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Ambalal Sarabhai Enterprises Limited

Annual Report
April, 1997 to March, 1998

Board of Directors**Kartikeya V Sarabhai***Chairman***Anand Sarabhai****Bhalchandra R Shah****CVS Narayanan***Wholetime Director***Govind Das Zalani***Wholetime Director***Kshitish J Divatia****Nanubhai B Amin****Om Dutt Gulati****Rohit K Mehta***Technical Director***Suhrid Sarabhai****Vinodchandra C Shah****Vipin N Jikar****Auditors**

Messrs Sorab S Engineer & Co

Chartered Accountants

Ismail Building

381, Dr. D Naoroji Road

Fort, Mumbai

Bankers

Punjab National Bank

Bank of Baroda

Bank of India

State Bank of Saurashtra

Canara Bank

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Registered Office : Dr. Vikram Sarabhai Marg, Wadi Wadi, Baroda 390 007.

ase Ambalal Sarabhai Enterprises Limited

Regd. Office : Dr. Vikram Sarabhai Marg, Wadi Wadi, Baroda 390 007

Notice

The Twentieth Annual General Meeting of the Company will be held on Tuesday, the 22nd September, 1998 at 11:00 A.M. at Mahatma Gandhi Nagar Grih, Near Jubilee Bag, Baroda to transact the following business:

Item 1 :

To receive, consider and adopt the Directors' Report and Audited Profit and Loss Account for the year ended 31.3.1998 and the Balance Sheet as on that date.

Item 2 :

To appoint a Director in place of Mr. Kartikeya V. Sarabhai, who retires by rotation and being eligible offers himself for re-appointment.

Item 3 :

To appoint a Director in place of Mr. Govind D. Zalani, Who retires by rotation and being eligible offers himself for re-appointment.

Item 4 :

To appoint a Director in place of Dr. Om Dutt Gulati, who retires by rotation and being eligible offers himself for re-appointment.

Item 5 :

To appoint a Director in place of Dr. Rohit K. Mehta, who retires by rotation and being eligible offers himself for re-appointment.

Item 6 :

To appoint Messrs Sorab S. Engineer & Co., Chartered Accountants, Mumbai as Auditors to hold office from the conclusion of the Annual General Meeting until the conclusion of the next Annual General Meeting and to fix their remuneration.

Special Business :

To consider and if thought fit, to pass, with or without modifications, the following resolutions :

Item 7 - Special Resolution :

"RESOLVED THAT pursuant to the provisions of Section 269, 309, 310 and 314 and other applicable provisions, if any, of the Companies Act, 1956, consent of the Company be and is hereby accorded to Dr. Rohit K. Mehta holding and continuing to hold an office or place of profit under the Company as Technical Director in the whole-time employment of the Company for a period of 3 years with effect from 20.8.1997 upon and subject to the terms, conditions and stipulations and be paid and provided remuneration contained in the Letter of Appointment issued by the Company, a copy whereof is placed before the meeting and for the purpose of identification subscribed by Mr. Kartikeya V. Sarabhai, Chairman which is in line with Part II of Schedule XIII of the Companies Act, 1956."

Item 8 - Ordinary Resolution :

"RESOLVED that pursuant to Section 372 and other applicable provisions, if any, of the Companies Act, 1956 and subject to the approval of the Central Government and other Authorities, wherever necessary, the Board of Directors of the Company be and is hereby authorised to acquire from time to time by way of subscription, purchase or otherwise, shares and /or debentures (whether convertible or not) or

warrants or other equity related securities of any body/bodies corporate in India or abroad (existing or which may be promoted) and whether under the same management or otherwise, notwithstanding that such investment or investments, together with the existing investments of the Company and of its subsidiaries, in all other bodies corporate, may exceed all or any of the limits prescribed or as may be prescribed hereafter from time to time, under the provisions of Section 372 of the Companies Act, 1956 and the proviso thereto, subject however to the condition that the aggregate investment shall not exceed 50% in value of the equity capital of the Company."

"RESOLVED FURTHER THAT the Board of Directors of the Company be and is hereby authorised to determine the actual sum or sums to be so invested in any body or bodies corporate and to decide all or any other matters arising out of or incidental to the proposed investments and to do all such acts and things as may be necessary to implement the resolution."

"RESOLVED FURTHER THAT the Board of Directors of the Company be and is hereby further authorised to accept any modifications or stipulations which may be suggested or made by the Central Government, or other Authorities whose approvals may be required and as may be acceptable to the Directors and to decide on all or any matters arising out of and incidental to the proposed investments without further reference to the Company in General Meeting."

