

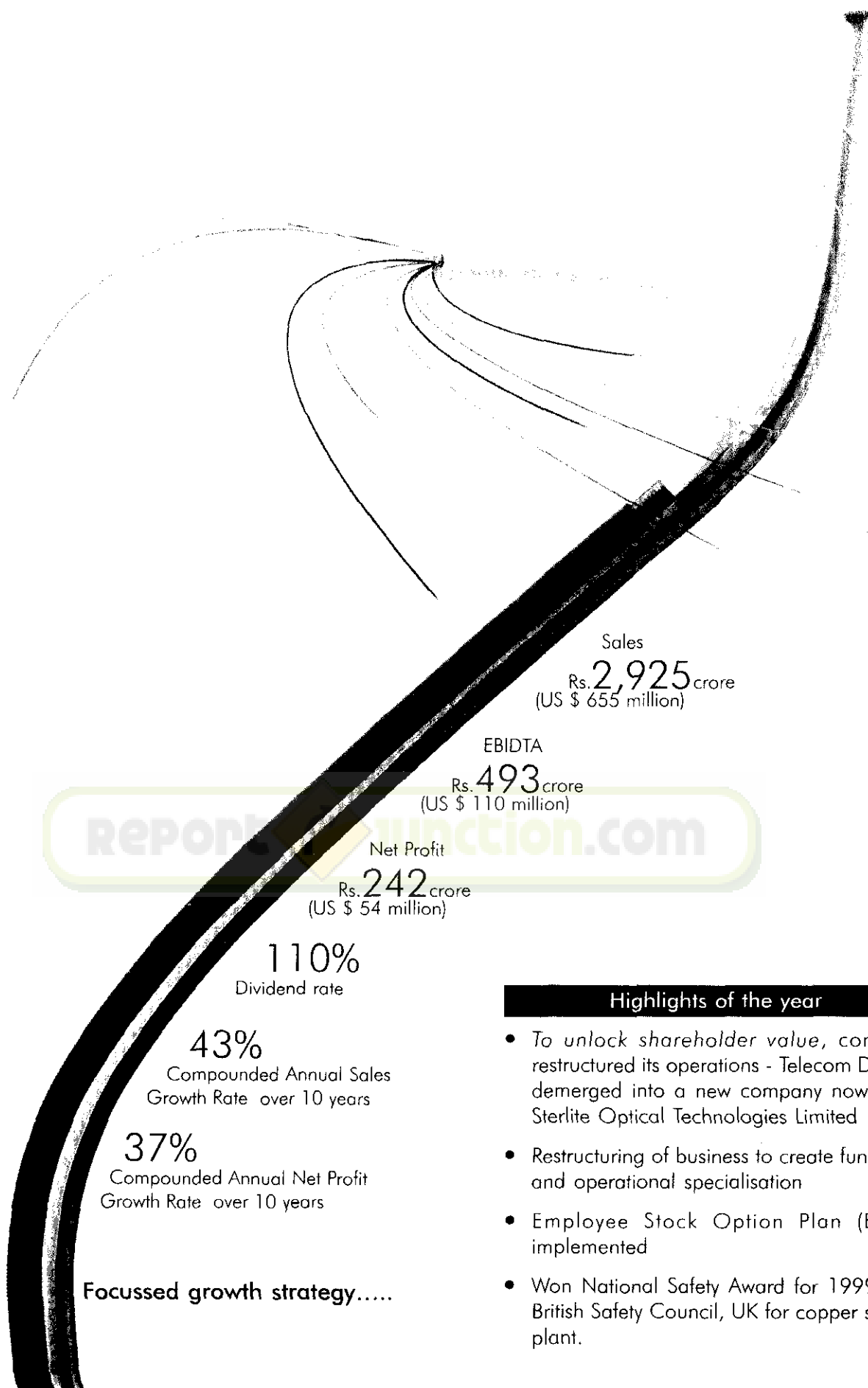
Focussed growth brings added value

**STERLITE**  
INDUSTRIES (INDIA) LIMITED



Report  Junction.com

ANNUAL REPORT 1999-2000



#### Highlights of the year

- To unlock shareholder value, company restructured its operations - Telecom Division demerged into a new company now styled Sterlite Optical Technologies Limited
- Restructuring of business to create functional and operational specialisation
- Employee Stock Option Plan (ESOP) implemented
- Won National Safety Award for 1999 from British Safety Council, UK for copper smelter plant.

