

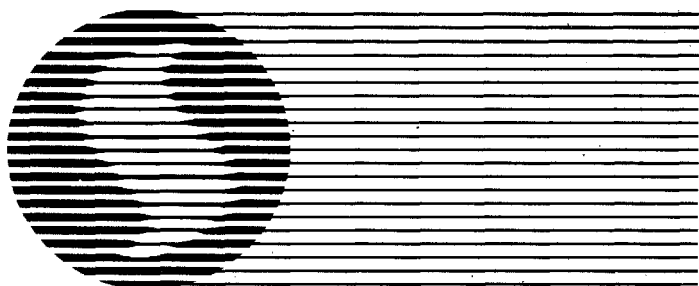
# **SESA GOA LIMITED**

## **40th Annual Report**

### **2004-2005**



**SESA GROUP**



Report



JUNCTION

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# SESA GOA LIMITED

## REGISTERED OFFICE :

Sesa Ghor, 20 EDC Complex, Patto, Panaji, Goa - 403 001.

## DIRECTORS :

S. D. Kulkarni Chairman

P. G. Kakodkar

K. R. V. Subrahmanian

K. Sakurai

T. Miyachi

T. Hokari

A. Pradhan

M. D. Phal

P. K. Mukherjee

Wholetime Director

H. P. U. K. Nair

Wholetime Director

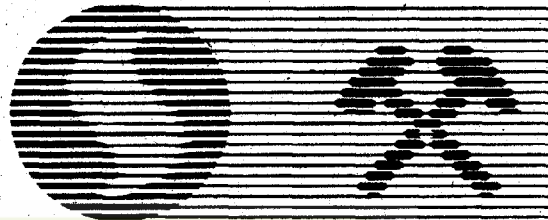
A. K. Rai

Wholetime Director

L. A. Dean

Managing Director

## SESA GROUP



SESA GOA

## SECRETARY :

C. D. Chitnis

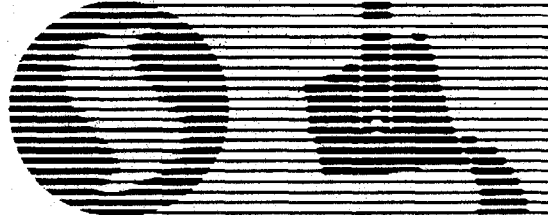
## AUDITORS :

S. J. Thaly & Co.

Chartered Accountants

Panaji, Goa - 403 001.

## SESA GROUP



SESA INDUSTRIES

## BANKERS :

Canara Bank

State Bank of India

ICICI Bank Limited

UTI Bank Limited

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SESA GROUP

**SESA GOA****DIRECTORS' REPORT**

To the Members,

The Board of Directors present the Annual Report of the Company together with the Audited Statements of Accounts for the Financial Year ended 31st March 2005. The figures for the financial year ended 31st March 2005 include the figures of erstwhile Sesa Kembla Coke Company Limited which has been amalgamated with the Company w.e.f. 1st April 2004, pursuant to High Court order. Hence, the figures for the year under review are not comparable with those of the previous year.

**FINANCIAL RESULTS**

	2004 -2005 (Rs. in million)	2003-2004 (Rs. in million)
Profit before provisions for depreciation and tax	7130.148	1587.790
(Less) : Depreciation	(255.961)	(159.959)
Provision for Tax		
– Current Tax	(2273.000)	(423.000)
– Deferred Tax	22.590	(17.000)
Profit after depreciation & Tax	4623.777	987.831
Add : Balance brought forward from the Preceding year	552.676	66.382
Profit available for appropriation	5176.453	1054.213
<b>Appropriations</b>		
Interim Dividend	98.405	39.362
Proposed Final Dividend	787.240	157.448
Tax on Distributed Profit	123.674	25.216
General Reserve	3750.000	750.000
Balance carried to Balance Sheet	417.134	82.187
	5176.453	1054.213

A consolidated financial statement of the Company has also been prepared as per requirements of the Listing Agreement and the same is included in this Annual Report. It will be heartening to note that consolidated profit after tax for the Group has reached Rs. 4764.150 million for the year ended 31st March 2005 as against the corresponding figure of Rs. 1684.455 million for the previous year.

**DIVIDEND**

The Board of Directors has recommended a final Dividend of Rs. 20/- per share for the year 2004-05, on the expanded share capital (post 1:1 bonus issue in March 2005) in addition to the interim dividend of Rs.5 /- per share declared and paid during the year, on pre-bonus share capital.