By Order of the Board of Directors,
Tarang Mehta
Secretary
30.7.1998

Notes:

1. A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF AND A PROXY NEED NOT BE A MEMBER.
2. The relative Explanatory Statement pursuant to Section 173 of the Companies Act, 1956, in respect of business under Item 7 & 8 set out above is annexed hereto.
3. Pursuant to Section 154 of the Companies Act, 1956, the Register of Members and the Share Transfer Books of the Company will remain closed from 16.9.1998 to 22.9.1998, (both days inclusive).
4. All the documents referred to in the Notice and Explanatory Statement would be open for inspection at the Registered Office of the Company during business hours on all working days (except Saturdays) till the date of the meeting.

Explanatory Statement :

required under Section 173 of the Companies Act, 1956 to accompany the Notice of the Twentieth Annual General Meeting of the Company.

Item 7

Dr. Rohit K. Mehta, Ph. D (USA) has joined the Sarabhai Enterprises in 1954 and has wide and varied experience in different aspects of Pharmaceutical Operations. Considering his contribution to the Company's operations and its future plans, the Working Directors' Appointment Committee, subject to the necessary approval of the Shareholders of the Company to be obtained at the AGM to be held during 1998, had, in its meeting held on 13.9.1997 appointed

Dr. Rohit K. Mehta as Technical Director in the Whole-time employment of the Company for a period of 3 years with effect from 20.8.1997.

This appointment is for a period of 3 years commencing from 20.8.1997 terminable by 3 months notice on either side. The terms of the remuneration are as under :-

(i) Salary : Rs.21000/- per month in the grade of Rs.21000-1000-23000.

(ii) Commission : As may be determined by the Board of Directors subject to a maximum of 1% of the annual net profit of the Company or 50% of annual Salary, whichever is less.

(iii) Benefits :

The total amount payable to him in form of benefits and perquisites other than (iv) (c), (d), (v) and (vi) herein, shall not exceed the amount of his annual salary, in any financial year.

(a) Company's contribution towards provident fund as per rules of the Company, but not exceeding 10% of the salary as laid down under Income Tax Rules, 1962.

(b) Company's contribution towards pension/superannuation fund as per the rules of the Company, but it will not, together with the Company's contribution to provident fund, exceed 25% of the salary as laid down under the Income Tax Rules, 1962.

(c) Gratuity not exceeding 1/2 month's salary for each completed year of service as per rules of the Company.

(d) Medical Benefits for self and family :

Reimbursement of expenses actually incurred for self, wife and dependant children, the total cost of which to the Company will not exceed one month's salary in any year or three month's salary for a period of every three years of service.

(e) Leave travel concession for self, wife and dependant children :

Once a year to and fro any place in India subject to the condition that only actual fares and no hotel expenses etc. will be allowed.

(f) Leave on full pay and allowances, as per the rules of the Company, but not exceeding one month's leave for every eleven months of service, and which can be accumulated upto a maximum of 90 days, subject to further condition that leave accumulated but not availed of will be allowed to be encashed at the end of the tenure.

(iv) Perquisites :

He shall be further entitled to the following perquisites :

(a) Furnished residential accommodation together with utilities such as gas, electricity, etc. the monetary value of which will be determined as per Income Tax Rules, 1962.

OR

House rent allowance not exceeding 40% of the salary.

The expenditure on gas, electricity, water, furnishings and amenities shall be borne by the Company, the monetary value of which shall be evaluated as per the Income Tax Rules, 1962.

(b) Free use of car :

The monetary value of which may be evaluated as per the Income Tax Rules, 1962.

(c) Personal accident insurance of an amount the premium of which does not exceed Rs.1000 per annum.

(d) Free telephone facility at residence. Personal long distance calls shall be paid for by him.

(e) Subscription fees of clubs subject to a maximum of two clubs provided no admission fee or life membership fee is paid by the Company.

(v) He will be entitled to reimbursement of actual out of pocket expenses incurred in connection with the business of the Company.

(vi) He shall also be entitled to reimbursement of entertainment expenses actually and appropriately incurred for the business of the Company. The reasonable ceiling of such expenses may however, be fixed by the Company.

(vii) In the event of loss or inadequacy of profits of the company in any year, he shall be entitled to remuneration by way of salary and perquisites as specified above.

Dr. Rohit K. Mehta may be considered to be concerned or interested in the proposed resolution.

None of the other Directors of the company may be deemed to be concerned or interested in the said resolution.

The accompanying notice together with explanatory statement is and should be treated as an abstract of the terms and Memorandum of interest under Section 302 of the Companies Act, 1956.