## Vision 2000

In the new Millennium bounding with technological progress, a new order has emerged. 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 globally competitive in every venture. A social ambience that gets the right people to ensure performance and results. An economic philosophy that reaps the fruits of industrious efforts and shares them with stakeholders. Sterlite Industries (India) Limited. Committed to focussed growth for added value.

## STERLITE INDUSTRIES (INDIA) LIMITED

### BOARD OF DIRECTORS

Anil Agarwal  
Chairman and Managing Director  
Ishwarlal Patwari  
Dwarka Prasad Agarwal  
Hejmadi Narahari Rao  
Sandeep Junnarkar  
A.T.Kusre  
Nominee Director - ICICI  
Navin Agarwal  
Whole-time Director  
C. V. Krishnan

Tarun Jain  
Director (Finance)

### SOLICITORS AND ADVOCATES

M/s. Kanga & Company

### AUDITORS

M/s. Chaturvedi & Shah - Mumbai  
M/s. Das & Prasad - Calcutta

### BANKERS

ABN Amro Bank  
American Express Bank  
Banque Nationale De Paris  
Canara Bank  
Credit Lyonnais  
Deutsche Bank  
HDFC Bank Limited  
ICICI Banking Corporation Limited  
Punjab National Bank  
State Bank of India  
Syndicate Bank  
The Bank of Nova Scotia

### Transfer Agents

M/s. Sharepro Services  
(Unit: Sterlite Industries (India) Limited)  
912, Raheja Centre, Free Press Journal Road  
Nariman Point, Mumbai 400 021  
Tel : (022) 2881568/69, 2825163, 2884527  
Fax : (022) 2825484

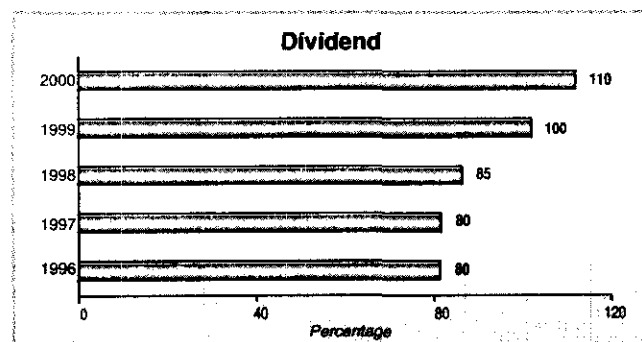
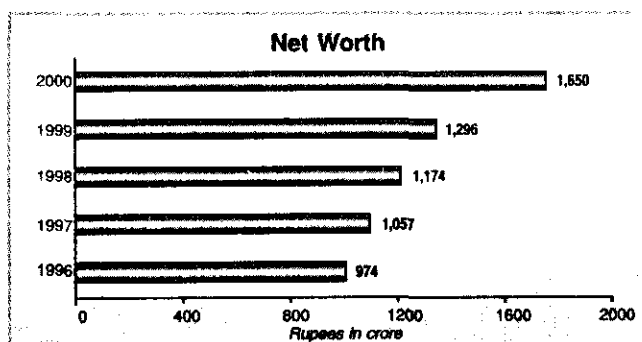
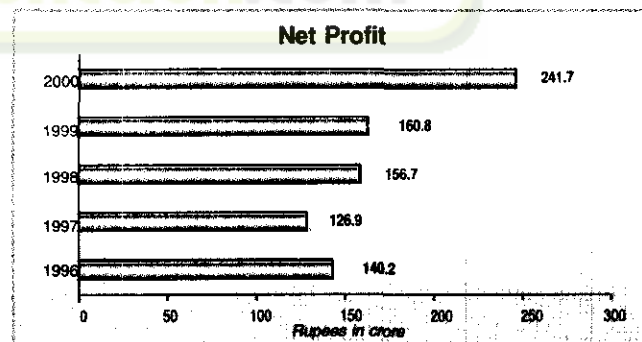
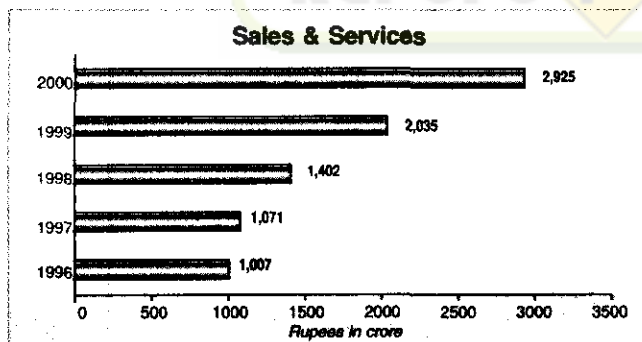
M/s. Sharepro Services  
(Unit: Sterlite Industries (India) Limited)  
Satam Estate, 3<sup>rd</sup> Floor, Above Bank of Baroda  
Chakala, Andheri (East), Mumbai 400 099  
Tel : (022) 8215168, 8202108, 8202114  
Fax : (022) 8375646 E-mail: sharepro@vsnl.com

