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Tata Chemicals Limited

Board of Directors :

Ratan N. Tata (*Chairman*)
R. Gopalakrishnan (*Vice-Chairman*)
Keshub Mahindra
D. M. Ghia
Nusli N. Wadia
F. J. Heredia
R. C. Khanna
A. N. Lalbhai
Dr. Manu Seth (*Managing Director*)
Dr. D. V. Kapur
N. A. Soonawala
T. S. Srinivasan
(*Nominee of IDBI*)
G. N. Bajpai
(*Nominee of LIC*)
U. Mahesh Rao
(*Nominee of ICICI*)

Company Secretary :

S. U. K. Menon

Registered Office :

Bombay House
24, Homi Mody Street,
Fort,
Mumbai 400 001.

Share Registrars :

Tata Share Registry Limited,
Army & Navy Building,
148, Mahatma Gandhi Road,
Mumbai 400 001.

Solicitors :

Mulla & Mulla and
Craigie Blunt & Caroe, Mumbai.

Auditors :

Messrs S. B. Billimoria & Co.,
Chartered Accountants

Messrs N. M. Rajji & Co.,
Chartered Accountants

Works :

Chemicals Complex and Cement Plant — Mithapur, Gujarat
Fertiliser Complex — Babrala, Dist. Badaun, U.P.
Detergent Plant — Pithampur, Dist. Dhar, Madhya Pradesh

Bankers :

Bank of Baroda
State Bank of India
State Bank of Bikaner & Jaipur
Citibank N. A.
Bank of America
HDFC Bank Limited

DIRECTORS' REPORT

TO THE MEMBERS

The Directors present herewith the Sixty-first Annual Report with the Audited Statement of Accounts for the year ended 31 March 2000.

	(Rs. Crore)	Previous Year (Rs. Crore)
Financial Results		
2. The profit before Depreciation for the Year ended 31 March 2000 was	390.48	334.14
Deducting therefrom Depreciation of	123.47	116.15
Profit before exceptional Items was	267.01	217.99
After deducting :		
- Loss on account of cyclone/rain	—	8.16
- Compensation paid under voluntary retirement scheme	3.56	—
- Provision for contingencies	120.00	—
Profit before Tax was	143.45	209.83
Deducting therefrom Taxes of	26.16	28.16
Profit After Tax was	117.29	181.67
Adding thereto balance in Profit and Loss Account	223.08	216.67
The amount available for Appropriation was	340.37	398.34
The Appropriations are:		
(a) Interim Dividend	90.32	—
(b) Final Dividend	—	90.32
(c) Tax on Dividend	9.94	9.94
(d) General Reserve	20.00	75.00
(e) Balance Carried forward... ..	220.11	223.08
	340.37	398.34

3. The total income for the year at Rs.1660.29 crore was 10.7% higher than the preceding year on account of higher investment income and higher sales. The Gross Profit before interest, depreciation and exceptional items was Rs.576.14 crore against Rs.528.65 crore last year, an increase of 9%. The Profit Before Tax of Rs.143.45 crore was after taking into account profit on sale of shares of Rs. 79.95 crore and after setting aside a sum of Rs.120 crore as "Provision for Contingencies" for reasons explained in paragraph 7 below.

Dividend

4. An interim dividend of Rs.5 per share on the Share Capital of Rs.180.64 crore was paid in May 2000. The quantum of interim dividend at Rs.90.32 crore inclusive of tax is Rs.100.26 crore which is the same amount as paid in the preceding year by way of final dividend. Considering the need to conserve the Company's resources, the Directors do not recommend payment of any final dividend.

Retention Price

5. The results for the current year have been cast on the basis of the Provisional Retention Price for Urea declared by the Government as was done in the three preceding years 1996-97 to 1998-99. There was unfortunately little tangible progress in the fixation of the Final Retention Price during the year. Claims for escalation and input costs and interest subsidy amounting to Rs.36.62 crore have been accounted pending final issuance of Government notification in keeping with the normal industry practice.