Item - 8

In the course of company's business and in order to implement strategic plans of growth, it may become necessary for the Company, at times, to associate with or to enter into joint ventures or to acquire other body/bodies corporates. For such purposes, the Company would be required to invest in shares/debentures/bonds, warrants or other equity related securities of such other body/bodies corporates.

As per the provisions of Section 372 of the Companies Act, 1956, the company cannot make any investment in the equity shares and/or debentures of any other body/bodies corporate in excess of the limits prescribed under the Section unless the investment is sanctioned by the members at the General Meeting and with the approval of the Central government, if any wherever required, is obtained. This makes necessary for the Board of Directors of the company to obtain the consent of the members to empower the Board of Directors of the Company to invest from time to time in the share/debentures/bonds and in any other securities of other companies in excess of the limit prescribed under Section 372 of the Companies Act, 1956 as and when it deems fit. Such aggregate of Company's investments, together with investments already made, is proposed to be kept at 50% in value of the paid-up equity share capital of the Company. In case the Government of India, or other Authorities may make suggestions or stipulations, the Board should also be authorised to accept such suggestions and stipulations.

Resolution at Item No. 8 of the accompanying Notice relates to such an authorisation/consent/approval of the shareholders to the company to make such an investment in the manner as specified therein.

Your Directors commend the resolutions as set out at Item Nos. 7 & 8 of the Notice for your approval and acceptance.

By Order of the Board of Directors,
Tarang Mehta
Secretary
30.7.1998

Directors' Report

To the Shareholders,

Your Directors present the report for the year 1997-98. The financial results are as under :

	(Rs. lakh)	
	1997-98	1996-97
Turnover	27625	29432
Other income	2108	361
Total income	29733	29793
Gross Profit	1518	1723
Interest	1767	987
Depreciation	106	101
Net Profit/(Loss)	(355)	477

Having regard to the provisions of Section 205 of the Companies Act, 1956, your Directors regret their inability to recommend payment of any dividend.

Operations :

The turnover during the year was Rs.18 crores less than the previous year, which accounts for a fall of about 6%. This is mainly due to fall in sale of Vitamin-C due to dumping and fall in sale in Human Health Division because of discontinuance of one of the large volume products. Other income includes receipt of Rs.17 crore towards the technical information with regard to some products transferred to the Joint Venture Company for manufacture of certain formulations of the Company. The total income during the year was about the same as the previous year.

Cost of sales and services showed an increase of about Rs.23 crore mainly because of increase in salaries and wages due mainly to increase in dearness allowance, increase in electricity tariff and also levy of delayed payment charges by Gujarat Electricity Board. The Company incurred an expenditure of Rs.12 crore on Voluntary Retirement Scheme. About 600 employees opted for the same.

Human Health Products :

The turnover of Human Health Products was Rs.14 crore less than the last year. The Company had to stop manufacture of one of its high turnover product which had a turnover of Rs.15 crore p.a., during the middle of the year which was affected by about Rs.9 crore. There is a reduction of Rs.5 crore in turnover of S. G. Pharmaceuticals division due to change in marketing arrangement. New products introduced during 1996-97 continued to grow. During 1997-98, a number of new products in the existing and new therapeutic groups were introduced.

Veterinary Products :

The Company continues to be the largest Veterinary Healthcare company. The turnover of this division grew by about Rs.6 crore during the year compared to the previous year. During 1997-98, poultry vaccines and some other anti-infectives were introduced and they showed promising results.

Bulk Drugs :

Like the earlier year, considerable import of Vitamin-C at prices much lower than the domestic prices affected Vitamin-C manufacture. As against 468 tons of Vitamin-C manufactured in 1996-97, the production was only 308 tons during 1997-98. As reported last year, the Company had taken up the matter of imposition of anti-dumping duty on imports of Vitamin-C from China and Japan and during March, 98 anti-dumping duty of Rs.61.96 per kg and Rs.27.59 per kg was imposed on imports from China and Japan respectively. Though the anti-dumping duty imposed by Government does not meet the full differential, there is some relief. The company has taken up the matter with Government to revise upward the rate of anti-dumping duty.

Business Development :

Paclitaxel an important anti-cancer drug was manufactured at the new oncology facilities during last year. A Memorandum of Understanding has been signed with Magainin Pharmaceuticals Inc., USA, for formulation and marketing of their bio-technology products in India.

Electronics :

The working of the Electronics division of the Company has been satisfactory. There was growth in the analytical instruments business.

Subsidiaries :

The annual Accounts of subsidiaries of the Company are attached herewith.

Opec Innovations Ltd. (OPEC) :

The Board for Industrial & Financial Reconstruction (BIFR) has passed their final orders in April 1998 approving a scheme of revival of Opec, a subsidiary of Synbiotics Ltd. In terms thereof, all the shares of Opec held by Synbiotics Ltd. have been transferred to OP Mall & Associates, Calcutta, and his nominees at Re.1 per share. Consequently, Opec ceases to be a subsidiary of the Company.

