

WELSPUN-GUJARAT STAHL ROHREN LIMITED



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**FOURTH ANNUAL REPORT
1998-99**

WELSPUN-GUJARAT STAHL ROHREN LIMITED

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Company Information

BOARD OF DIRECTORS

- | | |
|-------------------|----------------------------------|
| : G.R. Goenka | - Chairman |
| B.K. Goenka | - Vice - Chairman |
| R. Bannerji | - Nominee Director GIIC |
| A. K. Joti | - Nominee Director GIIC |
| J. S. Pal | - Nominee Director SICOM |
| J. Schuett | - Nominee Director INTERTEC GMBH |
| V. V. Desai | - Nominee Director - IFCI |
| R. R. Mandawewala | - Director |
| M.L. Mittal | - Director |
| B.S. Jhuj | - Director (Operations) |

AUDITORS

- : M/s. M.G. Bhandari & Co.
Chartered Accountants

COMPANY SECRETARY

- : M.C. Khemka

BANKERS

- : Bank of Baroda
Punjab National Bank
Development Credit Bank Limited
UTI Bank Limited

REGISTERED OFFICE

- : Village Vadadla,
Near Dahej, Taluka Vagra
District Bharuch,
Gujarat - 392 130

CORPORATE OFFICE

- : Rehem Mansion No. 1, 1st Floor,
36/42, Shahid Bhagat Singh Road
Colaba, Mumbai-400 001.

FACTORY

- : Village Vadadla,
Near Dahej, Taluka Vagra
District Bharuch,
Gujarat - 392 130

WELSPUN-GUJARAT STAHL ROHREN LIMITED

DIRECTORS' REPORT

To.

The Members,

WELSPUN GUJARAT STAHL ROHREN LIMITED

Your Directors have pleasure in presenting the Fourth Annual Report together with Audited Statement of Accounts of the Company for the 17 month period ended 31st August, 1999.

FINANCIAL RESULTS :

(Rs. in lacs)

	17 month period ended 31.08.99	Financial year ended 31.03.98
Gross Profit before Depreciation & Finance Expenses	338.70	293.93
Less: Finance Expenses	367.97	318.70
Depreciation	352.28	185.69
Net Profit /(Loss)	(381.55)	(210.46)
Profit/(loss) after prior year adjustment	149.62	(210.46)

As the company has no profit, your Directors do not recommend any dividend.

PERFORMANCE

During the period under report, the sales and gross profit before interest and depreciation were Rs.4143.05 lacs and Rs. 338.70 lacs respectively as compared to Rs. 1872.85 lacs and Rs. 293.93 lacs respectively in the last year. Net loss after interest and depreciation was Rs. 381.55 lacs as compared to Rs. 210.46 lacs in the last year. The production of spirally welded pipes was 17413 MT compared to 7331 MT in the last year. The production during the first 3 months in the current financial year is 7980 MT as compared to 3621 MT in the corresponding 3 months in the financial period ended 31st August, 1999.

Your Directors report that the orders executed included supplies for pipeline works for Essar Oil, Indian Oil Corporation, Gujarat Water Supply Board, etc. They further expressed that though the performance was not upto their expectation, the Company has attained immediate goals of stabilisation of production, achievement of quality benchmark established in the industry and establishing itself in the market as a major player. On this footing, they expected sizable amount of sales to improve capacity utilisation and in turn profitability of the Company. Your Directors hope that the order book position as on the date of the report to the tune of Rs.9141 lacs would mark the end of the gloomy time for the Company's business. However, your Directors regret to inform you that the Company could not meet the profitability projection of Rs. 4862 lacs (calculated proportionately on the basis of projection made in the Prospectus dated 30th December, 1996) for 17 month period ended 31st August, 1999 mainly due to the delay in commissioning of the longitudinal pipe project with substantial capacity of 175000 MTPA.

THE PROJECT

Your Directors are pleased to announce that after a long struggle and several impediments, your Company has successfully commissioned the Phase II (Longitudinal Pipe Plant) of the project and trial run have been started. The plant has been sourced from the world renowned MANNESMANN DEMAG, GERMANY and has JCO method of pipe manufacturing process. The plant bears State-of-the-Art Technology and the method of manufacturing has unique features which give competitive edge to the Company. The installation of Mechanical Expander gives added comfort for better quality pipe forming. Apart from these features, this project is one of the very few projects in the world capable of manufacturing pipes having wall thickness of 65 mm. In addition, the plant is equipped with latest in-house testing facilities and laboratories for testing the pipes at every stage starting from raw material inspections. The trial production of pipe has been found satisfactory.

JOINT VENTURE COMPANY FOR PIPE COATING :

Your Company had a relook at the coating business plan of the Company and decided to have a world renowned partner in hi-tech coating business to readily have technology and technical expertise in the field to minimize the risk of production pitfalls. In line with this, your Company has executed an agreement with world's leading pipe coating company viz. Eupec PipeCoatings, Germany to have a Joint Venture Company with shareholding proportion of 50% each. Eupec is a large international company specialised in the coating and lining of steel pipes, fittings and the in situ coating of pipeline field joints.



