

## **29th Annual Report 2003-2004**



**ADOR FONTECH LIMITED**

# ADOR FONTECH LIMITED

## **THE BOARD OF DIRECTORS**

J K Chandna	Chairman
H P Ledwani	Managing Director
K L Hira	Director
M T Sheth	Director
R D Kothare	Director

## **COMPANY SECRETARY & MANAGER-FINANCE**

Geetha D

## **THE CORPORATE MANAGEMENT COUNCIL**

H P Ledwani  
M J Kurian  
Muneesh Narain  
P Ramachandran  
P Viswanathan  
C Bhavani Sankar  
S Gopalakrishnan  
Ravi Magal  
Rajesh Joshi  
R Krishnakumar  
S V Puntambekar  
Geetha D

## **REGISTERED & CORPORATE OFFICE**

Belview  
7 Haudin Road  
Bangalore 560 042

## **AUDITORS**

Amarnath Kamath & Associates  
Chartered Accountants  
221 Raheja Chambers  
12 Museum Road  
Bangalore 560 001

## **BANKERS**

HDFC Bank Limited  
ICICI Bank Limited  
The Bank of Nova Scotia

## **STOCK EXCHANGES WHERE SECURITIES ARE LISTED**

Mumbai  
Bangalore  
Ahmedabad

## **SHARE TRANSFER AGENTS**

Alpha Systems Private Limited  
No. 30 Ramana Residency  
Sampige Road  
Malleswaram  
Bangalore 560 003

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## CASH FLOW STATEMENT

Pursuant to clause 32 of the Listing Agreement with the Stock Exchanges:

	2003-2004 Rs.	2002-2003 Rs.
1 Cash flow from operating activities:		
Net profit before tax as per Profit and loss account	2,32,12,874	2,08,60,935
Adjusted for:		
- Depreciation	78,88,934	71,54,453
- Preliminary expenses written off	(42,228)	(77,517)
- (Profit)/Loss on sale of assets	25,089	7,98,080
- Loss on sale of investments	(1,89,519)	(2,96,698)
- Dividend/interest income	49,72,644	53,77,108
- Interest expenses	-	67,473
- Bad debts written off	(13,25,499)	(1,07,120)
- Sundry credit balances written back	1,13,29,421	1,29,15,779
Operating profit before working capital changes	3,45,42,295	3,37,76,714
Adjusted for:		
- Trade and other receivables	(96,081)	(49,00,085)
- Inventories	(3,83,93,659)	(3,11,06,644)
- Trade payables	4,17,65,245	19,62,287
- Movement in loans, advances and other assets	3,53,053	1,14,12,797
- Movement in other current liabilities and provisions	82,79,824	(3,67,334)
Cash generated from operations	4,64,50,677	1,07,77,735
- Taxes paid	(86,98,978)	(76,26,262)
Net cash from operating activities	3,77,51,699	31,51,473
2 Cash flow from investing activities:		
Purchase of fixed assets	(2,32,66,696)	(1,14,67,145)
Sale of fixed assets	13,54,313	32,85,513
Sale of investments	2,71,952	71,09,920
Dividend/interest income	1,89,519	2,96,698
Investments made	(2,54,600)	-
Net cash used in investing activities	(2,17,05,512)	(7,75,014)
3 Cash flow from financing activities:		
Proceeds from long term borrowings	84,99,886	76,06,763
Repayment of long term borrowings	(61,28,271)	(24,50,758)
Proceeds from unsecured loans	1,63,34,082	2,14,21,447
Repayment of unsecured loans	(2,15,85,238)	(1,66,89,798)
Dividends paid including tax	(98,71,094)	(75,41,301)
Interest paid	(49,72,644)	(53,77,108)
Net cash used in financing activities	(1,77,23,279)	(30,30,755)
Net decrease/increase in cash and cash equivalents	(16,77,092)	(6,54,296)
Opening balance of cash and cash equivalents	72,34,801	78,89,097
Closing balance of cash and cash equivalents	55,57,709	72,34,801

Mumbai  
May 07, 2004

**H P LEDWANI**  
Managing Director

### AUDITORS' CERTIFICATE

We have verified the above Cash flow statement of Ador Fontech Limited derived from the audited financial statements for the year ended March 31, 2004 and March 31, 2003 and found the same to be drawn in accordance therewith and also with the requirements of listing agreement with the Stock Exchanges.

