

SIXTEENTH ANNUAL REPORT

1998-99

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TATA SPONGE IRON LIMITED

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Board of Directors

(as on 27th May, 1999)

Mr. N. P. Sinha	—	Chairman
Mr. S. Pandey		
Mr. N. Patnaik		
Mr. H. S. Majumder		
Mr. S. V. Kale		
Mr. A. D. Baijal		
Mr. P. K. Lahiri		
Mr. I. S. P. Shetti	—	Managing Director

Management

Mr. I. S. P. Shetti	—	Managing Director
Mr. B. M. Sarangi	—	Senior General Manager
Mr. A. C. Sen	—	Chief Executive (Finance & Accounts)
Mr. T. P. Ninan	—	General Manager
Mr. R. Raju	—	Controller of Accounts
Mr. S. Murlidharan	—	Chief Marketing Manager
Mr. S. S. Dhanjal	—	Company Secretary

Registered Office & Works

P. O. Joda - 758 034
Dist. - Keonjhar
Orissa.
Tel/Fax No. : (06767) 72082
Tel No. : (06767) 72309

Bankers

State Bank of India
Canara Bank

Marketing Offices

1. SBI Building
(2nd Floor)
Circuit House Area (East)
Jamshedpur - 831 001
Tel No. : (0657) 226860
Fax No. : (0657) 231400
2. Tata Centre
(10th Floor)
43, Chowringhee Road
Calcutta - 700 071
Tel No. : (033) 2883714
Fax No. : (033) 2883715

Auditors

Messrs S. B. Billimoria & Co.
Chartered Accountants

Share Registrars

Tata Share Registry Ltd.
Army & Navy Building
148, Mahatma Gandhi Road
Mumbai - 400 001
Tel No. : (022) 2873831
Fax No. : (022) 2844160
Website : www.tata.com/tsrl

TATA SPONGE IRON LIMITED**TATA SPONGE IRON LIMITED**

Regd. Office : P. O. Joda, Dist. Keonjhar, Orissa - 758 034

NOTICE

Notice is hereby given that the Sixteenth Annual General Meeting of TATA SPONGE IRON LIMITED will be held at the Registered Office at Joda on Saturday, the 28th August, 1999, at 12-00 Noon to transact the following business :

ORDINARY BUSINESS

- 1) To receive and adopt the Board's Report and Audited Profit and Loss Account for the year ended 31st March, 1999 and the Balance Sheet as at that date together with the Auditors' Report thereon.
- 2) To declare a dividend.
- 3) To appoint a Director in place of Mr. H. S. Majumder, who retires by rotation and being eligible, offers himself for reappointment.
- 4) To appoint Auditors and fix their remuneration and for that purpose, to consider and, if thought fit, to pass with or without modification, the following resolution as a Special Resolution :

"RESOLVED that pursuant to the provisions of Section 224A and other applicable provisions, if any, of the Companies Act, 1956, Messrs S. B. Billimoria & Co., the retiring auditors, be and are hereby reappointed auditors of the Company to hold office from the conclusion of this meeting upto the conclusion of the next Annual General Meeting and audit the accounts of the Company for the Financial year ending 31st March, 2000 or any extension thereof at such remuneration as may be mutually agreed upon between the Board of Directors and the auditors, plus out of pocket, travelling and living expenses."

SPECIAL BUSINESS

- 5) To appoint a Director in place of Mr. A. D. Baijal, who was appointed in the casual vacancy caused by the resignation of Mr. M. Fasihuddin, and who holds office under Section 262 of the Companies Act, 1956, upto the date of the Annual General Meeting, but who is eligible for re-appointment and in respect of whom the Company has received a notice in writing proposing his candidature for the office of Director.
- 6) To consider and if thought fit to pass, with or without modification, the following resolutions as Ordinary Resolutions :

"RESOLVED that pursuant to the provisions of Sections 198, 269, 309 read with Schedule XIII and other applicable provisions, if any, of the Companies Act, 1956, and Article 112 of the Articles of Association of the Company, Mr. I. S. P. Shetti be reappointed as Managing Director of the Company subject to retirement by rotation with effect from 1st June, 1999 till 4th January, 2001, on such terms and conditions as set out in the draft agreement submitted to this meeting and initialled by the Chairman for the purpose of identification with liberty to the Board/Committee of Directors to alter and vary the terms and conditions of the said re-appointment in such manner as may be agreed to between the Board/Committee of Directors and Mr. Shetti."