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6. In its efforts to reduce the subsidy on Urea, the Government of India now discourages the use of Naphtha as feedstock by gas based Plants and has placed severe constraints on the despatch and sale of Urea under the Essential Commodities Act. The Government has also appointed a Committee headed by Dr. Y.K. Alagh for the reassessment of Plant capacities and for determining the amounts to be recovered from Urea producers, and the method of such recovery. Pending the findings of the Committee the Government, has as an interim measure, reduced the Retention Price by reassessing the capacity of the Plant at Babrala at a level 15% higher than its design capacity. This has resulted in a reduction of the Retention Price by Rs. 463 per tonne and if maintained could result in a reduction in the profits of the Fertilizer Division by Rs. 40 crore per year. The claims for recovery from past subsidy payments cannot at present be ascertained.
7. It may be recalled that the profit on sale of Urea for the years 1994-95 and 1995-96 was computed on the basis of actual cost data submitted to the Government. Since the subsequent notified Retention Price was less than the price estimated by the Company for those years, the Company has set aside in the year 1995-96 a sum of Rs.80 crore as Contingency Reserve with a view to partially off set the unrealised profit of Rs.197 crore. The Board considered it appropriate to set aside an additional sum of Rs.120 crore by way of Provision for Contingencies out of the current year's profit.

Provisions

8. It may be recalled that the cyclone and unexpected heavy rainfall that followed it in June 1998 damaged soda ash stocks at Mithapur. In the accounts for 1998-99 the Company had made a conservative provision of Rs. 8.16 crore as the extent of actual expenses to be incurred for re-processing and product loss could be ascertained only when all the damaged product was re-processed or internally consumed. While a substantial quantity of the cyclone/rain affected stocks had since been re-processed and/or internally consumed, until the entire stocks is reprocessed and/or internally consumed, it is not possible to ascertain the actual product loss. The provision already made is, however, considered adequate to cover the actual loss.

OPERATIONS**Chemicals Division****Soda Ash and Sodium Bicarbonate**

9. The overall Soda Ash production at 7.28 lac tonnes was higher than 6.14 lac tonnes for the previous year by 18.6%. Production during the second half of the year was affected due to the frequent breakdown of a steam generating High Pressure Boiler. The marketing of Soda Ash during the year was adversely affected by the easy availability of Soda Ash and the low international prices. In order to combat the situation and to retain its market share, the Company had to reduce the sale price in April 1999. Consequently, although sales of Soda Ash was higher during the year by 18%, in value terms there was a reduction in sales realization. This resulted in severe erosion in gross margin.
10. Following representations to the authorities clearly demonstrating that low price exports, almost entirely from China, were well below the domestic Chinese prices and in some cases below even the variable cost of Chinese producers the Government, imposed anti-dumping duties on Chinese imports. The lowering of domestic prices curtailed imports of Soda Ash which were 0.51 lac tonnes in the current year compared to 1.6 lac tonnes in the previous year. Soda Ash prices worldwide have shown a declining trend and producers in the Ukraine, Romania, Bulgaria and Kenya continue to dictate pricing in the South East Asian region. As a result of the unutilized worldwide capacity, the pressure on Soda Ash prices is likely to continue for some time. A well defined programme for reduction in fixed costs and improvement in efficiencies was initiated during the year with good success.
11. The production of Sodium Bicarbonate at 38,393 tonnes was 11.9% lower than 43,594 tonnes produced during the previous year.
12. The demand for Sodium Bicarbonate continued to be affected by the closure of leather tanneries in the Southern and Eastern parts of the country mainly on environmental grounds. Consequently the sale of Sodium Bicarbonate at 35,817 tonnes was lower than 40,716 tonnes sold in the preceding year by 12%.