For **AMARNATH KAMATH & ASSOCIATES**  
Chartered Accountants

Bangalore  
May 06, 2004

**A R PAI**  
Partner

## ADOR FONTECH LIMITED

Regd. & Head Office: Belview 7 Haudin Road Bangalore 560 042

### NOTICE

Notice is hereby given that the 29<sup>th</sup> Annual General Meeting of the Members of the Company will be held at hotel Ajantha, 22-A, Mahatma Gandhi Road, Bangalore 560 001 on Thursday, July 15, 2004 at 16.30 hrs., to transact the following business.

#### ORDINARY BUSINESS

- 1.0 To receive, consider and adopt the audited Balance Sheet as at March 31, 2004 and the Profit and Loss Account for the year ended on that date, together with the Directors' Report and the Auditors' Report thereon.
- 2.0 Declaration of Dividend.
- 3.0 To appoint a Director in place of Mr. K L Hira who retires by rotation and being eligible has offered himself for reappointment.
- 4.0 To appoint the Statutory Auditors of the Company and fix their remuneration.

#### SPECIAL BUSINESS

**5.0 To consider and if thought fit, to pass, with or without modification(s), the following resolution as an ORDINARY RESOLUTION:**

"RESOLVED THAT pursuant to Section 228 and other applicable provisions of the Companies Act, 1956, and amendments thereof, the accounts for the year ending March 31, 2005 of the manufacturing plants of the Company, be audited by the Company's Auditors or such other person or persons, other than the Company's Auditors and as are qualified for appointment as Auditors under Section 226 of the Companies Act, 1956, and that the Board of Directors be and is hereby authorised to decide and appoint such Branch Auditors in consultation with the Company's Auditors and fix their remuneration and terms and conditions."

**6.0 To consider and if thought fit, to pass, with or without modification(s), the following resolution as a SPECIAL RESOLUTION:**

"RESOLVED THAT subject to the provisions of the Companies Act, 1956, Securities And Exchange Board of India (Delisting of Securities) Guidelines 2003, Securities Contracts (Regulation) Act, 1956, Listing Agreement with the Stock Exchanges and such other applicable legislations including statutory modification(s) or re-enactments thereof and subject also to approvals, permissions and sanctions as may be necessary, from concerned authorities, consent of the Company be and is hereby accorded to the Board of Directors to voluntarily delist the Equity shares of the Company from the Ahmedabad Stock Exchange."

#### NOTES

- a. **A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE ON BEHALF OF HIMSELF/HERSELF AND SUCH PROXY NEED NOT BE A MEMBER OF THE COMPANY.**

Proxy form in order to be valid must be lodged at the Registered office of the Company, not later than 48 hours before the commencement of the meeting.

- b. Members are requested to kindly bring their copy of the Annual Report to the meeting.
- c. The Register of Members and Share Transfer Books of the Company will remain closed from July 7, 2004 to July 15, 2004 (both days inclusive).
- d. Members are requested to notify immediately changes, if any, in their address/bank mandate to their respective Depository Participants (DPs) in respect of electronic share account and to the Registrar and Share Transfer Agents-Alpha Systems Private Limited- with all necessary details, in respect of their physical share folios.
- e. Pursuant to the provisions of Section 205A of the Companies Act, 1956, the amount of dividend which remains unclaimed for a period of 7 years from the date of declaration would be transferred to the "Investor Education and Protection Fund". As such, shareholders who have not encashed their dividend warrants are requested to write to the Company for claiming outstanding dividends, if any, in respect of the previous years.