"RESOLVED further that the Managing Director, as and when re-appointed as Director immediately on retirement by rotation, shall continue to hold his office of Managing Director and such re-appointment as Director shall not be deemed to constitute a break in his appointment as Managing Director."

Notes :

- 1) A MEMBER ENTITLED TO ATTEND AND VOTE IS ENTITLED TO APPOINT A PROXY TO ATTEND AND ON A POLL, VOTE INSTEAD OF HIMSELF AND THE PROXY NEED NOT BE A MEMBER. PROXIES, IN ORDER TO BE EFFECTIVE, MUST BE RECEIVED AT THE REGISTERED OFFICE OF THE COMPANY AT JODA, DIST-KEONJHAR, ORISSA, PIN 758 034, NOT LESS THAN 48 HOURS BEFORE THIS ANNUAL GENERAL MEETING.
- 2) The Special Resolution under item No. 4 above is in pursuance of the provisions of Section 224A of the Companies Act, 1956, which are applicable to the Company since the combined shareholding of the Financial Institutions in the Company exceeds 25% of the Subscribed Capital of the Company.
- 3) The Register of Members and Share Transfer Books will remain closed from 20th July, 1999 to 30th July, 1999, both days inclusive.
- 4) Dividend, if declared, will be paid to those shareholders, whose names appear on the Company's Register of Members as on 30th July, 1999. The payment will be made on or after 15th September, 1999.
- 5) Your dividend warrant is valid for payment by the Company's Bankers for three months from the date of issue. Thereafter, please contact our Share Registrars, M/s. Tata Share Registry Ltd., Army & Navy Building, 148, Mahatma Gandhi Road, Mumbai - 400 001, for revalidation of the warrants. Please encash your dividend warrants immediately as the dividend amounts remaining unpaid at the expiry of 7 years from the 49th day of its declaration are required to be transferred by the Company to the Investor Education and Protection Fund to be established under Section 205C in terms of Section 205A of the Companies Act, 1956.
- 6) The unclaimed dividend for the financial years 1993-94 and 1994-95 has been transferred to the General Revenue Account of Central Government. Members, who have not encashed their dividend warrant for 1993-94 and 1994-95 are, therefore, requested to claim the amount from the Registrar of Companies, Orissa, Chalachitra Bhawan (IInd Floor), Buxi Bazar, Cuttack - 753 001.
- 7) Members, who have not encashed their dividend warrants issued for the years 1995-96, 1996-97 and 1997-98 are requested to immediately forward the same for revalidation to our Share Registrars at their address given under (5) above, and get the encashment at the earliest.
- 8) Members, who have multiple accounts in identical names or joint names in same order, are requested to intimate M/s. Tata Share Registry Ltd. the Ledger Folios of such accounts to enable the Company to consolidate all such share holdings into one account.
- 9) The Members are requested to notify change of their address, if any, immediately to M/s. Tata Share Registry Ltd.

By Order of the Board

Calcutta,
27th May, 1999.

S. S. Dhanjal
Company Secretary

TATA SPONGE IRON LIMITED

ANNEXURE TO NOTICE

Explanatory Statement under Section 173 (2) of the Companies Act, 1956.

ITEM NO. 5

Mr. A. D. Baijal, Director of the Company, was appointed with effect from 27th May, 1999 in the casual vacancy on the Board caused by the resignation of Mr. M. Fasihuddin. As per the provisions of the Companies Act, 1956, Mr. Baijal holds office upto the date of Annual General Meeting when Mr. Fasihuddin will have retired by rotation in the normal course. The Company has received a notice from a Member under the provisions of Section 257 of the Companies Act, 1956, proposing the candidature of Mr. A. D. Baijal for the office of Director.

Except Mr. A. D. Baijal, no other Director is concerned or interested in the business under Item No. 5.