**OPERATIONS**

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

(All money values are net of freight)	2004 - 2005		2003 - 2004	
	Qty. in million Tonnes	Value in million Rs.	Qty. in million Tonnes.	Value in million Rs.
Sale of Iron Ore	9.810	10,050	8.558	5,492
Direct Exports	6.452	6,851	5.330	3,954
Indirect Exports (through local exporters)	2.867	2,773	2.776	1,295
Other Sales	0.491	426	0.452	243
Sale of metallurgical coke	0.255	3,693		
Profit after Depreciation & Tax		4,624		988

**SESA GOA**

During the year under review the international price of iron ore went up by 18.62% on FOB basis. However, your company could negotiate a higher increase from many of its FOB customers including those in China and in respect of indirect exports. The CFR contracts of the company were also negotiated with an increase of 59% for iron ore lumps and 75% for iron ore fines. Part of the increase was also to compensate for the increase in ocean freight.

The results of coke business are included for the first time in your company's accounts. During the year, the average realization on coke was quite high owing to higher international price. The international price of coke was abnormally high at the beginning of the Financial Year mainly due to lower exports from China.

During the year under review the world crude steel production grew by more than 8% and crossed 1 billion tonnes for the first time. The growth in steel production was led by China with an increase of 23%. As a result, the demand for iron ore continued to remain strong and your company could register a further growth in sales volume by about 15%. While spot market prices on an average were lower during the year as compared to the unprecedented level in the earlier year, they still remained at a fairly high level, particularly for shipments from the East coast of India. However, in the east coast, the cost of transportation continued to remain high because of poor availability of railway rakes and high road transport charges.

On the cost front, there was an increase in the diesel prices, higher wages & salaries owing to new wage settlement signed during the year and cost of ore purchased due to prevalent market situation. One time payment for change in use of land required for mining also increased the cost during the year. The rupee remained strong against US dollar for most part of the year and consequently, impacted sales realization.

All the mines and processing plants of the company operated at the optimum level. The logistics were ably supported by the captive barge fleet and transhipper. The availability of railway rakes improved and loading operations at Chennai Port were better during the year as compared to the earlier year, mainly because of your company's persistent dialogue with the Port authorities. Consequently, your company could save demurrage cost significantly.

Your company continues to follow the best environmental practices. Due to a case filed by a Non-Government Organization (NGO) in the Supreme Court, there was a threat of closure of various mines and industrial units across the country. One of your company's mines in Goa was initially included in the defaulters' list but was subsequently removed from the list when it became clear that your Company had made timely application for renewal of environmental clearance.

The productivity of the coke ovens was to world standard. During the year under review, the company achieved recycling of coke breeze to the extent of 6%, which in turn optimized the revenue. While many of the coke producers faced uncertainty as to supply of coal owing to buoyant steel production, your company did not have any problem in getting the scheduled shipments. The revenue from sale of coke technology was Rs.22 million during the year.

## OUTLOOK

Thanks to the various measures post liberalization, the Indian economy has achieved necessary resilience and high rate of growth. The manner in which the economy has been able to withstand the impact of oil price increases over the last couple of years as compared to the crippling impact of oil price shock of Seventies, is a testimony to this resilience. However, the pace of reforms, particularly in the areas like opening up of Foreign Direct Investments (FDI) in more sectors, labour laws, decontrol of more areas including mining, needs to be put into high gear to not only sustain but also achieve higher rate of growth and fully realize the country's potential to be a super-power.

The demand for raw materials required for production of steel continues to be very strong. As a result, the international price of both iron ore and coal have registered an unprecedented increase during the current year - 71.5% for iron ore and 120% for coal on FOB basis. In spite of various measures adopted by the Chinese authorities to cool down the pace of growth of its economy, the production of steel in China is still growing at a phenomenal rate. The Indian economy is also growing at a rate of around 7% while the growth of manufacturing sector is even higher. Indian steel production is also planned to be almost doubled from its current capacity to more than 60 million tonnes in the course of next 6 to 7 years.

SESA GROUP

**SESA GOA**

In view of the above, your company does not foresee any let up in demand for iron ore in the medium term. However, there are reports of new capacities coming on stream in the course of next 2 to 3 years in Australia and Brazil, which, if they materialize, will definitely create a supply side pressure and consequently, the iron ore price is likely to come down from the current unprecedented level.

The price increase in the current year has reduced premium in the spot market and there are signs that spot market would soften further, if not vanish. As reported last year, your company believes that such a situation would help in the long-term orderly growth of the iron ore industry.

Your company is continuously focussing on modernizing its plants and equipment so as to optimize the cost structure. In that direction, investment is being made in upgrading the barge fleet and renewing equipment on board the transhipper, M.V. Orissa. To overcome a part of the uncertainty in availability of railway rakes for movement of iron ore from the mines in Orissa and Karnataka, investment in the "Wagon Investment Scheme" of Indian Railways is also under active consideration. The new railway line in Orissa is yet to be commissioned and as per latest indications the same may be opened for traffic sometime in the year 2006.