#### EXPLANATORY STATEMENT PURSUANT TO SECTION 173(2) OF THE COMPANIES ACT, 1956

##### Item No. 5

The Company's manufacturing plants are situated at diverse locations. In view of the same, it is proposed to authorise the Board of Directors to appoint, in consultation with the Company's Auditors, such persons as are qualified for appointment as Auditors under Section 226 of the Companies Act, 1956, and amendments thereof, to audit the accounts, for the year ending March 31, 2005 and to fix their remuneration and terms and conditions.

The resolution gives the necessary authority to the Board of Directors in this behalf. The Board recommends the resolution set out at item no. 5 for your approval. None of the Directors of the Company is concerned or interested in the resolution.

##### Item No. 6

The Equity Shares of the Company are currently listed on the Mumbai, Bangalore and Ahmedabad Stock Exchanges.

With extensive connectivity of the Bombay Stock Exchange, investors have access to dealings in the Equity shares of the Company all over the Country. Further, as no trading activity has been reported of the Company's Equity at the Ahmedabad Stock Exchange, it is thought fit to delist the Company's shares from the said Exchange.

The proposed delisting will not affect the investors, as the Company's Equity Shares will continue to be listed on the Mumbai and Bangalore Stock Exchanges.

The Board recommends the resolution set out at item no. 6 for your approval.

None of the Directors of the Company is concerned or interested in the said resolution.

By order of the Board  
For **ADOR FONTECH LIMITED**

Mumbai  
May 06, 2004

**Geetha D**  
Company Secretary

## DIRECTORS' REPORT

Dear Members,

Your Directors have pleasure in presenting to you the 29<sup>th</sup> Annual Report of your Company and the Audited Statement of Accounts for the year ended March 31, 2004.

### 1. FINANCIAL HIGHLIGHTS (Rs. in lakhs)

DETAILS	2003-2004	2002-2003
Income	4505	3931
Operating profit	361	335
Interest	50	54
Depreciation	79	72
Profit before taxation	232	209
Provision for taxation	81	53
Net Profit	151	156
Prior period adjustments	—	7
Profit attributable to Equity Shareholders	151	149
Earnings per share (EPS)	4.30	4.25
<b>Appropriations</b>		
Dividend Recommended	88	88
Tax on Proposed Dividend	11	11
Transfer to General Reserve	30	30

### 2. REVIEW OF BUSINESS OPERATIONS

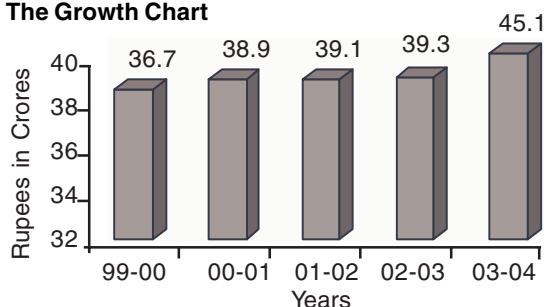
The year ended with a turnover of Rs. 4505 lakhs as against Rs. 3931 lakhs in the previous year, an increase of 14.60 percent.

The highlights of the improved performance during the year under review are:

- Commencement of production of **ADOR-FON** range of low heat input welding alloys and **FONARC** range of flux-cored arc welding consumables at the Peenya plant of the Company.
- Company-wide strategic focus on new products.
- Dedication and teamwork of employees at all levels.
- Continuously improving teamwork with our Authorised Dealers.
- Continuous improvement of service quality to the end-users of our products.

A regular review of critical success factors is a way of life with your Company and we look ahead at the future with a quiet confidence.

#### 2.1 The Growth Chart



### 3. DIVIDEND

Your Directors are happy to recommend a dividend of twenty five percent on the paid up share capital of the Company, for the financial year ended March 31, 2004. Tax on dividend at 12.5% plus surcharge thereon will be borne by the Company. The dividend pay out will be tax free in your hands.

### 4. DIRECTORS

Mr. K L Hira retires by rotation, pursuant to the provisions of the Companies Act, 1956, and the Articles of Association of the Company and being eligible has offered himself for reappointment.