ITEM NO. 6

Mr. I. S. P. Shetti has been the Managing Director of the Company since 1st June, 1990. During the tenure of Mr. Shetti as Managing Director the Company, which was a sick industrial company pursuant to the provisions of Section 3(1) (o) of SICA, 1985, has not only turned around but also successfully completed its expansion programme in September, 1998.

In addition to this, under the able leadership of Mr. Shetti, the Company has obtained ISO-9002 certificate in January, 1995, which is still being maintained, twice won the first prize in the National Quality competition of the Indian Institute of Metals in DR units category and several other awards in the area of safety. Production and productivity also improved significantly.

His last term of re-appointment came to an end on 31st May, 1999. Considering the vast experience and outstanding management skills of Mr. I. S. P. Shetti, the Board, at its meeting held on 27th May, 1999, has re-appointed him as Managing Director from 1st June, 1999 till 4th January, 2001. The continued services of Mr. I. S. P. Shetti as Managing Director will be beneficial to the company and the Board accordingly recommends the proposed Resolutions for your approval.

TERMS AND CONDITIONS :

1. Subject to the superintendence, control and direction of the Board of Directors, the Managing Director is entrusted with the management of the whole of the affairs of the Company and he shall also carry out such duties and services as may be entrusted to him by the Board of Directors from time to time.
2. Period of Appointment : From 1st June, 1999 to 4th January, 2001.

3. REMUNERATION :**(a) Salary :**

In the scale of Rs. 25,000 - Rs. 75,000 per month (with proportionate increase in the value of the benefits related to salary) with authority to the Board/Committee of Directors to fix his salary within the scale from time to time. The annual increments will be merit based and take into account the Company's performance.

(b) Commission :

As may be determined by the Board/Committee of Directors of the Company at the end of each financial year, subject to the overall ceilings stipulated in Sections 198 and 309 of the Act. The specific amount payable which shall not exceed two years' of annual salary of Mr. I. S. P. Shetti will be based on certain performance criteria to be laid down by the Board/Committee of Directors and will be payable annually after the Annual Accounts have been approved by the Board of Directors and adopted by the Shareholders.

(c) Perquisites & Allowances :

(i) In addition to the salary and commission payable, Mr. I. S. P. Shetti shall be entitled to perquisites like accommodation (furnished or otherwise) or house rent allowance in lieu thereof, house maintenance allowance, together with reimbursement of expenses or allowances for utilities such as gas, electricity, water, furnishings and repairs, medical

reimbursement, leave travel concession for himself and his family, club fees, medical insurance etc. in accordance with the rules of the Company or as may be agreed to by the Board/Committee of Directors and the Managing Director, such perquisites to be restricted to 125% of the annual salary.

(ii) For the purposes of calculating the above ceiling, perquisites shall be evaluated as per the Income Tax Rules, wherever applicable. In the absence of any such Rules, perquisites shall be evaluated at actual costs.

Provision for use of Company's car for official duties and telephone at residence (including payment for local calls and long distance official calls) shall not be included in the computation of perquisites for the purpose of calculating the said ceiling.

(iii) Company's contribution to Provident Fund and Superannuation Fund or Annuity Fund, to the extent these either singly or together are not taxable under the Income Tax Act, Gratuity payable as per the rules of the Company and encashment of leave at the end of the tenure shall not be included in the computation of limits for the remuneration or perquisites aforesaid.

(d) Minimum Remuneration :

If in any financial year during the currency of tenure of Mr. I. S. P. Shetti, the Company has no profits or its profits are inadequate, the managerial remuneration will be limited to the amount specified in Section II of Part II of the Schedule XIII to the Companies Act, 1956.

