

STERILITE

ANNUAL REPORT 1997 - 1998

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A DECADE'S GROWTH
A MILLENNIUM'S VISION

STERILITE INDUSTRIES (INDIA) LIMITED

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BOARD OF DIRECTORS

ANIL AGARWAL
Chairman & Managing Director

ISHWARLAL PATWARI

DWARKA PRASAD AGARWAL

HEJMADI NARAHARI RAO

SANDEEP JUNNARKAR

NAVIN AGARWAL
Whole-time Director

S.P. NAGARKATTE
Nominee Director - ICICI

TARUN JAIN
Director (Finance)

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KANGA & CO.

AUDITORS

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M/s. DAS & PRASAD — Calcutta

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AMERICAN EXPRESS BANK
BANQUE NATIONALE DE PARIS
CANARA BANK
CREDIT LYONNAIS
DEUTSCHE BANK
HDFC BANK LIMITED
PUNJAB NATIONAL BANK
STATE BANK OF INDIA
SYNDICATE BANK
THE BANK OF NOVA SCOTIA

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✓
PCS INDUSTRIES LIMITED
Hyfa Building, No. 2, Safed Pool
Andheri-Kurla Road, Andheri (E)
Mumbai - 400 072

22/1/96

Vision Credo

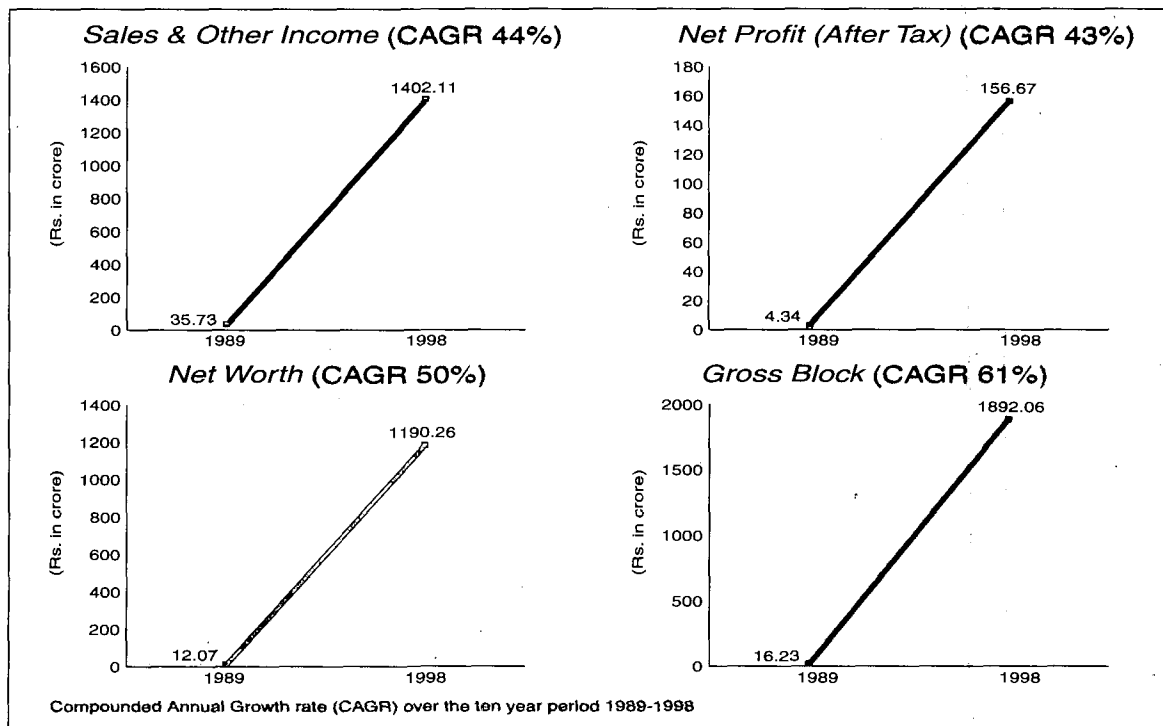
As the world prepares for the Third Millennium, a new order emerges. An order that defines an entirely new set of values – economic, social and corporate. A set of values that sees opportunities in a complex world. And seizes them in time. A corporate creed that is internationally competitive in every venture. A social ambience that gets the right people to ensure performance and results. An economic ethos that reaps the fruits of industrious efforts and shares them with the family of stakeholders. Sterlite Industries (India) Limited. Growth of a decade. Vision of a millennium.