The allocation of new iron ore reserves for mining by various state governments continues to be a very cumbersome process. Some of the state governments have decided to allot the new ore reserves only for captive use for steel making which is a different line of business altogether than iron ore mining. However, your company is continuously working on various strategies to acquire new reserves, while adhering to the stipulated conditions of the state governments. At the same time, negotiations are also on with various private parties to augment company's iron ore reserves.

Consequent to the coal price increase during the current year by 120% and stability in the international price of coke owing to increased exports from China, the margins in coke business would be impacted considerably in the current year as compared to the year under review. However, on completion of compact charging project by the end of the current Financial Year, not only would the productivity go up but the cost of coal blend would also come down. Negotiations are also on for sale of company's unique coke making technology in some of the advanced countries of the world, which in turn has got a potential to further optimize the revenue from coke business.

### **ISO CERTIFICATION**

All the certificates under ISO 9001:2000, ISO 9001, ISO 9002, ISO 14001 and OHSAS 18001 for Quality Management, Environment Management and Safety Management are being successfully maintained by the Company.

### **SUBSIDIARY COMPANY**

**SESA INDUSTRIES LTD. (SIL)** has earned a net profit of Rs.274 million and has proposed to declare a dividend @ Rs. 2.50 for the year 2004-05. The cost of major raw materials for the production of pig iron, viz. metallurgical coke and iron ore, has gone up steeply during the year under review which, however, could be off-set by the increased realization of pig iron. The production from both the blast furnaces have further peaked during the year and has exceeded by more than 12% over rated capacity.

While there is a consistent demand for Sesa's pig iron due to its quality and reliability of supply, the continuing increase in the price of iron ore is likely to affect the bottom line in the near term. Further details of the operations of the company are given in its Directors' Report, which is appended.

### **SESA COMMUNITY DEVELOPMENT FOUNDATION**

The Foundation runs two units, viz. Sesa Technical School (STS) and Sesa Football Academy (SFA). The Company's contribution during the year was Rs.5.800. million to the foundation. The trainees of SFA maintained their winning streaks at various state level tournaments and their performance and growth deservingly earned accolades from the Goan Football fraternity. STS students continue to be sought after by various industries in Goa. The efforts of Sesa in imparting technical education and football training to the Goan boys through a group of dedicated teachers, coaches and administrators were very well appreciated by the Goan community at large.





## 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 is strongly focused on maintaining and improving the environment and ecology. The Company's efforts in this area are appreciated at all levels and considered as a benchmark by various other mining companies. The Research Project on mine land reclamation to utilize a fungus specie to supplement soil nutrition sponsored by the Company is progressing satisfactorily. This research is being conducted in association with Goa University.

Codli mine has been accorded Environmental clearance for life by the Ministry of Environment and Forest, New Delhi up to a production capacity of 4 million tonnes p.a.

About 294,000 tree saplings of different native varieties were planted at various mining sites and around stacking yards during the year under review.

A new project for rejuvenating the agricultural land that is lying uncultivated for several years has been undertaken, which if it proves successful, will lead to the economic upliftment of the community at large.

In the coke plant, a dust suppression system has been installed for coke screening.

The Company is the largest individual contributor to the **Mineral Foundation of Goa**, a charitable organization, with the objects of environmental enhancement and social help/ development in the mining districts of the State of Goa. This foundation undertakes various social/environmental projects in Goa such as water harvesting, health camps, entrepreneurial development programmes, providing education support to the needy, pollution control measures, etc.

## FIXED DEPOSITS

On 31st March 2005, the Company held Rs.154.549 million on account of deposits received from the public and shareholders/employees. 63 Deposits aggregating to Rs.0.883 million had matured and were unclaimed as on 31st March 2005, of which 19 Deposits amounting to Rs.0.297 million have since been repaid. The Company has stopped even renewing the deposits on maturity in view of favourable cash position.

## SAFETY

The safety performance was as under: -

Division		FSI	
		2004-05	2003-04
Mining (Goa)	Employees	1.00	0.93
	Contractors	0.27	0.49
Mining (Karnataka)	Employees	Nil	1.05
	Contractors	Nil	0.54
Mining (Orissa)	Employees	Nil	Nil
	Contractors	Nil	Nil
Shipping Division	Employees	0.57	8.32
	Contractors	1.34	Nil
Shipbuilding Division	Employees	1.20	Nil
	Contractors	0.12	0.41
Metallurgical Coke Division	Employees	Nil	
	Contractors	0.18	



The FSI is an index, which takes both the frequency of accidents and severity of accidents together into account.