A brief profile of Mr. K L Hira is as follows:

Date of Birth : 11.07.1935

Educational Qualification : B.E (Electrical), M.Tech.

Work Experience:

1. IBCON - Management Consultant.
2. MRF (Tyre Company) - Chief Industrial Engineer.
3. Siemens India - General Manager.
4. GEC - Executive Director (Industrial Controls Division).
5. Asea Brown Boveri (I) Ltd. - Vice President (Marketing).

### 5. AUDITORS' REPORT

There are no qualifications contained in the Auditors' Report and therefore no further explanations are provided in this Report.

### 6. CORPORATE GOVERNANCE

As per the listing agreement with the Stock Exchanges, the Company has implemented the code on Corporate Governance. The Corporate Governance Compliance Certificate obtained from the Auditors of the Company is attached to this Report.

The Management Discussion and Analysis Report, as mandated under the code of Corporate Governance is given in the Annexure attached to the Directors' Report.

### 7. AUDITORS

M/s. Amarnath Kamath and Associates, the Statutory Auditors of the Company retire at the conclusion of the Annual General Meeting and being eligible have offered themselves for reappointment.

### 8. DEPOSITORIES

The Company is registered with both National Securities Depository Limited and Central Depository Services (India) Limited. The Shareholders can take advantage of holding their scrips in dematerialised mode.

### 9. PARTICULARS OF DISCLOSURE

The information required under the Companies Act, 1956, and the amendments thereof is enclosed.

### 10. EMPLOYEES

The process of employee development through periodic training programmes has been fine-tuned. The productivity is on the increase and contribution of the staff at all levels is commendable.

### 11. ACKNOWLEDGEMENTS

Your Directors thank the valued customers of our products and services, Authorised Dealers, Channel Partners, Overseas and Inland Business Associates, Bankers and the various Govt. Agencies for their continued support.

To conclude, your Directors also wish to thank you-the Shareholders of the Company-for your continued faith and confidence in the Company.

On behalf of the Board  
For **ADOR FONTECH LIMITED**

Mumbai  
May 6, 2004

**J K Chandna**  
Chairman

## ANNEXURE TO THE DIRECTORS' REPORT

### DIRECTORS' RESPONSIBILITY STATEMENT

The Board of Directors of the Company has ensured that:

1. The applicable accounting standards were followed.
2. The accounting policies are reasonable, prudent and are consistently followed to give a true and fair view of the state of affairs of the Company.
3. Proper and sufficient care is taken for maintenance of adequate accounting records, for safeguarding the assets of the Company and for preventing/detecting fraud and other irregularities.
4. The Annual Accounts have been prepared on an on-going-concern basis.

### UNDER SECTION 217 (1) (E) OF THE COMPANIES ACT, 1956

Additional information in terms of notification no. 1029, dated 31.12.1998 by the Department of Company Affairs

#### Conservation of Energy:

Not given as the Company is not covered under the list of specified industries. However, efforts to conserve and optimise the use of energy through improved operational methods and other means will continue.

#### Research and Development:

1. Specific areas in which R&D has been carried out: Efforts are being made to further improve the performance of the products and their range.
2. Benefits derived as a result of the above R&D: Conservation of basic raw materials coupled with low cost and longer life.
3. Future plan of action: To make further progress on areas enunciated in item nos. 1 and 2, above.
4. Expenditure on R&D:
  - a. Capital : Nil
  - b. Recurring : As of now, it is being maintained as an ongoing part of production activities and a separate head of account is not maintained.

- c. Total : N.A.
- d. Total R & D : - Do - expenditure as a percentage of total turnover.

#### Technology Absorption and Innovation:

1. Efforts in brief made towards technology absorption and innovation:

Locally available raw materials are utilised to gain maximum advantage.

2. Benefits derived as a result of the above efforts e.g. product improvement, cost reduction, product development, import substitution etc:

(i) Reduced cost of final products.

(ii) Comparable quality and performance with products produced using imported materials.