Chlor-Caustic

13. The production of Chlor-Caustic at 6,704 tonnes was lower by 45.7% than the preceding year due to the reduction in the availability of surplus power. Both Chlorine and Hydrochloric Acid being co-products, followed a similar trend declining by 39% and 48.5% respectively.

Vacuum Salt and Marine Chemicals

14. Despite the aggressive posture of competitors, Tata Salt continued to maintain its leadership in the branded salt market. The production of Vacuum Salt at 3.47 lac tonnes was marginally higher by 0.8 % over the production in the preceding year. The sales during the year at 3.23 lac tonnes were higher by 5.1% over the preceding year. The production and sales of other marine chemicals primarily Bromine and Bromides were somewhat lower than those of the previous year.

Raw Materials & Fuel

15. The total requirement of fuels at Mithapur was primarily met by coal and lignite. The Company continued to make efforts to reduce the cost of fuels by international spot purchases and higher reliance on the use of lignite. Consequently the CIF value of raw material and fuel imported during the year at Rs.28.55 crore declined by 36.4% compared to Rs.44.89 crore for the previous year.
16. The production of Solar Salt at 10.98 lac tonnes was marginally higher than the previous year.
17. The Chemical Works was supplied about 17.65 lac tonnes of Limestone, the bulk of which came by rail.

Steam and Power

18. The Steam and Power facilities in general worked smoothly through out the year to meet the energy requirements of the Chemical Complex. However, frequent tripping by a High Pressure Boiler in the latter part of the year adversely affected production.

Cement Division

19. Sales of the Company's Cement increased from 2.94 lac tonnes in the previous year to 3.16 lac tonnes during the current year - an increase of 7.4%. The demand for cement continued to be erratic making this a difficult year for the cement industry. Despite adverse market conditions, the average sales realization of the Company's Cement increased by 24.4 %.
20. Due to difficult market conditions and the need to replace a damaged gear the production of Cement was restricted to 3.20 lac tonnes which constituted 73% of the installed capacity. As compared to the previous year, the production during the year was higher by only 4.4%. Clinker production was affected due to Kiln stoppage during August/September 1999 for upgradation to a capacity of 2,500 tonnes per day.

Fertiliser Division

21. The Fertiliser Complex at Babrala produced 9.82 lac tonnes as compared to 8.78 lac tonnes in the previous year - an increase of 11.8%. This level of production represents 132% of installed capacity. Sales of Urea at 9.64 lac tonnes was higher by 4.2% as compared to the previous year. Year end stocks of Urea, at 22,677 tonnes were higher due to restriction on allocations under Essential Commodities Act.
22. The Plant was shut down for annual turn-around maintenance for 18 days in April 1999 and the Plant has been functioning at full capacity thereafter. Gas availability during the year was substantially better which resulted in reduction in Naphtha requirements.

PROJECTS

Modernization Programme at Mithapur

23. The Company has to date spent Rs.249.27 crore on the Modernization Programme and at the end of the year committed an additional sum of Rs. 4.60 crore bringing the total expenditure and commitment to Rs. 253.87 crore. The important achievement during the year was the mechanical completion of a new Vacuum Salt Plant (co-producing water). Among other Projects completed during the year were installation of a sea water pumping system, installation of Chlorine Storage Tank and conversion of a boiler to lower emission. Continuous trials are also being taken on the new Effluent Solid Filtration Plant.

Tata Chemicals Limited

24. Projects in progress include recovery of Light Basic Magnesium Carbonate, and installation of Dust Extraction systems.

Fertiliser Division Projects

25. The Company has made progress in setting up additional Tata Kisan Kendras to provide farmers with a complete package of agricultural inputs and impart them knowledge and training on improved farm practices. The initial operation of the Centres has been found to be very encouraging. The progress on land acquisition for additional centres continues to be slow mainly on account of legal hurdles relating to ceiling on holding agricultural land.
26. The capital works in progress at Babrala amounted to Rs.28.13 crore of which Rs. 27.80 crore was on account of additions to the township, central workshops, school building and various plant modifications and enhancements.