## TEN YEARS AT A GLANCE

(figures in Rs. crore, except for book value and earnings per share)

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2000 US \$ mn
SALES & SERVICES	81.55	189.56	312.06	600.70	720.89	1,006.67	1,071.44	1,402.11	2,034.74	2,925.00	654.7
GROSS PROFIT	13.05	29.88	48.93	100.13	135.95	159.88	149.22	194.43	241.70	337.63	75.6
NET PROFIT	10.28	24.49	41.30	84.74	114.87	140.16	126.92	156.67	160.80	241.94	54.1
CASH GENERATION	12.30	27.13	46.58	95.13	129.95	157.77	148.09	193.37	240.55	335.53	75.1
CAPITAL EMPLOYED	107.60	151.72	488.76	1,028.87	1,229.24	1,657.07	2,256.19	2,576.62	2,624.99	3,116.53	697.5
DEBT EQUITY RATIO	0.45	0.41	0.35	0.75	0.61	0.67	1.12	1.15	1.02	0.89	0.89
GROSS BLOCK	47.16	102.51	306.38	395.07	554.82	1,229.23	1,472.09	1,892.06	1,985.11	2,070.26	463.4
NET CURRENT ASSETS	50.81	55.78	168.52	297.11	434.08	424.22	825.57	752.73	785.62	1,290.43	288.8
NETWORTH	42.08	98.30	131.29	205.61	760.97	973.61	1,057.48	1,173.97	1,296.36	1,694.77	379.3
EQUITY SHARE CAPITAL	4.36	8.25	14.88	14.90	40.30	44.34	44.42	44.44	44.45	54.44	12.2
BOOK VALUE PER SHARE (Rs.)	96.53	119.22	88.26	138.00	188.82	219.58	238.07	264.15	291.64	311.31	\$ 7.0
EARNING PER SHARE (Rs.)	23.59	29.69	27.77	56.83	28.01	32.83	27.74	34.57	35.48	42.65	\$ 0.9
EQUITY DIVIDEND - %	45	50	55	65	75	80	80	85	100	110	110
BONUS SHARES		4:5									

Exchange Rate: 1 US \$ = Rs 44.68 (as on 30th June 2000)



1 crore = 10 million; 1 million = 10 lacs; 1 lac = 100,000

## CHAIRMAN'S MESSAGE

Dear Shareholders,

Last year, I had indicated an expected substantial improvement in your Company's performance for FY2000 with higher utilisation of our assets. I am very happy to report that we have successfully surpassed the targets and I hope we have lived up to our shareholders' expectations.

It is a known fact that improvement in India's communications infrastructure will be the main driving force for sustaining a healthy GDP growth. It will also enable India to enhance its competitive advantage in high technology areas. It is heart-warming to note that the Government is making all efforts in this direction. Liberalised policies, expeditious clearance of proposals and privatisation initiatives have sent clear signals about the Government's strong intention of making India a global force in communications, software, etc.

