tonne of Units output)		94
2.	Refractory produced thro' Gas producer (M.T.)	(Gross)	10157
		(Net)	9089
	Coal (Kgs/Tonne of Output) in Kgs		233
3.	Produced thro' S.C. Kiln. High Temp. and Tunnel Kiln (M.T.)	(Gross)	11648
		(Net)	10696
	Furnace Oil (Ltr / M.T. of output) Ltrs.		65

FORM "B"**REFRACTORIES****RESEARCH AND DEVELOPMENT (R & D)**

1. Specific Areas in which R & D is carried out by the Company.
 - a. Direct bonded Mag Chrome Bricks for burning zone of Cement Rotary Kiln,
 - b. Spinel bonded bricks / Mag pure Bricks for cement Kiln
 - c. Direct bonded Mag Chrome bricks for Non - Ferrous sectors
 - d. Development of Gunning Mix for steel Plants
 - e. Development of Insulation Bricks for cement and steel plants at low cost.
2. Benefits derived as a result of the above R & D
 1. Trials are being done for cement plant burning zone bricks and successfully implemented in Deccan Cement plant
 2. Gunning Mix for steel plants successfully developed and Export order received from Qatar Steel plant for 200 MT.
3. Future Plan of Action:

Development of Blast Furnace Refractories

Development of Special Ramming Mass and Castables for Steel plant application and Fertilizer Industries.

Development of High Alumina Cement for Castables
4. Expenditure on R & D
 - a. Capital : Rs. Nil.
 - b. Recurring : Rs.12.35 lakhs
 - c. Total : Rs.12.35 lakhs
 - d. Total R & D Expenditure as a percentage of total turnover : 0.50%

TECHNOLOGY ABSORPTION, ADAPTATION AND INNOVATION

Technology has not been imported.

Technology Development has been done In-house, with the help of the Research Institutes, like Central Glass & Ceramic Research Institute, Calcutta, National Council for Cement and Building Materials, New Delhi and through consultants.

MANAGEMENT DISCUSSION AND ANALYSIS REPORT

INDUSTRY STRUCTURE

- Traditionally, Logistics has been considered as a conglomeration of services provided by small time independent operators claiming proficiency in certain selected facets of the business, such as, Clearing & Forwarding, Stevedoring, Trucking, etc.
- In the last few years, Logistics has evolved into a comprehensive activity and is being pursued by major corporate houses either as a back-up or as a stand-alone activity.
- This evolution has seen the extension of the definition of the word "Logistics" to include services such as handling & transport, warehousing and attending to other related requirements, which would connect the producers of raw materials to the end users.
- SICAL identified this business opportunity way back in 1995 and merged various companies in the group under one roof and started offering end-to-end solutions to its customers who were using only certain segments of the Logistics services.
- This focus has enabled the Company to emerge as one of the largest players in the handling of dry bulk cargoes in the country.
- With infrastructure being considered as a thrust area of this decade, Logistics Management will play a role in the achievement of this national objective. There are estimates available to prove that the volumes in this business are increasing at a pace of 10% per annum.

OVERALL REVIEW

- SICAL has entered 47th year of its operations and has undergone metamorphic changes over the 4 decades by merging with itself, businesses, which are related and unrelated.
- The mergers were necessitated for reasons of gaining an asset base for the Company and for efficient Management of the liquidity that was available from the logistics business.
- The able guidance of the professional Management team and infusion of timely funds helped the

turnaround of Sugar and Distillery businesses which became part of SICAL due to the mergers.

- These businesses having turned around attracted players from the respective industry who offered the best prices, leading to the hive-off and resultant capital gain of Rs.28.99 crores.
- These divestments have not only brought us capital gains of Rs.28.99 crores but also helped the Company reduce some of its debt burden, thus saving interest costs perennially.
- On the logistics front, the Company moved from strength to strength by getting new contracts like the contract of Karnataka Power Corporation Limited etc. This helped the Company tide over the recession that it was facing in some of its other activities like trading in building materials and vehicle sales.
- Currently, a series of restructuring plans are underway and the results of the same will be definitely seen in the years to come.

RISKS AND CONCERNS

- Though the Company is focussed on its core competence, namely, Logistics, the Company is still susceptible to the risks of recession and slow down of the economy.
- There are concerns in the trading activities, which the Company is pursuing, where an increase in competition is eroding the profitability and the slow down of the economy is making collection of debts difficult.
- The silver line being the entry barrier set by the Logistics business for the competition by its sheer ability to handle large sized contracts comprehensively.

CHALLENGES

- The Company is still being perceived as a port-based logistics provider for coal and related products rather than a total logistics solution provider.