Corporate Expenditure

27. The Company made rapid progress in the implementation of software for Enterprise-wide Resource Planning (ERP). All operations at Mithapur, Babrala and Mumbai are now using the new ERP which include most activities of production, sales and distribution, maintenance and project management.

CORPORATE AFFAIRS**Finance**

28. During the year under review, the Company repaid long term loans from Banks and Financial Institutions aggregating Rs.122.50 crore and met its redemption obligations on Non-Convertible Debentures (7th series, 8th Series, 16th series and 17th series) aggregating Rs.128.95 crore. In order to conserve/retain long term funds for meeting the Company's on-going requirements, the Company availed of fresh loans from State Bank of India and PICUP aggregating Rs.63.75 crore and made an issue of 13.25% Non-Convertible Debentures (19th series) aggregating Rs.150 crore on private placement basis. As a result, there was a net reduction of Rs.36.29 crore in the long term borrowings during the year.
29. With a view to reduce its interest burden the Company raised a sum of Rs.153.98 crore through sale of investments and utilized the proceeds to reduce short term borrowings. At the same time vigorous efforts were also made to economize on utilization of Working Capital which resulted in a reduction in debtors by Rs.69.64 crore.
30. The Company invested a sum of Rs.19.85 crore by availing of Rights offers of shares by Tata Industries Ltd. and ACC Ltd. during the year.

Y2K Compliance

31. As a result of comprehensive planning and vigorous implementation of various schemes for Y2k compliance, the Company did not encounter any breakdown or other problems and all its operations continued in an uninterrupted manner during the year.

Tata Business Excellence Model

32. The Company has continued with its programme for improving organizational performance in its unending search for excellence. The Company was qualified for ISO 9002 quality procedures and work on obtaining ISO 14001 Certification for environmental management systems is in hand. External Audit has been conducted for ISO 9002 certification for all the facilities at Mithapur.
33. In order to enhance the overall organizational performance, the Company has been following the Tata Business Excellence Model. Tata Quality Management Services (TQMS) trained over a dozen internal assessors who conducted the assessment of all the aspects of the Company's business covered by the Excellence Model. There has been some improvement in the Company's performance. Areas of further improvement have been identified and appropriate action plans are being developed.

Corporate Governance

34. With a view to benchmark the Company's practices and policies with those followed in other reputed companies, and in order to establish better standards of corporate governance and improved transparency, the Board of

Directors have constituted several committees, viz., Audit Committee, Remuneration Committee and a Committee of the Board to review business strategies and plans.

35. The Internal Audit Department, which monitors the effectiveness of the internal control and systems, reports its important findings to the Audit Committee. This Committee, which during the financial year 1999-2000 comprised of three independent Directors, has been expanded with the induction of two additional members since the close of the year. The Audit Committee reviews the audit plans, observations and reports of the internal audit department and follows up the implementation with necessary corrective action. It also oversees the Company's financial reporting processes and the disclosures made in the financial statements and ascertains from the Company's statutory auditors their views as to the adequacy of internal control systems. The recommendations of the Audit Committee are submitted to the Board of Directors.
36. The Securities and Exchange Board of India, vide an amendment to the Listing Agreement, has now directed listed Companies to follow a uniform Code of Corporate Governance which also includes disclosures in the Annual Report. Whilst the Company is in compliance with most of the requirements prescribed on Corporate Governance, initiatives have been taken to ensure that the Company is fully compliant with the Corporate Governance Code well before the schedule of implementation i.e. March 31, 2001.

Voluntary Retirement Scheme

37. With a view to bringing about rationalization and streamlining the manpower requirements, a Voluntary Retirement Scheme (VRS) was introduced during September 1999 at Mithapur with the active co-operation of the recognised Union. About 1,067 employees at Mithapur availed of the generous package offered to them. A sum of over Rs.53 crore was paid by way of compensation. This is expected to result in a saving of Rs. 13 crore per annum in the wage bill yielding a pay back period of four years.