### **FY2000 Results...**

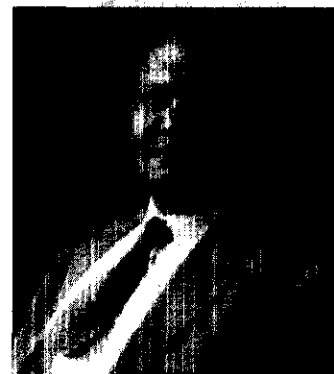
- **Revenues at Rs. 2,925 crore, up 44%**
- **EBIDTA at Rs. 493 crore, up 51%**
- **Cash Profit at Rs. 338 crore, up 40%**
- **Exports at Rs. 162 crore, up 245%**
- **Dividend at 110%**

I am convinced that, in this millennium, winners will be the successful managers of information and I am confident of our inherent strengths in this area. The entire convergence phenomenon rests upon the optical fibre foundation.

I reiterate that our primary objective is to enhance shareholder value and all our corporate actions are based on this single premise.. One of the key decisions that we have taken is to demerge the telecommunication business into a separate company, in order to provide sharper focus and to enable us to leverage our optical fibre strength. I strongly believe that the demerger will unlock value for our shareholders.

In the telecommunication business, we aim to be a total optical telecommunication solutions provider and necessary steps have been initiated to achieve this objective. We have also put in place a team of senior professionals to spearhead our efforts and I am sure that like in all our other business areas, Sterlite will be a dominant market player in this area as well.

Let me emphasise that our philosophy is to be amongst the lowest cost producers globally. In the copper business, the on-going de-bottlenecking effort at a marginal cost, will increase our capacity by 50% and lower our costs further. With this, Sterlite's global competitiveness will be enhanced. I believe that one has to be globally competitive in order to provide sustained shareholder value enhancement.



The privatisation process is providing private sector investment opportunities in aluminium. The Group would like to capitalise on such opportunities.

Sterlite is strongly committed to caring for the environment and safety. The copper smelter has received the prestigious National Safety Award for 1999 from the British Safety Council, UK. Further, the copper smelter has received IQRS Level-5 certification, a testimony to our product and process quality. Steps have been initiated for obtaining ISO 14001 certification within this year for safety and environment management.

Total Quality Management and Customer Satisfaction are inherent ethos at Sterlite. Acceptance of Sterlite's Optical Fibre, Optical Fibre Cables and Copper Cathodes in the global markets, bear testimony to our firm commitment on product quality and customer satisfaction. In the high-technology optical fibre and cable industry, Research & Development capabilities distinguish the leaders. I am happy to report that Sterlite has successfully developed and commercialised "PMD-Lite", a new single mode low polarised modular dispersion fibre for high bandwidth applications. R&D activity has been accorded the highest priority and will form the basis for our future venture in Optical Components.

As mentioned in my communication to you last year, we have implemented the Employee Stock Option Plan and have allotted 209,550 options in FY2000. I believe this will instil a sense of ownership and foster the entrepreneurial spirit that is critical for meeting the ever-greater challenges the new millennium will pose.

We are committed to being a good corporate citizen and have already initiated steps to ensure high levels of transparency. This is not limited to mere compliance of the basic principles of good Corporate Governance but also encompasses institution of such formal systems and procedures to ensure fairness and transparency in all our dealings, be it with our stakeholders, customers, business associates and other constituents.

While on the one hand I am a bit poignant about the separation of the two core businesses, on the other, I am convinced that this is the right decision.

I take this opportunity to thank all our stakeholders personally and on behalf of all my colleagues, for their support and encouragement in all our endeavours. I look forward to our continued relationship for decades to come.

Anil Agarwal



## FINANCIAL ANALYSIS AND MANAGEMENT PRACTICES

### Capital Structure

The issued share capital as at June 30, 2000 comprised 5,59,12,559 equity shares of Rs. 10 each. The total equity capital aggregated Rs. 55.91 crore of which, unpaid allotment money and calls in arrears aggregated Rs. 1.48 crore.

During the year, the Company issued 10% non-convertible redeemable cumulative preference shares of Rs. 10 each aggregating Rs. 30 crore and 9.75% non-convertible redeemable cumulative preference shares aggregating Rs. 5 crore.

### The Restructuring

The Company's telecom business is to be transferred to the new telecom company now christened as Sterlite Optical Technologies Limited ("SOTL" or "Telecom company"). This restructuring will enable sharper focus on each of the businesses and enhance shareholder value.

In terms of the Scheme of Arrangement, the Telecom company shall allot one equity share of the face value of Rs 5/- each for every one fully paid-up equity share of Rs 10/- held by every member of Sterlite Industries (India) Limited ("Sterlite Industries") and whose names appear in the Register of Members as on the relevant "Record Date".