A DECADE OF GROWTH

(Rupees in crore)

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1998 S Mn
SALES & SERVICES	35.73	71.02	81.55	189.56	312.06	600.70	720.89	1006.67	1071.44	1402.11	329.7
GROSS PROFIT	5.20	10.93	13.05	29.88	48.93	100.13	135.95	159.88	149.22	194.43	45.7
NET PROFIT (AFTER TAX)	4.34	8.74	10.28	24.49	41.30	84.74	114.87	140.16	126.92	156.67	36.8
CASH GENERATION	5.15	10.06	12.30	27.13	46.58	95.13	129.95	157.77	148.09	193.37	45.5
CAPITAL EMPLOYED	40.67	51.00	107.60	151.72	488.76	1028.87	1229.24	1657.07	2256.19	2576.62	605.8
DEBT : EQUITY RATIO	0.38	0.38	0.45	0.41	0.35	0.75	0.61	0.67	1.12	1.16	1.16
GROSS BLOCK	16.23	29.13	47.16	102.51	306.38	395.07	554.82	1229.23	1472.09	1892.06	444.9
NET CURRENT ASSETS	24.09	26.12	50.81	55.78	168.52	297.11	434.08	424.22	825.57	752.73	17.7
NETWORTH	12.07	25.38	42.08	98.30	131.29	205.61	760.97	973.61	1057.48	1190.26	279.9
EQUITY CAPITAL	2.31	3.28	4.36	8.25	14.88	14.90	40.30	44.34	44.42	44.44	10.4
BOOK VALUE PER SHARE (Rs.)	52.35	77.29	96.53	119.22	88.26	138.00	188.82	219.58	238.07	264.15	6.2
EARNING PER SHARE (Rs.)	18.83	26.62	23.59	29.69	27.77	56.87	28.50	31.60	28.57	35.25	0.83
EQUITY DIVIDEND %	30	40	45	50	55	65	75	80	80	85	85
BONUS SHARES	—	—	—	4:5	—	—	—	—	—	—	—

Note: 1 US \$ = Rs. 42.53 (Exchange Rate as on 30.06.1998)



A MILLENNIUM'S VISION

Chairman's Message



Dear Shareholders,

I am pleased to report yet another year of good performance in 1997-98. During the year, Sales increased to Rs. 1402 crore while net profit increased to Rs. 157 crore. The year was also the tenth year since the Company made its initial public offering in February 1988.

In the last decade, sales have grown from Rs.36 crore in 1988-89 to Rs.1402 crore in 1997-98, while net profit has increased from Rs. 4 crore to Rs. 157 crore. During this period, the gross block and networth, which was at Rs.16 crore and Rs.12 crore has grown to Rs.1892 crore and Rs.1190 crore respectively. I owe this decade's performance to my shareholder community for its continued support and faith in the Company.

The main products of the Company - copper, telecommunication cables and optical fibre meet the infrastructure needs of businesses across the Globe. They establish communication links, provide electricity and provide key elements to a world of emerging technologies, thus reinforcing the core sector of the economy.

Before the copper smelter of the Company started production, about three fourth of the domestic demand was met through imports. To meet the growing demand of copper within the country, we are implementing a capacity expansion of the copper smelter and refining plant from 100,000 tonnes per annum to 150,000 tonnes per annum.

Copper is also used in the jelly filled telephone cables. Sterlite continues to be the largest manufacturer and supplier of this cable in India. In fiscal year 1997-98, the Company achieved significant volume growth of about 75 per cent in jelly filled cables while optical fibre cable sales grew five fold. In India, Sterlite is one of the first company in the private sector to set up an optical fibre plant. With the sales witnessing a healthy growth of 48 per cent over the previous year, Sterlite has once again maintained a lead in this high technology product. In view of the excellent demand potential globally for optical fibres, we are further increasing the capacity of the optical fibre plant.

