SESA GOA LIMITED

35th Annual Report

1999-2000

SESA GROUP

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SESA GOA LIMITED

REGISTERED OFFICE :

Sesa Ghor, 20 EDC Complex, Patto, Panjim, Goa - 403 001

DIRECTORS :

S. D. Kulkarni	Chairman
K. Abe	
P. F. X. D'Lima	
P. G. Kakodkar	
A. Pradhan	
K. S. Subramanian	
H. Tada	
Y. Takagi	
M. Kanezashi	Wholetime Director
P. K. Mukherjee	Wholetime Director
A. K. Rai	Wholetime Director
C. M. Brown	Managing Director

SECRETARY :

C. D. Chitnis

AUDITORS :

S. J. Thaly & Co.
Chartered Accountants
Panjim, Goa – 403 001

SOLICITORS :

T. Pooran & Co.
Taj Building
210, D. Naoroji Road
Mumbai – 400 001

BANKERS :

Canara Bank
State Bank of India

SESA GROUP
SESA GOA

SESA GROUP
SESA INDUSTRIES

SESA GROUP
SESA KEMBLA

SESA GROUP
SESA COMMUNITY DEVELOPMENT FOUNDATION

DIRECTORS' REPORT

To the Members,

The Directors' herewith present the Annual Report of the Company together with the Audited Statements of Accounts for the Financial Year ended 31st March, 2000.

FINANCIAL RESULTS

	1999-2000 (Rs. in lakhs)	1998-1999 (Rs. in lakhs)
Profits before provisions for depreciation and tax	1882.91	4644.01
Less: Depreciation	1156.85	1118.31
Provision for Taxation	3.00	300.00
Profit after Depreciation & Taxes	723.06	3225.70
Add: Investment Allowance (Utilised) Reserve written back	5.00	–
Add: Debenture Redemption Reserve written back	–	129.65
Add: Balance brought forward from the preceding year	1552.97	1543.77
Profit available for appropriation	2281.03	4899.12
Appropriations:		
Interim Dividend Paid for the Year 1999-2000	295.22	–
Final dividend recommended for the Year 1999-2000	–	492.02
Tax on Distributed Profit	32.47	54.12
General Reserve	1000.00	2800.00
Balance carried to Balance Sheet	953.34	1552.98
	2281.03	4899.12

DIVIDEND

The Board of Directors recommends to confirm the Interim Dividend of Rs. 1.50 per share paid in May 2000 as Final Dividend for the year 1999-2000.

CURRENT YEAR'S OPERATION

A summary of the Sales Turnover and the working results is given below:

	1999-2000		1998-1999	
	Qty. in lakh Tons or Nos.	Value Rs. in lakhs	Qty. in lakh Tons or Nos.	Value Rs. in lakhs
Sales of Iron Ore (Net of freight)	46.20	22229	46.34	24181
Direct Exports (Net of freight)	39.06	20293	40.41	22942
Indirect Exports (Through local exporters)	2.99	429	1.11	224
Other Sales	4.16	1507	4.82	1015
Sale of Vessels	1	238	1	290
Profit after Depreciation & Taxation	–	723	–	3226

THE IRON ORE BUSINESS

As reported last year, the price reductions of 11% for fines and 10.2% for lumps on our FOB Contracts caused a significant set back to results achieved. In the case of our CFR Contracts, the sharp rise in international oil prices and the consequent escalation in freight rates caused the negotiated price decrease of 15.9% to worsen to the region of 18-20%. The combined impact of these price decreases significantly eroded profitability during the year under review.

In previous years the Company has benefited from the depreciation of the rupee versus the US Dollar, helping offset cost inflation. However, during the year under review, the Rupee remained fairly stable. Inflation, with the exception of product transportation and energy costs, generally was contained through improved cost control in the mines, profits resulting primarily from sales tonnage levels being maintained with increase in production of ore and corresponding reduction in purchase quantity.

During the year under review product shipping costs were higher, due to the bunching of export vessels in what was a buyers market. To counter this issue, it was necessary to hire third party barges and transhippers during periods of peak activity while suffering fleet idle hours during lean shipping periods. We were able to reduce total demurrage costs incurred despite this uneven shipping schedule.