## **DIRECTORS RESPONSIBILITY STATEMENT**

Your Directors confirm that:

- (i) the applicable accounting standards have been followed along with proper explanations relating to material departures, if any, for preparation of the annual accounts;
- (ii) the accounting policies have been selected and applied consistently and judgments and estimates have been made that are reasonable and prudent, so as to give a true and fair view of the state of affairs of the Company at the end of the financial year ended 31st March 2005 and of the profits of the Company for that year;
- (iii) proper and sufficient care has been taken to maintain adequate accounting records in accordance with the provisions of the Companies Act, 1956, for safeguarding the assets of the Company and for preventing and detecting fraud or other irregularities;
- (iv) the annual accounts have been prepared on a going concern basis.

## **DIRECTORS**

Mr. K Sakurai, Mr. A. Pradhan and Mr. T. Hokari will retire by rotation and being eligible, offer themselves for re-appointment as Directors.

Mr. S. Araki resigned effective from 10th February 2005. The Board accepted the resignation and recorded its appreciation of services rendered by Mr. S. Araki during his tenure.

Mr. S. Nakura resigned effective from 1st March 2005. The Board accepted the resignation and recorded its appreciation of services rendered by Mr. S. Nakura during his tenure.

The Board of Directors at its meeting held on 17th March 2005 appointed Mr. T. Hokari in the casual vacancy created by the resignation of Mr. S. Nakura.

Mr. H. P. U. K. Nair was appointed Nominee of FINCO and consequently as a Wholetime Director of the Company by Circular Resolution dated 14th February, 2005, effective from 15th February, 2005 to 31st January, 2009, subject to the approval of the shareholders at the ensuing Annual General Meeting.

The Board of Directors at its meeting held on 31st May, 2005 re-appointed Mr. P. K. Mukherjee as Wholetime Director, with effect from 1st July, 2005 for a period of five years, subject to the approval of the shareholders at the ensuing Annual General Meeting.

## **AUDITORS**

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

## **AUDITORS' REMARK**

The Auditors, in their report, have drawn attention to Note No. 19 (a) of Schedule 19 of the Accounts in respect of remuneration to Wholetime Director. The said note is self-explanatory.

## **COMPLIANCE CERTIFICATE**

A certificate from the auditors of the company regarding compliance of conditions of Corporate Governance as stipulated under Clause 49 of the Listing Agreement is attached to this Report along with report on Corporate Governance.



**LISTING**

As stipulated under clause 32 of the Listing Agreement, the names and addresses of Stock Exchange on which the Company's equity shares are listed, are as under: -

- 1) The Stock Exchange, Mumbai  
Phiroze Jeejeebhoy Towers  
Dalal Street, Mumbai - 400 001
- 2) National Stock Exchange of India Ltd.  
Exchange Plaza,  
Bandra Kurla Complex,  
Bandra East,  
Mumbai - 400 051

Your company confirms that Annual Listing Fees for the year 2005-06 have been paid.

**EMPLOYEES**

The Directors would like to put on record their appreciation of the sustained efforts and co-operation of employees of the Company in arriving at a new wage settlement during the year in a very cordial atmosphere and maintaining the high productivity levels.

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

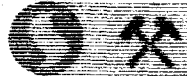
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For and on behalf of the Board of Directors

Place : Panaji, Goa - 403 001

Dated : 31st May 2005

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 2005.

### (A) CONSERVATION OF ENERGY

The energy conservation continues to be the focus area of the management. Continuous monitoring of the fuel consumption of the barge fleet, transport vehicles and earth moving equipments and the monitoring / optimization of electrical energy consumption in all Group activities are being done.

### (B) TECHNOLOGICAL 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 carried out by the Company:

Continued work on new designs and applications of machinery for iron ore mining and beneficiation in close association with vendors. Process development work on the recovery of pellet feed from tailings along with optimization of blend of various grades to achieve customer satisfaction on one hand and to conserve the depleting mining reserve on the other.

The company is in the process of obtaining patents of its coke making technology that has been developed by making significant improvements/modifications in the original design of the coke ovens. The project for compact charging of coal into ovens is also going on in full swing and on commissioning will increase the productivity and reduce the cost of coal blend.

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

Developmental activities in iron ore business have resulted in reductions in capital and operating cost and environmental control improvement, besides optimizing the product mix. The coke business will enjoy the fruits by revenue optimization and competitiveness of coke making technology.

#### 3. Future plans of action:

Developmental work will continue to be carried out in all the above areas. The results of technology improvement in coke making will be shared with others through technology transfer.

#### 4. Expenditure on R&D:

	2004-2005 (Rs.in million)	2003-2004 (Rs.in million)
a) Capital	1.434	—
b) Recurring (revenue)	4.707	0.740
c) Total	6.141	0.740
d) Total R & D expenditure as a Percentage of total turnover	0.058%	0.013%