The Company visualises itself to be the leader in each business it pursues. The existing Aluminum Division of the Company is relatively small compared to size of other operations of the Company. We have decided to construct a greenfield aluminum smelter alongwith associated coal based power plant in the state of Orissa. The selected location is ideal for the project with proximity to coal, water and availability of alumina. The basic groundwork for the project is fast progressing.

LOOKING AHEAD

The year 1997-98 was a record year for our Company, with significant volume growth in all its businesses. With the increased capacity usage of copper smelter and a healthy order book position for telecom cables, the current year is poised for further all round growth. We will continue to focus our resources on the core sector of the economy and expand our global presence. We expect to retain our market leadership position in all our major businesses and further improve our global competitiveness. The Company is thus fast gearing up to meet the challenges ahead of a globally par, internationally competitive and universally respected company. Our aim, above all, remains to enhance the shareholders value.

This is the vision of the Millennium at Sterlite, to be able to remain in the forefront of all our activities that we undertake for decades and decades to come...

Sincerely yours,

Anil Agarwal
Chairman & Managing Director

FINANCIAL ANALYSIS AND MANAGEMENT PRACTICES

CAPITAL STRUCTURE

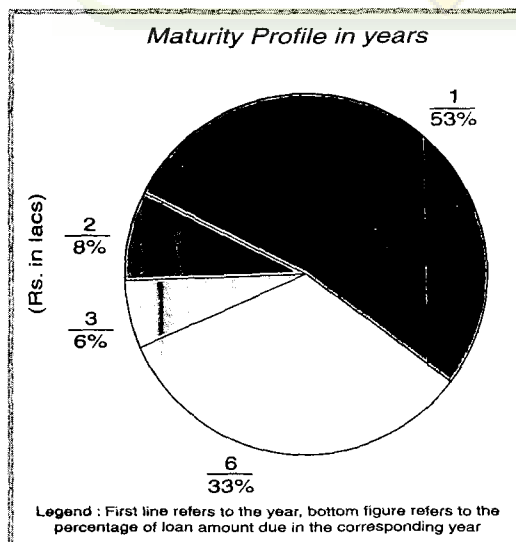
Sterlite had an equity capital of Rs. 44.44 crore as on 30th June 1998. Fifteen percent of the Company's equity comprises bonus shares, six percent issued on account of amalgamation of erstwhile Sterlite Communications Limited with the Company and balance sixty nine percent by issuance of equity capital and rights issue. The book value for Rs. 10 paid up equity share as on 30th June 1998 was Rs. 264.

RESERVES AND SURPLUS

The Company has reserves of Rs. 1137.82 crore which is twenty-five times of the paid up share capital. The reserves and surplus comprises of fifty-two percent from share premium, and forty-eight percent from retained earnings.

LOAN PROFILE

In the loan tenure profile of the Company, the long:short term ratio as on 30th June, 1998 was 47:53. The average maturity period of long term debt for the



Company is approximately three years. The current outstanding Foreign Currency Convertible Bonds (FCCB) of US \$ 95.35 million out of the US \$ 100 million raised in December, 1993, is due for redemption on 30.06.1999. With strong existing financials and expected increase in performance during the year, the Company does not expect any problem in meeting this

redemption obligation. The Company issued Floating Rate Notes (FRN) aggregating to US \$ 81 million in June 1997. Pending utilisation of FRN proceeds, it is deposited in US Dollar denominated investments abroad.

FUNDING PHILOSOPHY

The Company follows conservative financial management and has raised equity only for initial capacities and new projects. The debt equity ratio of the Company as on 30.06.1998 was 1.16. Considering the cash balances, the debt equity ratio reduces to 0.87. The Company's high creditworthiness has enabled it to source debt at rates lower than the market rates. The average cost of debt fund outstanding as on 30.06.1998 was about 8.3%.