4. The terms and conditions of the appointment and/or Agreement may be altered and varied from time to time by the Board/Committee of Directors as it may, in its discretion, deem fit, within the maximum amount payable to Managing Director in accordance with Schedule XIII to the Companies Act, 1956, or any amendments made thereto.
5. The Agreement may be terminated by either party giving the other party six months' notice or the Company paying six months' salary in lieu thereof.
6. If, at any time, Mr. I. S. P. Shetti ceases to be a Director of the Company, for any cause whatsoever, he shall cease to be the Managing Director.
7. If, at any time, Mr. I. S. P. Shetti ceases to be the Managing Director of the Company, for any cause whatsoever, he shall cease to be a Director of the Company.
8. So long as Mr. I. S. P. Shetti acts as the Managing Director of the Company he shall not be entitled to sitting fees for attending meetings of the Board or any Committee thereof.
9. Mr. I. S. P. Shetti, Managing Director, shall not be entitled to supplement his earnings under the Agreement with any buying or selling commission and shall also not become interested or otherwise concerned, directly or through his wife and/or minor children, in any buying, selling or any other agency of the Company, without the prior approval of the Central Government.
10. The Managing Director shall not have the following powers :
 - (a) power to make calls on shareholders in respect of monies unpaid on shares in the Company.
 - (b) power to issue debentures; and
 - (c) power to invest the funds of the Company in shares, stocks and securities.

The draft agreement between the Company and Mr. I. S. P. Shetti is available for inspection at the Registered Office of the Company between 11.00 a.m. and 1.00 p.m. on any working day of the Company.

Other than Mr. I. S. P. Shetti none of the Directors is concerned or interested in the Resolutions at item No. 6 of the Notice.

By Order of the Board

Calcutta,
27th May, 1999.

S. S. Dhanjal
Company Secretary

TATA SPONGE IRON LIMITED

CHAIRMAN'S STATEMENT**Dear Shareholder,**

This has indeed been a year of great achievements for Tata Sponge. The Company posted record levels of production and sales. The profit was lower than the previous year due to the sluggish market. The expansion project has been commissioned smoothly and the ramp-up in production has been quick. The outcome of the expansion has been encouraging and is partially reflected in this year's financial results of the Company. The good performance of the Company, in these trying times, has been possible, in a large measure, due to the dedication and commitment of the employees.

Market

The market for Sponge Iron remained depressed through the whole of the previous year due to its inherent close relationship with the Steel market which remained stagnated due to overall industrial recession prevailing in the country. Added to this was the increase in the cost of inputs and higher interest burden. Electrical power is one of the critical inputs that has witnessed a quantum jump in tariff in the recent past. In order to have reliable power at lower cost, the Company is examining the feasibility of the proposal for installation of a captive power plant utilising waste heat gases from the manufacturing process. I am happy to inform you that a series of cost cutting measures were also initiated and pursued vigorously to offset the adverse impact of the lower realisations and increase in input costs, to some extent. There was no increase in the inventory level of sponge-iron in spite of significantly higher output. However, the market is beginning to now look-up although it would be a bit premature to make any conclusive statement on this.

Customer Orientation

There is an ever greater need to be customer-oriented. "Customer-delight" and being responsive to customer needs will have to drive all our future endeavours. Customer loyalty would be a key parameter for differentiation in a commodity market. I am happy to inform you that new markets have been penetrated in geographically dispersed locations and despatches have been made for the first time to markets in the north-east from our newly constructed railway siding.

Quality Consciousness

Talking of customer loyalty in the absence of any mechanism and means to earn the same would sound hollow. The Company has been making steady progress in its journey of Total Quality Management. It has won the coveted first prize in the National Quality Competition held by Indian Institute of Metals in the DR Units category twice.

Raw Material Sources

In order to firm up the source of prime raw material namely, Iron-ore, on a long term basis, the development work at Khondbond Mine of Tata Steel was started from 1997 and the same is in an advanced stage of completion.

Dividend

Despite the various difficulties faced by the Company during the year, it has been possible to declare a dividend of 10%, which is lower than the previous year.

Looking Ahead

The years ahead would be both challenging and rewarding. The Company will have to consolidate along the direction already charted, in terms of cost competitiveness and customer orientation. The Company will have to redefine industry standards in terms of performance and retain the leadership in the Sponge Iron Industry. The Company is uniquely positioned to take advantage of any upturn in the market and all the right things that have been initiated and implemented during these testing times would yield rich dividends in the years ahead.

Calcutta,
27th May, 1999

(N. P. Sinha)
Chairman

DIRECTORS' REPORT

The Directors have pleasure in presenting the Sixteenth Annual Report on the business and operations of the Company and its financial results for the year ended 31st March, 1999.