Simultaneously, upon the Scheme becoming effective, share capital of the Company shall stand appropriately reduced by reducing the face value to Rs. 5 per share. The Scheme shall be effective from July 1, 2000.

Assuming all issued and subscribed equity shares are fully paid-up, the table below indicates the pre and post

restructuring equity capital of Sterlite Industries (India) Limited and Sterlite Optical Technologies Limited.

### Reserves and Surplus

As at June 30, 2000 reserves and surplus of the Company aggregated Rs. 1,595.33 crore net of miscellaneous expenditure to the extent not written off or adjusted. Retained earnings accounted for 52% and share premium accounted for 48% of the reserves and surplus.

### Loan Profile

The Company's long term debt increased by Rs. 29.39 crore to Rs. 914.66 crore as at June 30, 2000 from Rs. 885.27 crore as at June 30, 1999. The composition of long term to short term debt was 65:35 compared to 68:32 in the previous year. Floating Rate Notes (FRN) proceeds aggregating US\$ 49.9 million, out of the total US\$ 81 million raised in June 1997, are deposited in overseas US Dollar denominated investments.

Working capital loan from banks marginally decreased from Rs. 334.23 crore as at June 30, 1999 to Rs. 324.53 crore as at June 30, 2000 inspite of substantial increase in operations of the Company.

The debt equity ratio of the Company as at June 30, 2000 was 0.84, lower than 0.99 in the previous year. After considering the cash balances, the net debt equity ratio further reduces to 0.60. The Company does not intend to borrow beyond a debt:equity ratio of 2:1. The average cost of debt funds outstanding as at June 30, 2000 was about 10.87%.

PRE - RESTRUCTURING	POST - RESTRUCTURING	
STERLITE INDUSTRIES (INDIA) LIMITED	STERLITE INDUSTRIES (INDIA) LIMITED	STERLITE OPTICAL TECHNOLOGIES LIMITED
One equity share of Rs. 10 fully paid-up	One equity share of Rs. 5 fully paid-up	One equity share of Rs. 5 fully paid-up
Total 5,59,12,559 issued, subscribed equity shares of Rs. 10 each	Total 5,59,12,559 issued, subscribed equity shares of Rs. 5 each	Total 5,59,14,571 issued, sub-scribed equity shares of Rs. 5 each (incl. initial capital)
Total issued and subscribed equity capital of Rs. 55.91 crores	Total issued and subscribed equity capital of Rs. 27.956 crores	Total issued and subscribed equity capital of Rs. 27.957 crores



## Total Capital Employed

The total capital employed by the Company increased by Rs. 492.39 crore to Rs. 3,109.96 crore. The increase is mainly on account of increase in inventories, additions to fixed assets and loans and advances. The ratio of sales to capital employed increased from 0.77 in FY1999 to 0.94 in FY2000.

## Gross Block

Gross Block increased by Rs. 293.30 crore to Rs. 1,986.43 crore due to increase in capacity of optical fibre cable plant, copper smelter and copper refinery. Besides, capital expenditure was incurred on implementation of enterprise-wide resource planning (ERP) program across all manufacturing locations, commissioning of phosphoric acid plant, installation of new aluminium foil printing facilities and certain balancing equipments.

## Investments

Investments decreased by Rs. 4.87 crore to Rs. 36.16 crore due to redemption of Public Sector bonds on maturity.

## Inventories

Inventories increased by Rs. 369.37 crore to Rs. 780.29 crore. The increase was due to the higher copper inventory and increased stock of telephone copper cables. The mandatory provision for inclusion of excise duty in the valuation, further increased the value of inventory. In relation to the cost of sales, inventories have increased from 99 days in FY1999 to 131 days in FY2000.

## Sundry Debtors

Sundry debtors increased by Rs. 35.42 crore to Rs. 263.90 crore. Total debtors have declined from 41 days sales in FY1999 to 33 days in FY2000.

## Loans and Advances

Loans and advances increased by Rs. 254.78 crore to Rs. 577.35 crore in FY2000. Loans and advances include loans extended to subsidiary companies, deployment of surplus funds to bodies corporate, advances to suppliers and advances for taxes and excise duty.

