

# **SPEL**

## **18<sup>th</sup> Annual Report**

**2002 - 2003**



**Together For a Brighter Future...**

**SPEL Semiconductor Ltd.**



### SPEL Semiconductor Ltd.

**BOARD OF DIRECTORS**

Dr. A.C. MUTHIAH	Chairman
Ar Rm ARUN	Vice Chairman
S.R. VIJAYAKAR	Director
C.N. GANGADARAN	Director
M.G. THIRUNAVUKKARASU	Director
R. VENKATESH KUMAR	Chief Financial Officer & Director

**SECRETARY**

S. VIDHYA SHANKAR

**AUDITORS**

M/s. NATARAJAN & CO.,  
Chartered Accountants,  
Chennai 600 041.

**REGISTERED OFFICE**

SPIC House, 88 Mount Road,  
Guindy, Chennai 600 032, India.

**USA OFFICE**

2005 De La Cruz Blvd., Ste 180  
Santa Clara, CA 95050

**FACTORY**

5 CMDA Industrial Estate,  
MM Nagar (Near Chennai) 603 209, India.

**BANKERS**

State Bank of Hyderabad  
Canara Bank  
Allahabad Bank

**REGISTRAR AND  
SHARE TRANSFER AGENTS**

M/s. Cameo Corporate Services Ltd.,  
"Subramanian Building",  
1 Club House Road,  
Chennai 600 002.  
Tel : (044) 28460390 (5 Lines)  
Fax : (044) 28460129  
E-mail : cameosys@satyam.net.in

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# **SPEL**

## **NOTICE TO SHAREHOLDERS**

NOTICE is hereby given that the 18<sup>th</sup> ANNUAL GENERAL MEETING of the Members of SPEL Semiconductor Ltd. will be held at 4.30 p.m. on Friday, Jul 25, 2003, at 'Sathguru Gnananda Hall', No 314, T.T.K. Road, Alwarpet, Chennai 600 018 to transact the following Business :

### **ORDINARY BUSINESS**

1. To receive, consider and adopt the audited Balance Sheet of the Company as at March 31, 2003 and the Profit and Loss Account for the year ended on that date and the Reports of the Directors and Auditors.
2. To elect a Director in the place of Mr. S. R. Vijayakar, who retires by rotation and being eligible, offers himself for re-election.
3. To elect a Director in the place of Mr. R. Venkatesh Kumar, who retires by rotation and being eligible, offers himself for re-election.
4. To consider and if thought fit, to pass with or without modifications, the following Resolution as an ORDINARY RESOLUTION:

"RESOLVED THAT M/s. Natarajan & Co., Chartered Accountants, the retiring Auditors, be and are hereby re-appointed as the Auditors of the Company to hold Office until the conclusion of the 19<sup>th</sup> Annual General Meeting on such remuneration as may be decided by the Board of Directors in addition to reimbursement of out of pocket expenses."

(By order of the Board)  
for SPEL Semiconductor Ltd.

Place : Chennai  
Date : June 4, 2003

S. Vidhya Shankar  
Secretary

**SPEL****NOTES**

1. A Member entitled to attend and vote at the Meeting is entitled to appoint a Proxy to attend and on a poll, to vote instead of himself/herself and a Proxy need not be a Member of the Company. The instrument appointing the Proxy to be valid shall be deposited at the Registered Office of the Company not later than 48 hours before the time fixed for holding the Meeting.
2. The Register of Members and the Share Transfer Books of the Company will remain closed from July 21, 2003 to July 25, 2003 (both days inclusive).
3. For shares held in physical form, any change in address may be intimated immediately to the Company/Share Transfer Agent by quoting the Folio Number(s). For share held in demat form, change in address may be intimated directly to the members' DP.
4. Members/Proxies are requested to bring the Attendance slip sent with the Annual Report duly filled-in for attending the Meeting. Members who hold shares in the dematerialized form are requested to indicate their DP ID and Client ID Numbers in the Attendance slip.
5. The Company's Equity shares are listed at Chennai and Mumbai Stock Exchanges and annual listing fees have been paid to the said Exchanges in time.
6. Investors may simultaneously opt for dematerialisation at the time of lodging their shares for transfer. For further details, Investors may write to the Company/Share Transfer Agent.
7. Members are requested to consolidate multiple share certificate/multiple folios into one share certificate/one folio to save on the cost of dematerializing their shareholdings.
8. Members holding shares in physical form can avail of the nomination facility. For further details, Members may write to the Company / Share Transfer Agent.
9. All documents referred to it in the accompanying Notice are available for inspection by the Members at the Registered Office of the Company on all working days, between 11.00 a.m. and 1.00 p.m. prior to the date of Meeting.