Industrial Relations

38. Relations with all the employees, including the recognised Unions were, in general, cordial and a congenial atmosphere prevailed. The Company continued and completed successfully its literacy programme for semi-skilled and unskilled workers at Mithapur which includes imparting of technical training.

Rural Development and Social Welfare

39. During the year under review, the Company continued to support and execute community development programmes through the aegis of the Tata Chemicals Society for Rural Development. Water harvesting structures and check dams were constructed as part of the Watershed Development Project. As has been done in the past, the Company responded to the severe drought situation by supplying water to several villages in co-ordination with Government agencies and also provided infrastructure support to cattle camps.
40. At Babrala, a land reclamation project continued to check the alkaline and salinity in uncultivable land. Quality seeds were distributed and loans arranged for farmers to enable them to afford the inputs. Projects were implemented for water supply, electrification and construction of brick paved tracks in nearby villages.

SABRAS INVESTMENT AND TRADING COMPANY LIMITED

41. The Directors' Report and Audited Statement of Accounts for the year 31 March 2000 of the Company's 100% Subsidiary, Sabras Investment and Trading Company Limited is appended to the Report. The subsidiary Company declared a Dividend of Rs.200 per share as compared to Rs.20 per share in the previous year.
42. Your Directors consider it prudent to merge Sabras Investment and Trading Company with Tata Chemicals Limited during the current year. Shareholders' consent for this proposal will be sought at a separate Extra Ordinary General Meeting to be convened by the High Court.

DIRECTORS

43. Your Directors deeply regret the sudden and tragic passing away of Mr. D.S. Seth, Chairman Emeritus of the Company on 8 December 1999. Mr. Seth was associated with the Company and with the House of Tatas for a period of five decades and rendered yeomen services to the Group during that time.
44. Your Directors also mourn the passing away of Mr. Harshavadan Mangaldas, who was Director of your Company for 33 years.

TATA CHEMICALS

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45. In accordance with the requirement of the Companies Act, 1956, and the Company's Articles of Association, Mr. R.N. Tata, Mr. Keshub Mahindra and Mr. N.A. Soonawala Directors of the Company, are due to retire by rotation at the forthcoming Annual General Meeting and being eligible, offer themselves for re-appointment.

INFORMATION PURSUANT TO SECTION 217 OF THE COMPANIES ACT, 1956

46. The information required under Section 217(2A) of the Companies Act, read with Companies (particulars of employees) Rules, 1975 (as amended) forms part of this report. The matters specified in Section 217 of the Companies Act, 1956, to the extent to which they are applicable to the Company are incorporated in this Report.

CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION, FOREIGN EXCHANGE EARNINGS AND OUTGO

47. The information required under section 217(e) of the Companies Act, 1956, read with the Companies (Disclosure of Particulars) in the Report of the Board of Directors) Rules, 1988 is annexed hereto and forms part of this Report.

AUDITORS

48. The shareholders are requested to appoint Auditors for the current year and fix their remuneration as detailed in the requisite Resolution and the relative Explanatory Statement. Messrs S.B. Billimoria & Company and Messrs N.M. Rajji & Company, the existing Auditors, have, under Section 224(1B) of the Companies Act, 1956, furnished certificates of their eligibility for the appointment. The appointment, if approved, will have to be made by a Special Resolution as required by Section 224A of the Act.

EMPLOYEES STOCK OPTION SCHEME

49. Attention of the shareholders is also invited to Item No. 6 of the Notice of the Annual General Meeting setting out the material facts of the proposed Employees Stock Option Scheme.

ACKNOWLEDGEMENTS

50. The Directors wish to place on record their appreciation of the Financial Institutions, Banks, Central and State Governments for their continued cooperation and support, and of all employees for their unstinting efforts.