3. 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 : Nil
- b. Year of import : Not applicable.
- c. Has technology been fully absorbed : Not applicable.
- d. If not fully absorbed areas where this has not taken place. Give reasons for the same and explain future plan of action, if any. : Not applicable.

4. Foreign exchange earnings : As reported in serial numbers 4, 5, & 7 "NOTES FORMING PART OF ACCOUNTS" in Schedule-R and outgoings.

### UNDER SECTION 217 (2A) OF THE COMPANIES ACT, 1956

Information as per Section 217 (2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975, and forming part of the Directors' Report

No employee was in receipt of remuneration exceeding the specified limit during the financial year 2003-04.



## **MANAGEMENT DISCUSSION AND ANALYSIS REPORT**

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### **INDUSTRY STRUCTURE AND DEVELOPMENT**

We are products and services suppliers to almost all the core sector and several engineering industries. The focus of our activities is to provide metal joining, reclamation welding and surfacing solutions. Our major customer base includes mining industries, steel and other metallurgical complexes, power plants, railways, road transport workshops, shipping industries, sugar mills, cement plants, fertilizer and chemical plants, oil drilling and refining sector, defence units and numerous engineering industries.

Globalisation trends are here to stay. Competitive pressures are increasing. A major concern with all our customers is to increase their productivity, reduce down-time, and improve welder health and safety requirements. Higher productivity welding processes such as semiautomatic and automatic welding systems are increasingly in demand.

Indian economy is now on a higher growth path. It is projected to grow at about seven percent per annum in the foreseeable future. Investments in infrastructure and core-sector industries are on the increase. The foreign exchange reserve exceed US\$ 110 billion. Overall the external environment is conducive to new opportunities.

### **OPPORTUNITIES**

Almost all our customers now have optimistic growth plans. Worldwide, the demand for metals, alloys and mineral resources is on the increase. However, the world has limited reserves.

This scenario offers enormous opportunities for reclamation and recycling of vital machinery components. ADFL is already a front-runner Company in supplying products and services for such needs.

The other opportunities are in the fields of higher productivity welding and cutting systems, welding fume extraction systems, specialized surfacing and hard-facing alloys and deposition equipment.

### **RISKS AND CONCERNS**

Major risks and concerns are forces of globalisation. More and more international brands are here to stay. However, these factors also induce us to continuously improve our productivity and competitiveness.

The other risks are associated with political instability with its impact on economic growth and investment plans of the industry.

### **SEGMENT/PRODUCT WISE PERFORMANCE**

A detailed segment-wise report has been given in the "Notes on Accounts".

### **CURRENT YEAR OUTLOOK**

A number of steps have been initiated in continuously improving customer focus and continuous addition of world-class brands to our product spectrum.

The external environment too has improved considerably. Current year outlook is therefore positive. The growth momentum is expected to be maintained.

### **FINANCIAL PERFORMANCE**

An overview of the financial performance is given in the Directors' Report.

### **INTERNAL CONTROL SYSTEM AND ADEQUACY**

The Company has in place (a) Branch Audit (b) Internal Audit and (c) Commercial Audit.

While Branch and Internal Audits are conducted by External Auditors who are qualified Chartered Accountants, Commercial Audit is conducted by an internal team, manned by qualified personnel. Quarterly reporting is ensured and reviewed in the meetings of the Audit Committee.

### **HUMAN RESOURCES**

The environment we operate in today, demands that we embark on a continuous journey in building a "Learning Organisation". The Company has been and is initiating several steps towards employee training and development programmes. A culture of self-learning, exchange of knowledge, case studies, success stories etc., is also being aimed at.

### **CAUTIONARY STATEMENT**

Statement in this Management Discussion and Analysis describing the Company's objectives, projections, estimates, expectations or predictions may be "forward-looking statements" within the meaning of applicable securities laws and regulations. Actual results could differ materially from those expressed or implied. Important factors that could make a difference to the Company's operations include raw material availability and prices, cyclical demand and pricing in the Company's principal markets, changes in Government regulations, tax regimes, economic development within India and the countries in which the Company conducts business and other incidental factors.