The logo for Report Junction.com is centered on the page. It features the word "Report" in a grey sans-serif font, followed by a yellow diamond icon containing a black circular arrow pointing clockwise. To the right of the icon is the word "junction.com" in a green sans-serif font. The entire logo is enclosed within a light green rounded rectangular border.

**DIRECTORS' REPORT**

Your Directors herewith present the 18th Annual Report along with the audited accounts for the year ended Mar 31, 2003.

Dear Members, your Company has yet again defied the prevailing prolonged economic slump in the developed countries and has shown a growth over the previous year. In order to share the Management's view on the Business Environment, Challenges & Opportunities and to analyze the Company's Performance, the Management Discussion and Analysis Report is presented below:

**Business Environment**

The semiconductor industry is well known for its cycles of boom and bust. But, it experienced a horrific year in 2001, with business at its lowest in the last 40 years. Total revenues fell to US\$ 150 billion from record levels of US\$ 220 billion in 2000 - a staggering 32% drop. Most of the players in the industry, including the top ranking companies like Intel, Toshiba, Samsung, Motorola and Philips faced a shrink in their revenues of between 20% and 40%.

After this severe beating in 2001, the semiconductor industry was looking for a decent recovery in 2002, especially in the second half. However, the market for ICs was a disappointment in 2002, though not a disaster. At the beginning of 2002, the semiconductor Analysts projected a revenue growth anywhere from 1% to 20% in 2002 over 2001. But, in the year 2002 the chip makers have struggled to shake off the effects of the industry's worst downturn in 2001. Global revenues have been US\$ 156 Billion in 2002 - a mere 1.7% increase over 2001. The industry would have suffered another year of decline, if not for the DRAM segment. If the DRAM segment is excluded from the total semiconductor market, the worldwide sales has actually declined by 2%.

The IC market was affected by poor Consumer demand with no '*Killer Applications*' or hot products to drive the industry for growth. Customers are offering few indications about future demand and hence chip makers have to survive on short-term orders and hold back purchase of capital equipment.

In 2002, though the volume increase was 14% compared to 2001, the increase in revenue was only 1.7%. This has been due to the decline in the Average Selling Price (ASP) by 11%. This ASP decrease was a result of the industry's continuing battle with over capacity. This over capacity will limit the industry's pricing power. There are indications, however, that the capacity is gradually coming into balance.

**Opportunities & Threats**

The global semiconductor industry's average Compound Annual Growth Rate (CAGR) has been 17% over the last 40 Years. This is certainly comforting for the semiconductor industry. The demand for ICs is projected to grow from 79 billion units in 2002 to 130 billion units in 2007 - a CAGR of 10.6%. Though the prospects for unit growth are good, the myriad forces of supply versus demand make any growth forecast an impossible exercise. The level of competition in the industry may delay the balancing of the capacity from the present state of over supply.

A growth of 10% to 12% both in units and in revenue was expected for the semiconductor industry in 2003. But the year has not begun well. With the uncertainties created by the Iraqi war, the SARS epidemic and the general lack of enthusiasm for IT investment by businesses, the economic situation is not conducive. With the uncertainty being the enemy of growth, the first half 2003 expectations are low. However, the removal of this uncertainty could lead the way to significantly better growth in future.

For the long term, the next driver of the electronics revolution has not appeared.

Replacement sales of PCs and cell phones are not sufficient for the industry to grow. This aggravates the need for new products or new uses for current products to drive the next phase of expansion.

Your Company is the only IC Assembly and Test Subcontractor in India competing with Subcons in China, Korea, Malaysia, Indonesia, Taiwan and Philippines. Government Incentives in these countries have far reaching impact in the performance of any Subcon as compared to your Company. Round-the-clock Customs clearance, uninterrupted power & water supplies, and a better communication system are required for the industry. The hike in the power tariff has rendered a negative effect on our production cost.

The retention and development of knowledge based human resource for the growth of the Company has an impact on the Employee cost of the Company.

Your Company, with its process driven Quality Management System, remains ahead of the competition to sustain its growth.

#### **Product-wise Performance**

The market for cell phones and wireless LANs continue to remain relatively strong in a bad market. Consumer products including DVD and digital Cameras seem to be growing. But the PC demand was disappointing in 2002, despite Intel rolling out the World's first 3-GHz Microprocessor for desktop PCs.