TOTAL CAPITAL EMPLOYED

The capital employed increased by Rs. 320 crore from Rs. 2256 crore as on 30.06.97 to Rs. 2577 crore as on 30.06.98. The increase is mainly on account of additions to the Gross Block of Rs. 419 crore during the year. The difference between capital expenditure and increase in total capital employed has been met from the funds pre-paid by Department of Telecommunication (DoT) and also securitisation of deferred receivables.

GROSS BLOCK

During the year, the Company commissioned assets of the copper smelter and refinery plant. The Gross Block increase is mainly due to additions in the copper smelter and refinery plant, capacity expansion of optical fibre and addition of balancing equipments for jelly filled cables plant.

DEPRECIATION

The depreciation during the year increased to Rs. 36.69 crore from Rs. 21.18 crore mainly on account of commissioning of the copper smelter and refinery plant with effect from April 1, 1998. The Company follows the straight-line method on a pro-rata basis for computing depreciation.

INVESTMENTS

In 1997-98, the Company invested surplus funds to the extent of Rs. 10.35 crore, increasing the investments from Rs. 28.42 crore to Rs. 38.77 crore. The investments

have been made mainly in the tax-free bonds of public sector enterprises.

INVENTORY

The total inventory increased by Rs. 35.61 crores increasing from Rs. 310.09 crores as on 30.06.1997 to Rs. 345.70 crores as on 30.06.1998. The increase is mainly due to increased operations of the copper smelter and refinery.

SUNDRY DEBTORS

Debtors of the Company mainly comprises of :

- Sale of cables to Government agencies like DoT, Railways and MTNL - who are regular in their payments
- Sale of copper and optical fibre - against Letter of Credit

During the year, the sundry debtors decreased by Rs. 251 crore from Rs. 574.70 crores as on 30.06.1997 to Rs. 317.29 crore as on 30.06.1998. This was mainly on account of prepayment by DoT of Rs. 215.29 crore against the supplies made on deferred payment terms in earlier years and securitisation of deferred receivables to the extent of Rs. 100.64 crore. During the year, further supplies worth Rs. 122.02 crore were made to DoT on deferred payment terms.

LOANS AND ADVANCES

The Company had loans and advances of Rs. 170.51 crore outstanding as on 30.06.98. The major items of loans and advances comprise of loan to 100% subsidiary company - Sterlite Telecom Limited, loan to bodies corporate, advances to suppliers, advances for taxes and excise duty modvat receivables. The Company does not expect any bad debts arising from these loans and advances.

INTEREST OUTFLOW

The net interest and finance charges increased to Rs. 15.22 crore from Rs. 0.55 crore in the previous year on account of impact of interest on loans borrowed for financing the copper smelter and refinery plant. A part of the interest liability was capitalised as part of pre-operative expenditure. Interest cover was 13.78 times for the fiscal year 1997-98.

OTHER INCOME

The other income comprises of dividend income, interest on investment, profit on sale of investment and interest on security deposits and other loans.

RAW MATERIALS

The major raw material for the copper business i.e. copper concentrate is imported, the prices of which are linked to the prices for refined copper prevailing on London Metal Exchange (LME). The other raw materials consumed in the telecom cable namely polyethylene compounds, steel tapes, aluminium cable wrap, petroleum jelly etc. are procured mainly from domestic sources. The raw material for optical fibre i.e. silica tube is imported. The raw material cost as percentage of sales has marginally increased to 72.2 percent in the year 1997-98 from previous year figure of 71.10 percent. The net increase in raw material cost in 1997-98 over previous year has been about 32.87 percent as compared to increase in turnover of 30.86 percent for corresponding period.

SALES AND SERVICES

The non-ferrous metal business contributed to about 64 percent of sales of the company while telecom business contributed to 36 percent. In non-ferrous metal, copper contributed to major part being 61% of total sales of the company. The prices of copper rod in the domestic market are fixed based on the landed cost of copper based on prevailing prices at London Metal Exchange, while prices of telecom cables-both jelly filled and optical fibre are based on competitive bidding offered to the major customers - DoT & MTNL. The optical fibres and aluminium foils are sold at the prevailing market price. The prices of optical fibre usually track the global selling price of optical fibre.