## REPORT ON CORPORATE GOVERNANCE

The detailed Report on Corporate Governance as per the format prescribed by SEBI and incorporated in clause 49 of the Listing Agreement is set out below.

### A MANDATORY REQUIREMENTS

#### 1. Company's philosophy on code of Corporate Governance

Corporates are essentially innovative instruments of entrepreneurship for economic development. They have evolved as important engines of wealth creation. Total performance measurement techniques include:

- Net Income
- Human Resource Contribution
- Contribution to the Society
- Environmental Contribution
- Product or Service Contribution

In this multifaceted approach, the Company is committed to a system of good Corporate Governance. It firmly believes and consistently practices good business principles by increasing transparency and accountability to its stakeholders, maximising shareholders' value and working towards a motivated work force and a learning organisation.

#### 2. Board of Directors

During the year 2003-2004, four Board meetings were held on May 27, 2003; July 24, 2003; October 27, 2003 and January 30, 2004.

##### 2.1 Composition of the Board

Name of the Director	Position held	Category
Mr. J K Chandna	Chairman	Promoter and Independent.
Mr. H P Ledwani	Managing Director	Executive and Independent.
Mr. K L Hira	Director	Non-Executive and Independent
Mr. M T Sheth	Director	Non-Executive and Independent.
Mr. R D Kothare	Director	Non-Executive and Independent.

*2.2 Attendance at Board Meetings, last Annual General Meeting, Number of Directorships in other Companies and Memberships in Committees across various Companies of which the Director is a Member/Chairman are given below:*

Name of the Director	Financial Year 2003-2004		As on March 31, 2004	
	Attendance At		No. of other Directorships	Committee Positions
	Board Meetings	Annual General Meeting held on 24.07.03		
Mr. J K Chandna	4	Present	1	-
Mr. H P Ledwani	4	Present	3	2
Mr. K L Hira	4	Present	-	-
Mr. M T Sheth	4	Present	1	-
Mr. R D Kothare	3	Present	-	-

#### 3. Audit Committee

The Audit Committee was constituted on 27.04.2000.

##### 3.1 Composition

Name of the Director	Designation
Mr. M T Sheth	Chairman
Mr. J K Chandna	Member
Mr. K L Hira	Member

##### 3.2 Terms of reference

1. To review the Company's financial reporting process and its financial statements.
2. To review the efficacy of internal control mechanism and monitor risk management policies adopted by the Company.
3. To review reports furnished by the Internal and Statutory Auditors and ensure that suitable follow up action is taken.
4. To examine accounting, taxation and disclosure aspects as stipulated under various legislations.
5. Recommend appointment/reappointment of Auditors and solicit professional guidance and support, wherever required.

##### 3.3 Meetings and Attendance

During the financial year ended March 31, 2004, four Audit Committee Meetings were held on May 27, 2003; July 24, 2003; October 27, 2003 and January 30, 2004.

Details of attendance at the Committee Meetings:

Name of the Director	No. of meetings attended
Mr. M T Sheth	4
Mr. J K Chandna	4
Mr. K L Hira	4

#### 4. Remuneration Committee

##### 4.1 Terms of Reference

1. To review, assess and recommend the appointment of whole-time Director(s).
2. To periodically review the remuneration package of whole-time Director(s) and recommend suitable revision to the Board.

##### 4.2 Composition

Name of the Director	Designation
Mr. J K Chandna	Chairman
Mr. M T Sheth	Member
Mr. K L Hira	Member

##### 4.3 Details of remuneration paid/payable to the Directors during the year

Name of the Director	Salary	Benefits (Perquisites)	Commission	Sitting fees Board	Total Committees
Mr. J K Chandna				8000	12000 20000
Mr. H P Ledwani	900000	317910	225000		1442910
Mr. K L Hira				8000	12000 20000
Mr. M T Sheth				8000	12000 20000
Mr. R D Kothare				6000	6000