Eupec has daughter or affiliate companies in France, United States of America, Norway, Spain, Argentina and Brazil. Eupec enjoys worldwide reputation with practically all major international oil and gas companies for its pipe coating know how and quality. The Joint Venture Company is being formed and the financials and project details are being worked out. Your Directors are confident that implementations of the pipe coating project would be commenced soon.

OUTLOOK

With the continuous emphasis of the government on strong infrastructure including the cross country pipelines for the transportation and distribution of oil and gas as well as drinking water, the industry has promising market demand. The pipelines are considered the most cost effective means of transportation and distribution of fluid substances. There is no alternative to the setting up of pipeline network. Your Directors considered these aspects as fundamental for the boom of the industry. As far as the domestic demand is concerned, arrival of political stability and flow of investment from various developed countries of the western part of the world in the Indian economy and the thrust of the Govt. toward transportation through pipeline, demand position would certainly be better in the years ahead. The recent trend of use of CNG as a fuel for power plants is all set to give tremendous impetus to the already improved demand scenario. As regards the competition in the pipeline industry, it is not restricted to national boundary and domestic players. The procurement of pipes by customers is usually announced through international bidding where all the global suppliers are competitors of the Company. The technological advantage in having JCO forming process alongwith mechanical expansion makes the Company capable of manufacturing pipes to become competitive at the global level. Moreover, the strategic location of plant near the upcoming port of Dahej, well connected by highway to all parts of the country gives the Company added advantage of supplying the pipes using both sea and land route. All the technical factors remaining more or less at par ofcourse, the price factor and delivery schedule is the decisive factor for clinching an order. The plant's technological and locational advantage gives the Company the edge when it comes to freight, cost and quicker deliveries as the Company is fully geared to take on competition globally.

QUALITY CONTROL

Your Company has been consistently striving to attain the stringent quality benchmark. Your Directors are proud to report that within a short span of time the Company's manufacturing facilities and quality assurance procedures were thoroughly evaluated by American Petroleum Institute (API) and the Company has been allowed to use API monograms on its pipes. The Company has been awarded the prestigious ISO

9002 by Lloyds register for spiral plant and API Quality Registrar for longitudinal plant. The Company is the only plant in India and one of the very few plants worldwide to have been accorded the authorisation by API to use its monogram for API 5L 5CT & 2B simultaneously. The company has been authorised to use ISI mark on its pipes supplied for water transportation. With the above features and in-house testing facilities, the Company ensures the customers highest quality of pipes.

INCREASE IN SHARE CAPITAL

In order to finance the cost overrun and increased cost of additional machineries, equipments, utilities, etc., the Company had allotted 16,08,987 Optionally Fully Convertible Debentures (OFCDs) of Rs. 100/- each to a Public Financial Institution and 22719760 equity shares to promoter group companies and a foreign company. The OFCD holders has an option to convert the OFCDs into equity shares at a price to be determined as per SEBI Guidelines within 18 months.

PUBLIC DEPOSITS

The Company does not accept any deposit from public within the meaning of Section 58A of the Companies Act, 1956 read with The Companies (Acceptance of Deposit) Rules, 1975.

Y2K COMPLIANCE

The Company has taken appropriate and effective steps to ensure that its systems are year 2000 (Y2K) compliant. All the hardware and software used by the Company are Y2K compliant. The Company believes that the associated costs will not have material impact on the Company's results and with its contingency plan in place, the Company will be able to control any possible risk arising out of it.

DIRECTORS

In accordance with the provisions of the Companies Act, 1956 and the Articles of Association of the company, Shri Joachim Schuett and Shri M.L. Mittal retire by rotation at the forthcoming Annual General Meeting. They are eligible for re-appointment.

Since the last report, the Company has appointed Shri V.V. Desai as a Director, nominee of IFCI Ltd w.e.f. 27.1.1999. Mr. V. V. Desai is a corporate consultant with wide experience in corporate matters and the Managing Director of Intech Consultants Pvt Ltd New Delhi.

AUDITORS

Your Company's Auditors M/s. M.G. Bhandari & Co.

WELSPUN-GUJARAT STAHL ROHREN LIMITED

Chartered Accountants, retire at the ensuing Annual General Meeting and being eligible, have given their consent to act as Auditors of the Company. Members are requested to consider their reappointment as the Auditors of the Company for the current year and to fix their remuneration by passing a special resolution u/s. 224A of the Companies Act, 1956.

AUDITORS' REPORT

The notes on account referred to in the Auditors' Report are self-explanatory and therefore, do not call for any further comments.

THE COMPANIES (DISCLOSURE OF PARTICULARS IN THE REPORT OF BOARD OF DIRECTORS) RULES, 1988

In terms of the above Rules, your Directors are pleased to give the particulars as prescribed therein in the Annexure which forms part of the Directors' Report.

PARTICULARS OF EMPLOYEES

Information as per section 217(2-A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975 forms a part of this report. However, as per section 219(1)(b)(iv) of the Companies Act, 1956, report and accounts is being sent to all equity shareholders of the Company excluding the statement of particulars of employees under section 217(2-A) of the Act. Any member interested in obtaining a copy of the said statement may write to the Company Secretary at the Corporate Office.