Your Company being in the logic product group of the IC Market, which is a part of the growing market in developing Countries, will achieve a growth with its participation in these market segments through its Customers. 3 new Customers have been added during the year, which is indicative of your Company's growth in this Soft Market Environment. Your Company's penetration into the TSSOP (Thin Small Shrink Outline Package) market after 5 years has resulted in opening a door of opportunity into

the high pin count / high value addition segment. Addition of Back-grind operations has also made assembly of this very thin package possible.

Investment by your Company in state-of-art Die Bonders and Wire Bonders have made handling of new generation wafers possible. The new Tape & Reel Machine with 3D vision has also enabled securing turnkey orders from reputed Customers which in turn provides more value addition.

Against the declining trend of the global market, your Company's sales performance during the year has improved compared to the previous year. Volume has grown from 28 million in 2001-02 to 41 million in 2002-03. Revenue has increased from Rs. 35.95 crores in 2001-02 to Rs.53.03 crores in 2002-03.

#### **Outlook**

With an increase in the number of Customers and packages handled, growth in Volumes and Revenues are further expected for your Company. The Subcon share forecast by the Electronic Trend Publications (ETP) for your Company's existing packages is 20%. CAGR for unit sales is 14% and the revenue CAGR is 10% over the next 5 years. However, price per lead is expected to fall by 5% per annum due to excess capacity and intense competition.

Your Company hopes to improve on the global market forecast by performing better than expected. This can be achieved by adding new Customers, rejuvenating sales for the existing packages, adding new packages and by offering other value added services like Back-grind, Wafer sort and Drop Shipments, which embraces the meaning of 'turnkey service' in the true sense.

Your Company takes pride in announcing that the Customer Satisfaction for the year has soared high. Customers were particularly appreciative of your Company's immediate response for their queries. Due to this,



Customers want SPEL to be their preferred source for their packaging requirements. For packages not in our assembly capability, your Company has started providing test only service; thus opening a new avenue for additional revenue.

Your Company has been putting in more attention and thrust to Sales & Marketing, for the first time since the company started. You would be seeing the result of this effort by improved productivity / revenue in the years to come. Your Company has added more number of Customers this year. The revenue spread across Customers is also becoming more even now compared to before.

You would be happy to know that over the years we have endeavored and in fact achieved cost competitiveness. Customers like to work with your Company not just because of cost but also the kind of impeccable service provided to all Customers - big or small.

It is important to raise funds to expand capacity. This expansion will enable your Company to compete more effectively in the global market. Your Company has been making efforts to raise the funding for this expansion either through Venture Capital Funding and / or new debt that would also enable the repayment of old debt.

Raising funds has been difficult due to the old Financial Institutional exposure which has nothing to do with the current operations. Raising funds has also been difficult due to the presence / non-operation of MMP. Hence, the sooner this is addressed, the sooner your Company will be able to raise the required funds to enable capacity expansion and thereby growth.

Under the new Management, over the past nearly 3 years, your Company has made excellent progress in improving the QCDS factors. The revenues are up, Customers have widened and the performance has improved. We have been slowed down by the negatives of

the past (MMP, FI exposure & accumulated losses) and the economy downturn. With the economy now reviving, if your Company can shed the negatives of the past soon and get the required funding, there is then no stopping your Company from being on the road to becoming a global leader in IC Assembly & Test.

#### Risks & Concerns

The Subcon business depends on the market demand for its OEM Customers products. Customers will have the option of loading more than one Subcon to meet their requirement. Keeping pace with technological advancements, continual improvement in process, cost cutting measures to prune overhead expenditure, reduction in input raw materials, elimination of waste through Gemba Kaizen techniques and total people involvement will make your Company grow with the Customers it has served till date. Your Company having upgraded to the ISO 9001:2000 Certificate of approval awarded by the BVQI in March 2002, will soon get accredited to TS 16949:2002 which will propel your Company to the elite list of automotive components supplier to the 4 major auto makers in the world. Efforts to increase Customer base with focused marketing, will result in growth in volumes and revenue. Your Company does not anticipate major risks or concerns.

#### Financial review

The operating results of your Company for the year ended Mar 31, 2003 is as given below :

	(Rs. in lakhs)	
	Year ended Mar 31, 2003	Year ended Mar 31, 2002
Sales	5303	3595
Other Income	73	29
Deferred Tax	66	53
PBID	298	230
Interest	239	202
Depreciation	204	186
Profit / (Loss)	(145)	(158)



The increased sales of your Company during the year over the previous year has yielded a higher contribution of Rs.262 lakhs. The increased expenditure on power, Employee cost, marketing expenses and other overheads has offset the higher contribution. This has resulted in your Company achieving a cash profit of Rs. 59 lakhs as against Rs. 28 lakhs in the previous year. The net loss for the year is Rs. 145 lakhs as against the net loss of Rs. 158 lakhs in the previous year.