FINANCIAL RESULTS

	Current year (Rs. Lakhs)	Previous year (Rs. Lakhs)
2. (i) Sales and other income	9,810	6,220
(ii) Profit before depreciation and other non-cash expenses	1,004	896
(iii) Depreciation and other non-cash expenses	(421)	(152)
(iv) Profit for the year	583	744
(v) Provision for Taxation	(61)	(79)
(vi) Profit after tax	522	665
(vii) Profit/(Loss) brought forward from previous year	324	757
(viii) Profit available for appropriation	846	1,422
(ix) Proposed Dividend : 10% (1997-98 : 18%)	154	277
(x) Tax on Dividend	17	28
(xi) Transfer to General Reserve	361	793
(xii) Surplus carried to Balance Sheet	314	324
	846	1,422

DIVIDEND

3. The Directors are pleased to recommend a dividend of 10% on 1,54,00,000 equity shares of Rs. 10/- each for the Financial Year ended 31st March, 1999, subject to the approval of the shareholders at the ensuing Annual General Meeting. The reason for recommending a lower dividend in the current year is that the internal accruals have been ploughed back in the just completed expansion project for strengthening the future earning capacity of your Company.

EXPANSION

4. The expansion project was commissioned on 7th September, 1998. The production from 2nd kiln has stabilised since its commissioning. The financial results include the performance of 2nd kiln for about seven months.

TURNOVER & PROFIT

5. Turnover for the year under review amounted to Rs. 9458 lakhs as against Rs. 5987 lakhs for the previous year, registering an increase of 58%, which is attributable mainly to the results of expanded capacity. The Gross Profit of the Company showed an improvement of about 50%. However, an increased burden of Interest (up by 282%) and Depreciation (up by 177%) because of the investment in the 2nd kiln led to a decrease in the profit before tax by 21%.

DIRECTORS' REPORT *(Contd.)*

The remedial costs are not likely to be material. The Company has sufficient internal resources and a contingency plan to address any system break-down due to unpredictable Y2K problems.

13. The Annual Listing Fee for the year 1998-99 has been paid to those Stock Exchanges where Company's shares are listed.

DIRECTORS

14. Mr. V. Vishwanath, nominee Director of Industrial Development Bank of India relinquished his office with effect from 25th September, 1998.

Mr. M. Fasihuddin relinquished his office with effect from 9th April, 1999. In the casual vacancy created by his resignation, the Board appointed Mr. A. D. Baijal as Director, who retires at the Sixteenth Annual General Meeting at which Mr. M. Fasihuddin would have retired in the normal course and Mr. Baijal is eligible for reappointment.

The Board placed on record their deep sense of appreciation for the valuable guidance and services rendered by Mr. V. Vishwanath and Mr. M. Fasihuddin.

Mr. H. S. Majumder retires by rotation and, being eligible, offers himself for reappointment.

MANAGING DIRECTOR

15. The Board in its meeting held on 27th May, 1999, has reappointed Mr. I. S. P. Shetti as Managing Director of the Company effective from 1st June, 1999 to 4th January, 2001. Necessary resolutions together with the explanatory statement have been included in the Notice of the Sixteenth Annual General Meeting as the above reappointment is subject to the approval of the shareholders.

INDUSTRIAL RELATIONS

16. Industrial relations remained cordial through - out the year, which directly contributed to the successful completion of the expansion project and improvement in operations. The Board wishes to place on record its wholehearted appreciation for the co-operation extended by all employees in this direction.

SOCIAL RESPONSIBILITY

17. The green belt in and around the plant has been widened by plantation of more trees in order to improve the environment in the vicinity of the plant.

The Company associated itself in assisting agro based activities and providing mobile medical facilities in the nearby villages. The company has also undertaken construction of amenities in St. Teresa's School at Joda, repaired tube-wells in the nearby villages and at LI point of Birikela village, supplied sports materials to nearby villages, provided financial aid to Mutuda village for organising sports and repaired the Mutuda Road.

The Company has also decided to finance partly the construction of a bridge over Sona river, near Birikela village for the use of general community living across the river.