OVERHEADS

The company's overheads accounted for about 12 percent of sales during 1997-98. These include manufacturing expenses, administrative expenses, employees cost and selling expenses. As the copper smelter production increases, the overheads in percentage terms is expected to decrease further.

CORPORATE INCOME TAX

The company has provided for tax liability of Rs. 1 crore. The major operations of the company are located in backward areas enjoying income tax benefits.

OUR PEOPLE

People are the driving power at Sterlite. Sterlite fully appreciates the value of its highly motivated workforce. This is the reason why Sterlite enjoys the rare status of a Union Free Company.

A progressive attitude, committed to work and an understanding of surviving in a competitive economy, keeps people at Sterlite individually responsible for the Company's growth.

YOUNG WORKFORCE

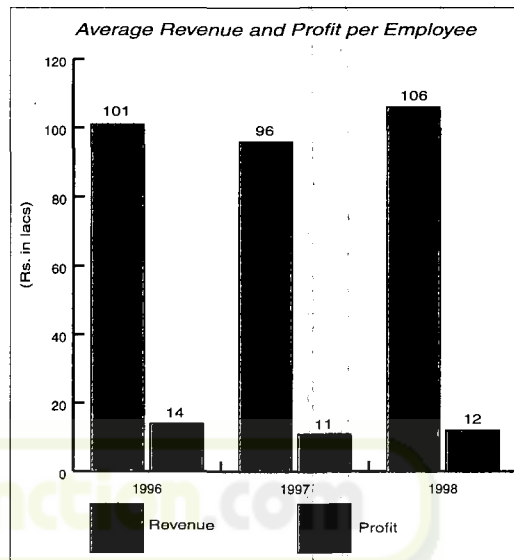
Sterlite is a relatively young Company with the average employee age being around 29 years, which encourages innovation and motivation while at work. While the wisdom comes from the top, the decision making is delegated down below. More importantly, the young vibrant team is continuously encouraged to take on bigger challenges.

LEARNING AND TRAINING

At Sterlite, it is our relentless commitment to be an ever learning organisation. To that end, we encourage a culture of continuous learning throughout the organisation.

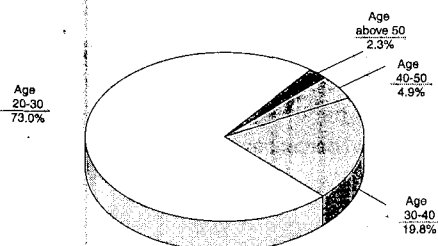
With a view to give an impetus to productivity, we conduct frequent training programmes which keep our employees on par with the latest in international trends. Add to that our specialised training programmes designed to tackle the several technological advances and infrastructural changes. Little wonder, Sterlite portrays an enviably high level of man-power productivity. Take a look at the figures we pride ourselves

with. An average revenue per employee which stands approximately at a whopping Rs. 106 lacs and a net profit after tax stands at Rs. 12 lacs per employee!

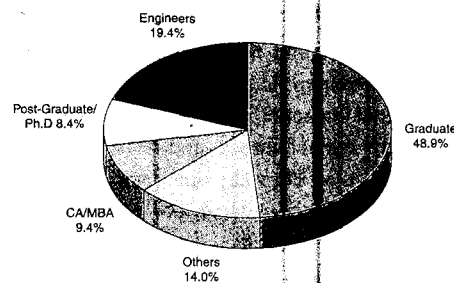


Besides, it has also been our endeavour to keep in tune with the global trends in modern management practices. How else can we explain our adoption of the philosophy of Total Quality Management (TQM). And in order to further accelerate the decision making process and to better the efficiencies of our fully integrated operations, we are currently implementing Enterprise Resource Planning (ERP) (SAP).