By Order of the Board of Directors

R. N. TATA
Chairman

Mumbai, 31 May, 2000

Registered Office:
Bombay House
24 Homi Mody Street, Fort
Mumbai 400 001

ANNEXURE TO THE DIRECTORS' REPORT
(UNDER SECTION 217 (1) (e) OF THE COMPANIES ACT, 1956)

Disclosures

A. CONSERVATION OF ENERGY

(a) Energy Conservation Measures taken:

- New make up water plant commissioned
- Conversion of Ignifluid boiler to Atmospheric Fluidized bed combustion completed
- Expansion of the Clinker capacity at Mithapur Cement Plant completed. The modified and new equipment use energy efficient mechanisms

- Energy Management System for High Tension Motors commissioned

(b) Additional investments and proposals, if any, being implemented for reduction of energy consumption

- Equipment and piping for using low pressure steam at the new Make up Water Plant
- Fluidized bed kiln for 500 TPD Lime

(c) Impact of of the measures at (a) and (b) for reduction of energy Cosumption and consequent impact on the cost of Production

- Increase in Condensate generation capacity
- Enhanced production capacities
- Enhanced power generation due to use of low pressure steam at the new Make up Water Plant
- Reduced steam consumption at Ammonia stills of the Soda Ash Plant due to the use of powdered lime
- Improved control over the power distribution network.

Tata Chemicals Limited
(d) Total Energy Consumption per Unit of production as per Form A :
Form A

Our captive Steam Power Plant at Mithapur is based on "Total Energy" concept co-generating Steam and Power and therefore the cost of steam and power is shown as a composite number in the following tabulation

POWER & FUEL CONSUMPTION

	Current Year (1999-2000)	Previous Year (1998-99)
1. Electricity		
(a) Purchased		
Unit (Mwh)	230	3,481
Total Amount (Rs. Crores)	0.18	1.45
Avg. Rate (Rs./Mwh)	7,875.90	1,300.00
(b) Own Generation		
(i) Through diesel generators (Mwh)	1.32	—
(ii) Through Steam Turbine/Generator Unit(Mwh)	3,55,943	3,43,188
Steam Produced (Tonnes)	37,67,591	32,91,106
Total value of Electricity & Steam (Rs. crores)	136.85	115.35
(iii) Through Gas Turbine		
Units (Mwh)	1,61,544	1,55,609
Steam Produced (Tonnes)	13,11,595	13,31,057
Total Value of Steam & Power (Rs. Crores)	91.45	113.16
2. Coal (Specify quality and where used)		
Mostly we receive and use "C" and "D" grade Coal and "A" grade Lignite in our Boilers.		
Qty. (Tonnes)	6,47,355	5,61,405
Total Cost (Rs. Crores)	103.17	92.90
Avg. Rate (Rs/Tonne)	1,593.79	1,654.86
3. Natural Gas		
Purchased (SCM)	24,75,38,789	21,99,21,977
Total Cost (Rs. Crores)	99.12	76.89
Average Cost (Rs./SCM)	4.00	3.49
4. Naphtha		
Purchased (KL)	27,514	39,321
Total Cost (Rs. Crores)	20.74	22.65
Average Cost (Rs./KL)	7,537.15	5,760.28

CONSUMPTION PER UNIT OF PRODUCTION

Products	ELECTRICITY (Kwh/MT)		STEAM (MT/MT)	
	1999-2000	1998-99	1999-2000	1998-99
Soda Ash	135.57	155.67	3.27	3.42
Sodium Bicarbonate	86.19	82.44	1.00	0.90
Caustic Soda	2,840.57	2,880.86	1.90	1.11
Vacuum Evaporated Salt	66.49	67.71	1.79	1.93
Cement	130.32	114.75	—	—
Urea	70.03	73.00	1.09	1.26
Ammonia	163.62	181.00	0.43	0.45