The transhipper handled 1.6 million tons during the year against 2.1 million tons the previous year, reflecting the market and the pattern of the shipping schedule.

Pellet Feed Plant operations (ultrafines recovery) were stabilized during the year and the plant is now operating satisfactorily. The shipment of Pellet Feed will commence during the current year.

The Shipbuilding Division constructed a new Pilot Launch for the Paradeep Port Trust at a price of Rs. 2.38 crores. The division obtained ISO 9001 Certification for its design, construction and repair facilities during the year under review. The Engineering division obtained ISO 9001 Certification for its design development, manufacturing and servicing facilities.

FUTURE OUTLOOK

Steel production worldwide is increasing and steel prices are strengthening. Japanese crude steel production in 2000-01 is forecast to be 104 million tons compared to 98 million tons last year. Chinese and European steel production levels are also showing upward trends.

While historically iron ore prices have followed the fortunes of the steel industry, given a balanced iron ore supply demand position, mine capacity expansions and cost reduction initiatives undertaken by the Australian producers in the past several years have resulted in a structural change in the industry which is reflected in the large price cuts last year. Hence, our scheme for business restructuring is focussed on permanently lowering the cost structure and improving the productivity of our resources.

As part of the restructuring programme our mining operations have now been scheduled on a three shift, 24 hour basis in order to achieve enhanced equipment utilization. A voluntary retirement scheme has also recently been implemented to reduce the total workforce and help ensure the long term viability of our business.

With the successful introduction of Jishu Kanri in Sesa Industries Ltd. last year, we have now introduced this Japanese technique of cost control in our mine and administration groups and we expect to realize some initial benefits in cost savings during this year.

The iron ore price negotiations in 2000 resulted in an increase of 4.35% for fines and 5.77% for lump ore on FOB contracts. In China, reduced demand for low grade fines has exerted a downward pressure on price realizations though demand for high grade fines is growing. In Europe, price increases of 11.69% for fines and 11.80% for lumps have been offset by increases incurred in ocean freight rates for CFR Contracts.

Recently we have been able to recover some customers and sales we lost to competitors last year. Our shipments from Chennai Port are planned to increase this year and although they are currently contributing only marginally to profitability, we remain confident of stronger contributions in the future. Our entry into Orissa also holds much promise particularly when the Dhamra Port becomes a reality. In addition to indigenous lump ore sales, exports from that port can be expected to see significant growth with time. Meanwhile we are endeavouring to initially commence exports from Orissa through Haldia Port.

With the progressive liberalization of the economy we are optimistic that the current restrictions on the export of higher grades of ore will be relaxed. When this event occurs we will be ready to capitalize on opportunities to increase our export sales from both the east and west coasts of India.

We remain optimistic about the medium and longer term prospects for the business and we are hence taking developmental steps to increase our iron ore reserves, diversify our mining operations and our markets and most importantly, to reduce our cost structure to globally competitive levels. These efforts will make possible our continued business growth as appropriate market opportunities arise.

SUBSIDIARY COMPANIES

A. NARRAIN MINES LIMITED operations were as budgeted during the year under review providing lump ore about 1,60,000 tons to SESA INDUSTRIES LTD. and about 5,00,000 tons of ore for export.

SESA INDUSTRIES LIMITED continued to operate through an extremely difficult market cycle during the first half of the year under review. A loss of Rs. 10 crores was recorded for the full year. Operating results were impacted by historically low pig iron prices and by the premature failure of the lining in one of the miniblast furnaces which resulted in a higher than anticipated coke consumption. The other blast furnace was also taken for planned relining during the period and was not restarted for 5 months for cash conservation reasons. However, since October 1999 the market situation has progressively improved and the Company has become profitable with both improving product prices and demand. With buoyancy in the pig iron market continuing we anticipate profitable operations for the remainder of 2000-01.