LISTING WITH STOCK EXCHANGES

The Company's equity shares are listed on the Stock Exchanges at Ahmedabad (Regional), Mumbai and Calcutta. The Company has paid Annual Listing Fees to all the Stock Exchanges upto the financial year 1999-2000.

PERSONNEL

Industrial relations at your Company's plant remained cordial during the period under review. Your Directors wish to place on record their sincere appreciation of the valued contribution, unstinted efforts and spirit of dedications shown by the employees at all levels.

APPRECIATION

Your directors take this opportunity to express gratitude for valuable assistance and co-operation extended to the Company by Financial institutions, Mutual Funds, Banks, Government, semi Government and other authorities.

For and on behalf of the Board.

G. R. GOENKA
CHAIRMAN

Place : Mumbai
Date : 30th November, 1999



ANNEXURE
FORM - A
(SEE RULE 2)

FORM FOR DISCLOSURE OF PARTICULARS WITH RESPECT TO CONSERVATION OF ENERGY

	CURRENT PERIOD	PREVIOUS PERIOD
	1998-99	1997-98
A. POWER AND FUEL CONSUMPTION		
1. ELECTRICITY		
(A) PURCHASED		
UNIT (IN '000S)	1534.26	750
TOTAL AMOUNT (RS. IN LACS)	65.73	31.82
RATE/UNIT (RS.)	4.28	4.24
(B) OWN GENERATION		
(I) THOUGH DIESEL/GAS GENERATOR		
UNIT (IN '000S)	401.842	11
UNIT PER LTR. OF DIESEL OIL / GAS PER M3	3.40/4.63	2.90
COST/UNIT (RS.)	4.02	3.83
(II) THOUGH STEAM TURBINE/GENERATOR	NIL	NIL
2. COAL (SPECIFY QUALITY AND WHERE USED)	NIL	NIL
3. FURNACE OIL		
QUANTITY (K. LTRS.) UNIT (IN '000S)	NIL	NIL
TOTAL AMOUNT (RS. IN LACS)	NIL	NIL
AVERAGE RATE COST/UNIT (RS.)	NIL	NIL
4. OTHERS/INTERNAL GENERATION	NIL	NIL

B. CONSUMPTION PER UNIT OF PRODUCTION

	STANDARDS	CURRENT YEAR	PREVIOUS YEAR
PRODUCTS (WITH DETAILS) UNIT	TONS	TONS	TONS
ELECTRICITY	-	44.37	-
FURNACE OIL	-	-	-
COAL (SPECIFY QUALITY)	-	-	-
OTHERS (SPECIFY)	-	-	-

FORM - B
(SEE RULE 2)

Form for disclosure of particulars with respect to absorption.

Research and Development (R&D)

- | | | |
|----|--|---|
| 01 | Specific areas in which R&D is :
carried out by the Company | Since the project has recently commissioned and is under trial run, the Company will review the scope for setting up of R&D activities in due course. |
| 02 | Benefits derived as a result of the above R&D. | _____ do _____ |
| 03 | Future plan of action | _____ do _____ |
| 04 | Expenditure on R&D | |
| | (a) Capital | Nil |
| | (b) Recurring | Nil |
| | (c) Total | Nil |
| | (d) Total R&D expenditure as a percentage of total turnover. | Nil |

Technology absorption, adaptation and innovation.

- | | | |
|----|--|--|
| 01 | Efforts, in brief, made towards technology absorption, adaptation and innovation. | <ol style="list-style-type: none"> 1. Installation of plate & pipe ultrasonic testing equipments. 2. Installation of hydro test equipment for 83" dia pipe. 3. Installation of two new automatic welding rectifier (1000 Amps, 1500 Amps, Lincoln make). 4. Motor drive (1000 RPM) replaced with drive of 1500 RPM in spiral plant. 5. Development of mechanical painting equipment. 6. Installation of three roll sizing equipment. |
| 02 | Benefits derived as a result of the above efforts, eg. Product improvement, cost reduction, product development, import substitution, etc. | <p>Corresponding benefits of the efforts taken are as under :</p> <ol style="list-style-type: none"> 1. Ensures that pipes with good weld quality have been delivered. 2. Ensure the soundness of pipe including weld area. 3. Better & continuous good quality pipes with minimum break downs & welded defects. 4. Increase in productivity by 50% 5. Better coating finish & increased productivity. 6. Uniform & precise shape control to meet the stringent requirement of various specifications. |
| 03 | In case of imported technology (imported during the last 5 years reckoned from the beginning of the financial year), following information may be furnished: | |
| | (a) Technology imported | Basic engineering consultancy. Process engineering and Technical know how from INTERTECH GmbH, Germany. |
| | (b) Year of import | Commenced in 1996-97. |
| | (c) Has technology been fully absorbed ? | Technology for Spiral unit fully absorbed. However technology for the Longitudinal pipe mill unit is under absorption under trial run. |