#### **Internal Control Systems and Adequacy**

Your Company has adequate Internal Control Systems commensurate with the size and the nature of operations. The coverage of the Internal Audit function and the review by Audit Committee of the various operations and Internal Control measures, regularly strengthens the Internal Control Systems of your Company.

#### **Human Resources**

Your Company has 247 Employees, who form the experienced, educated and talented technical pool of human resource. The average age of Employees is 30. Your Company is rated high in this aspect, which is one of the measurable factors for any Customer to qualify an IC assembly Subcon. Your Company adopts a policy of promoting experienced personnel within the organization to shoulder higher responsibilities. Rate of attrition amongst the Employees in view of better opportunities was very negligible during the year.

Adequate training by way of internal, external and overseas training programs is provided to the Employees for sharpening their skills and performance with dynamism and vigor. Well defined award schemes to recognize Best Employee, Best Stage Production Achievement, effective 5S Housekeeping and improvement suggestion are implemented with the total involvement of the work force. Proper appraisal systems and adequate compensation packages to recognize the performance of Employees

against key result areas are implemented effectively.

Your Company has not lost a single day of work due to industrial strife in the past years. As your Company considers its Employees as the most important source to attain greater competitive advantage, it places special emphasis on the continuous human resource development. The industrial relation during the year was harmonious. Your Directors wish to place on record the excellent co-operation extended by Employees in achieving the objectives of your Company.

#### **Magnetic Media Project (MMP)**

As the sale of Magnetic Media Project to SPIC has not been approved by the Financial Institutions, your Company is considering the various alternatives with regard to this.

#### **Dividend**

In the absence of profit during the year, your Directors regret their inability to recommend dividend for the financial year 2002-03. By being able to continue the positive growth trend in operations during the past 3 years, your Company hopes to be able to pay dividend by 2005 – 06 onwards.

#### **Public Deposit**

Your Company has not accepted any deposit to which provisions of Section 58A of the Companies Act, 1956 are applicable.

#### **Dematerialization of Shares**

As the Members are aware, the Company's shares are in the compulsory demat mode, facilitated through arrangement with M/s. National Securities Depository Ltd. (NSDL) and M/s. Central Depository Services (India) Ltd. (CDSL).

#### **Corporate Governance**

Your Company has complied with the provisions of Clause 49 of the Listing Agreement relating to Corporate Governance. A detailed report on

Corporate Governance and a certificate from the Auditors of the Company regarding compliance of conditions of Corporate Governance as required under Clause 49 of the Listing Agreement is attached to this report.

#### **Directors**

Mr. S. R. Vijayakar and Mr. R. Venkatesh Kumar retire by rotation at the ensuing Annual General Meeting of the Company and being eligible, offer themselves for re-appointment.

#### **Directors' Responsibility Statement**

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 annual accounts for the year ended Mar 31, 2003 the applicable Accounting Standards had been followed along with proper explanation relating to material departures;
- ii. That the Directors had selected such accounting policies and applied them consistently and made judgment and estimates that were 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 year and of the profit or loss of the Company for the year under review;
- iii. That the Directors had 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 the Company and for preventing and detecting fraud and other irregularities;
- iv. That the Directors had prepared the accounts for the year ended Mar 31, 2003 on a 'going concern' basis.

#### **Auditors**

The Company's auditors, M/s. Natarajan & Co., Chartered Accountants, retiring at the

conclusion of the ensuing Annual General Meeting, are eligible for re-appointment.

#### **Information pursuant to Section 217 of the Companies Act, 1956**

In terms of Section 217 (1) (e) of the Companies Act, 1956 and the rules framed thereunder, the particulars relating to the conservation of energy, technology absorption & foreign exchange earnings and outgo is enclosed as part of this report.

A statement giving particulars as required under Section 217 (2A) of the Companies Act, 1956 and the rules framed thereunder, is attached and forms part of this report.

#### **Acknowledgement**

Your Directors wish to place on record their gratitude to the Government of India, the Government of Tamil Nadu, Financial Institutions, Bankers, Insurance Companies, Customs & Excise authorities, valued Overseas Customers & Vendors and the Promoter Company viz., M/s. Southern Petrochemical Industries Corporation Ltd. (SPIC) for their continued assistance and support extended to the Company.

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

Yours Directors wish to thank the Shareholders for their continued support and forbearance and the confidence reposed on the Management.

For and on behalf of Board of Directors

Chennai  
June 4, 2003

**Dr. A. C. Muthiah**  
Chairman