SESA KEMBLA COKE COMPANY LTD. returned a profit of Rs. 6.8 crores during the year. Relatively low international prices for coking coal and an interest moratorium on Sakura Bank loan, on-lent by the Company, helped profitability. We are pleased to report that the modification of the ovens progressed to completion satisfactorily during the period and the plant is now operating at its designed production rate.

Regarding the proposed power plant, which will utilize coke oven and blast furance exhaust gasses, permission from the Government of Goa should be obtained shortly and we anticipate that construction of the power plant on a Built, Own, Operate or Joint Venture basis will commence during this year.

Further details of subsidiary operations are available in the Directors' Reports of those Companies appended to this report.

SESA COMMUNITY DEVELOPMENT FOUNDATION

The Company contributed Rs. 20 lakhs during the year to the activities of the Sesa Community Development Foundation.

AWARDS

The Company was honoured with three Safety Awards by the National Safety Council and two national level Environmental Awards by FIMI, during the year under review, in connection with the mining activities in Goa.

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

Particulars prescribed under Section 217(1)(e) of the Companies Act, 1956, are given in Annexure A which forms part of this Report.

ECOLOGY

The Company continues to focus on due care and attention to environmental and ecological matters as a prime objective.

As reported last year, your Company is an ISO 14001 Company, the award being given in recognition of its ENVIRONMENTAL MANAGEMENT SYSTEM. This status was reconfirmed by the Surveillance Audit completed during the year under review.

The Company has launched a collaborative research project, sponsored by the Swedish Agency for Research and Co-operation in Developing countries and the Department of Biotechnology, government of India, with National Environmental Engg. Research Institute, Nagpur (NEERI) and the Department of Biotechnology, Lund University Sweden. The project has the following objectives:

- Development of an integrated biotechnological approach (2F-1BA) to prevention of heavy metal leachates from iron ore heaps.
- Rejuvenation of the productivity and the revegetation of mine lands and overburden dumps utilizing organic wastes and biofertilizers.

During the year under review 2,31,000 saplings of different native varieties were planted at our mining sites.

FIXED DEPOSITS

The Company's Fixed Deposit Scheme continues to enjoy public confidence. On 31st March, 2000, the Company held Rs.18,36,68,000/- on account of deposits received from the public and our shareholders. 84 deposits aggregating to Rs.7,04,000/- matured and were unclaimed as on 31st March, 2000 of which 29 deposits amounting to Rs. 3,37,000/- have since been repaid.

DEMATERIALISATION OF EQUITY SHARES

The Securities and Exchange Board of India notified that the settlement of the Company's scrip would be in demat form, effective 31st May, 1999. The Company subsequently signed implementing agreements with National Securities Depository Limited and Central Depository Services (India) Limited.

DIRECTORS

Mr. T. Pooran and Mr. H. K. Bilpodiwâla resigned effective from 9th December, 1999. Mr. K. Momii resigned effective from 1st April, 2000. The Board accepted the resignations and recorded it appreciation of the services rendered by Mr. T. Pooran, Mr. H. K. Bilpodiwala and Mr. K. Momii during their tenure.

The Board of Directors at its meeting held on 31st March, 2000 appointed Mr. S. D. Kulkarni and Mr. P. G. Kakodkar in the casual vacancies created by the resignations of Mr. T. Pooran and Mr. H. K. Bilpodiwala and at its meeting held on 7th June, 2000 appointed Mr. H. Tada in the casual vacancy created by the resignation of Mr. K. Momii. Mr. Y. Takagi ceased to be a Wholetime Director with effect from 31st March, 2000 but continues to be a Non-Executive Director.

Mr. V. Frank will cease to be a Wholetime Director with effect from 30th June, 2000 on retirement. The Board recorded its appreciation of the services rendered by Mr. V. Frank during his tenure as a Wholetime Director of the Company.

Mr. H. Tada and Mr. Y. Takagi will retire by rotation and being eligible offer themselves for re-appointment as Directors.

Mr. M. Kanezashi was appointed as Wholetime Director at the meeting of the Board of Directors held on 31st March, 2000, subject to the approval of the shareholders at the ensuing Annual General Meeting.