## Sales and Services

The total sales and service revenue increased by Rs. 890 crore (44%) to Rs. 2,925 crore for the fiscal year ended

June 30, 2000 from Rs. 2,035 crore in the previous year. The increase in sales resulted from an increase in demand for copper, optical fibre, optical fibre cables, aluminium foils and power transmission line aluminium conductors. Net of the inter-divisional sales, the non-ferrous metal business contributed Rs. 1,264 crore (67%) while telecom business contributed Rs. 620 crore (33%). The Company used in-house 75% of copper cathode in production of continuous cast copper rods, 17% of continuous cast copper rods in the production of jelly filled telecommunication cables, 31% of optical fibre in production of optical fibre cables and 32% of aluminium foils in the production of jelly filled telecommunication cables.

The total export revenues increased by Rs. 115 crore from Rs. 47 crore during FY1999 to Rs. 162 crore during FY2000.

Domestic market prices of copper cathodes and copper rods are fixed in line with the landed cost of copper based on prices prevailing at the London Metal Exchange. Prices of telecom cables both, jelly filled and optical fibre are based on competitive bidding price offered to major customers - DoT, MTNL and Railways. Optical fibres and aluminium foils are sold at market determined prices while prices of power transmission line aluminium conductors are based on competitive bidding. Prices of optical fibre in the domestic market, usually track global prices.

## Other Income

Other income comprises income earned by way of management fees from subsidiary, interest earned on temporary deployment of surplus funds in various money market instruments, interest on security deposits, income tax refunds and other loans and dividend income.

## Raw Materials

Copper concentrate, the major raw material for copper smelting, is imported. The prices of copper concentrate are linked to the prevailing London Metal Exchange (LME) prices for refined copper. A part of copper rods manufactured at copper smelter and refinery is consumed in-house for jelly filled cable manufacture. Other raw materials include polyethylene compounds for sheathing, aluminium cable wraps for protection from water penetration, steel tapes for armouring, petroleum jelly as filling compound, etc.

The primary raw material for optical fibre i.e. silica tube is imported. The major raw material for optical fibre cable i.e. optical fibre is procured in-house from the optical fibre division. Aluminium sheets required by the aluminium foils division and aluminium rods required by the power transmission division are procured from domestic sources. The total value of raw materials consumed at Rs. 1,850.78 crore increased by 38% compared to the previous year. The increase is lower than the sales growth at 44%, indicative of higher value addition.

### **Other Manufacturing Expenses**

Other manufacturing expenses increased by Rs. 77.81 crore to Rs.194.34 crore from Rs.116.53 crore in the previous year. This accounted for about 6.70% of net sales in FY2000 as against 6.35% in FY1999.

### **Overheads**

Overheads include administrative expenses, employee cost and selling expenses. Overheads increased by Rs. 31.79 crore to Rs.130.63 crore from Rs. 98.84 crore in the previous year. This accounted for about 4.97% of net sales for FY2000 compared to 5.39% in FY1999.

### **Interest Outflow**

Interest cost increased by Rs. 71.04 crore to Rs.154.94 crore in FY2000 from Rs. 83.90 crore in FY1999. The increase in interest is on account of the increased operations of the company resulting in higher average working capital

during the year. Additionally, interest income on deferred sales was also lower than the previous year. Interest cover for FY2000 was 3.17 as compared to 3.88 in FY1999. The Company intends to maintain a minimum interest cover of 3 times.

### **Depreciation**

Provision for depreciation increased by Rs. 13.84 crore to Rs. 93.59 crore in FY2000 from Rs. 79.75 crore in FY1999 due to the full year impact of commissioning of oxygen plant, commissioning of phosphoric acid plant, expansion of copper cathode and optical fibre cable capacity. The Company follows the straight-line method of computing depreciation.

### **Corporate Income Tax**

The jelly filled cable unit and the copper rod units of the Company are located at Silvassa, a backward area. These units enjoy tax benefits viz. full tax exemption for five years. Besides this, higher depreciation tax shield was available to the Company on account of the full capitalisation of the copper smelter and capacity expansion of optical fibre cable. Consequently, tax liability for FY2000 aggregated Rs. 2.10 crore.

### **Dividend**

The Company has paid interim dividend @ 110% for FY2000. The total dividend outgo (including dividend tax) was Rs. 60.35 crore. The interim dividend paid in May 2000 is the final dividend.