Age Profile



A well qualified workforce



ENVIRONMENT

Sterlite is fully committed to environment protection around its plant locations. Environment protection is an integral part of our everyday business operations. All the Sterlite plants meet necessary pollution and environmental norms as stipulated by the local, state, central and other statutory authorities. This is achieved utilising state-of-the-art pollution control equipments at all plant locations. During the year, copper smelter has commenced the air pollution control programme. Due to this, the emission of sulphur dioxide has been much below the stipulated norms prevailing in the country.

The Company has achieved zero discharge by fully recycling the treated effluents back into the process at its copper smelter unit at Tuticorin, Tamil Nadu. The copper smelter does not discharge any solid or liquid

effluents outside the plant premises. The solid waste is stored in basins lined with plastic.

The ambient air and stack emission are continuously monitored round the clock. Interlocking arrangements and alarm systems provided on the stack alerts the operator in case of deviation. With the improvements in process control, more of the sulphur dioxide so generated is converted into sulphuric acid. The copper smelter has state-of-the-art pollution control equipments which helps the smelter to operate under one of the most stringent prevailing pollution control norms.

The Company has drawn a detailed plan of landscaping and development of green belt around the plant locations.



Copper Smelter Plant at Tuticorin

SOCIAL RESPONSIBILITY

As a responsible Corporate Citizen, Sterlite has been striving hard to serve the poor and downtrodden through "Community Care" programmes. The General Headquarters Hospital at Tuticorin and Five Primary Health Centres in and around Tuticorin have been adopted by Sterlite and the entire maintenance and modernisation of these hospitals is taken care of at an annual expenditure outlay of Rs. 20 lacs. Free mobile clinics have been opened at villages near the copper smelter plant. Twice in a month health/eye camps are organised at different villages where a team of doctors diagnose the patients and free medicines are distributed.

Eight education centres have been opened in and around Tuticorin where 900 poor children receive extra inputs through qualified teachers. Free note books and uniforms are distributed to these children. Free computer classes are organised for children from such education centres during summer vacation. Sterlite also supports educational institutions by providing them infrastructure needs.

Young athletes and sportsperson from the region around the copper smelter plant location have been adopted by Sterlite. Sterlite also sponsors various inter-collegiate and district level sports meet near its plant location.

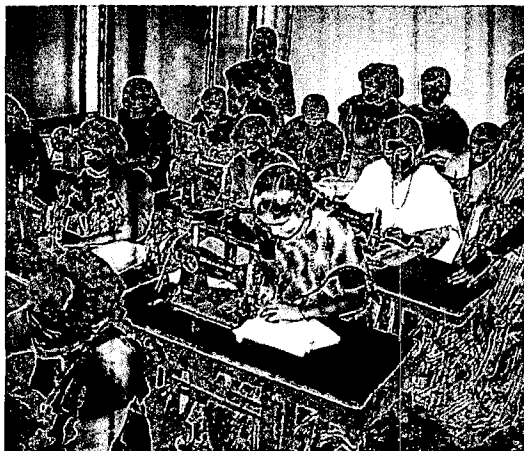
A large percentage of Indian population does not

have access to drinking water. While it is not feasible for Sterlite to single-handedly solve all the water supply problems of its immediate community, the company has made a small effort to provide hand pumps in villages near the copper smelter plant.

In order to make women self sufficient and adopt a vocation, free training in tailoring is provided. Trained women are provided with tailoring machines obtained through bank loans and subsidy provided by Sterlite. Sterlite has organised eight Self Help Groups for women to promote savings habit and to facilitate them to also get loans from the Group. Sterlite also arranges vocational training for the members of Self-Help groups.

STERLITE FOUNDATION

With its commitment to the development of the society, Sterlite founded the philanthropic organisation — Sterlite Foundation in 1992. The Organisation is continuously working for educational opportunities and increasing economic self-reliance of the people. Sterlite Foundation has identified computer education as a major employment generation area for the youth and has opened over 70 computer centres across the country on a non-commercial basis. It has also sponsored over 15 centres for providing training in tailoring for women.



Tailoring class in progress at Silvassa



Computer training centre at Aurangabad