Mr. P. F. X. D'Lima ceased to be Nominee Director of FINCO and consequently as a Wholetime Director of the Company with effect from 8th June, 2000. Mr. D'Lima was appointed as an Additional Director with effect from 8th June, 2000 at the Board Meeting held on 7th June, 2000. He ceases to hold office at the forthcoming Annual General Meeting in terms of Section 260 of the Companies Act, 1956, but being eligible offers himself for re-appointment.

Mr. P. K. Mukherjee was appointed as Wholetime Director at the meeting of the Board of Directors held on 7th June, 2000, effective from 1st July, 2000 for a period of five years in the casual vacancy created by retirement of Mr. V. Frank, subject to the approval of the shareholders at the ensuing Annual General Meeting.

Mr. Amit Pradhan was appointed as an Additional Director with effect from 1st July, 2000 at the Board Meeting held on 7th June, 2000. He ceases to hold office at the forthcoming Annual General Meeting in terms of Section 260 of the Companies Act, 1956, but being eligible offers himself for re-appointment.

AUDITORS

The Company's Auditor, Messrs S. J. Thaly & Co., Chartered Accountants, Panjim, Goa, retire at the ensuing Annual General Meeting and are eligible for re-appointment.

EMPLOYEES

The Directors place on record their deep appreciation for the services of all employees of the Company for their contributions to the continued operations of the Company.

In accordance with the provisions of Section 217 (2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules 1975, a statement giving the required information relating to the employees covered by the said Section is given in Annexure B.

For and on behalf of the Board of Directors

Place : Panjim – Goa
Dated : 7th June, 2000

S. D. KULKARNI
CHAIRMAN

ANNEXURE - A TO DIRECTORS' REPORT

Information as per Section 217 (1) (e) read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 and forming part of the Directors' Report for the year ended 31st March, 2000.

(A) CONSERVATION OF ENERGY

The Company continues to accord high priority to energy conservation. Aspects of programmes in place include monitoring and control of the fuel consumption of our barge fleet, transport vehicles and earthmoving equipment and the monitoring and optimisation of electrical energy consumed in all Group activities.

(B) TECHNOLOGY ABSORPTION

Particulars with respect to technology absorption are given below in the prescribed Form B:

Research and Development (R & D)

1. Specific areas in which R & D was carried out by the Company:

   Continued work on new designs and applications of machinery for iron ore mining and beneficiation.

   Process developmental work on the recovery of pellet feed from tailings.

2. Benefits derived as a result of the above R & D :

   Development activities have resulted in reductions in capital and operating costs and environmental control improvements.

3. Future plan of action :

   Developmental work will continue to be carried out on optimisation of yields from ore processing.

4. Expenditure on R & D :

	1999-2000 Rs. in lakhs	1998-1999 Rs. in lakhs
a) Capital	–	0.17
b) Recurring (revenue)	5.35	14.24
c) Total	5.35	14.41
d) Total R & D expenditure as a percentage of total turnover	0.02%	0.05%

Technology Absorption, Adaptation and Innovation

1. Efforts, made towards technology absorption, adaptation and innovation are outlined briefly :

   The Company maintains close contact and continuous interaction with its principal shareholder and its foreign associates, as well as with the suppliers of specialised equipment.

2. Benefits derived as a result of the above efforts are inter alia:

   Improved mining efficiencies and product quality control and the indigenous manufacture of beneficiation plant equipment to appropriate imported and indigenously developed designs.

   Improvement in pollution control system.

3. In case of technology, imported during the last 5 years reckoned from the beginning of the financial year: Nil.

(C) **FOREIGN EXCHANGE EARNINGS AND OUTGO**

A major portion of the Iron Ore produced by the Company is for export either directly or indirectly. The Foreign Exchange earnings made by the Company during the year under report amounted to Rs. 233.03 crores. Foreign Exchange Outgo (Details given in Schedule 18), amounted to Rs. 63.71 crores. The Company thus earned a net foreign exchange of Rs. 140.58 crores during the year.

For and on behalf of the Board of Directors

Place : Panjim – Goa
Dated : 7th June, 2000

S. D. KULKARNI
CHAIRMAN