Synbiotics Ltd.:

BIFR had sanctioned a scheme of rehabilitation of Synbiotics Ltd. This was based on continuance of the manufacture of Streptomycin and Tetracycline and the formulations thereof. During 1997-98, heavy imports of Tetracycline into the country at prices much below those sanctioned by Government reduced requirements of this drug and therefore, Synbiotics had cut down the production of Tetracycline Hydrochloride drastically. There has also been increase in costs of power and fuel. With these, it seems difficult to turnaround Synbiotics in the immediate future if the scheme sanctioned by BIFR is implemented. Therefore, your Directors have been exploring possibilities of working out a scheme by which Synbiotics could become a profitable venture. An application has been made to BIFR to permit the Company to form a Joint Venture company with another Indian company to manufacture different antibiotics. It is estimated that the turnaround of the Company could be much faster if Synbiotics could take action to complete the formation of a JVC. A Memorandum of Understanding has been signed by Synbiotics with another Indian company subject to necessary permission of BIFR.

Joint Venture:

During the year, the Company formed Sarabhai Piramal Pharmaceuticals Ltd. (SPPL), a Joint Venture Company with Piramal Enterprises Ltd for marketing of certain identified products under trademarks being used by the Company. Some of the trademarks, the technical know how for manufacture of the products covered by these trademarks and also copy rights relating to label, sales promotion and marketing of the products were transferred to the JVC for an aggregate consideration of Rs.51 crore. The JV has begun its operations from 1st January 1998. It is proposed that your Company will hold 50% of the share capital of SPPL.

The necessary resolution as required under section 372 of the Companies Act, 1956 is being proposed to authorise the Board of Directors of your Company to invest in the share capital of other bodies corporate, upto an aggregate amount of 50% of the paid up capital of the Company.

Swastik Household and Industrial Products:

As reported, Central Bank of India and Bank of Baroda had filed an appeal in the Gujarat High Court challenging the sanction of the scheme of arrangement by which erstwhile Soaps & Detergents division and Electronics division of the Company vested in Swastik Surfactants Limited and Sarabhai Electronics Limited respectively with effect from 1.7.1985. The Division Bench of the Gujarat High Court has set aside the said scheme of arrangement and the Company had gone in appeal to the Supreme Court against the judgement of the Division Bench. In the said matter, the Hon'ble Supreme Court has granted special leave to the Company and accordingly, the appeals filed by the Company are now pending for final disposal. The stay earlier granted by the Hon'ble Supreme Court against the operation of the Gujarat High Court's order will continue till disposal of the said appeals.

Directorate:

Mr. Anand Zaveri resigned as a Director with effect from 26.3.1998. The Directors placed on record their appreciation of the valuable services rendered by him during his association as a Director of the Company.

Dr. Vinodchandra C. Shah was appointed as a Director with effect from 30.7.1998 in the casual vacancy caused by the resignation of Mr. Anand Zaveri.

Mr. Kartikeya V. Sarabhai, Mr. Govind D. Zalani, Dr. Om Dutt Gulati and Dr. Rohit K. Mehta retire by rotation pursuant to the provisions of Section 256 of the Companies Act. Being eligible, they offer themselves for reappointment.

Deposits:

As on 31.3.1998, 184 depositors with deposits aggregating to Rs.7.59 lakh had not claimed the deposits after the date on which they became due for payment.

Energy Conservation, Technology Absorption and Foreign Exchange earnings and outgo:

Particulars of Energy Conservation, Technology Absorption

and foreign exchange earnings and outgo required to be given by the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules 1988, are given in the Annexure to this Report in the prescribed format.

Particulars of Employees:

Information as per Section 217 (2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975 is given in the annexure forming part of this Report.

Insurance:

Building, Plant and machinery and stocks, have been adequately insured. The Company carries a risk for certain assets like goods in transit in respect of which any loss resulting from non insurance is small.

Auditors' Report:

Notes No.B(11),B(14) and B(18) forming part of the accounts are self-explanatory and clarify the observations made by the Auditors in sub-para a,b,c, and d of Para 4 of their Report.

As regards their observations in Para 4(e), by an Agreement dated 2.8.1988 to which Swastik Surfactants Limited (SSL) is party, SSL has acknowledged and confirmed its obligations to pay a sum of Rs.30 crore in four equal annual instalments commencing from 2001 and the said sum covers dues of SSL and some wholesale buyers to the Company and to its other associates. The Company has also notified particulars of all the payments made by it on behalf of SSL subsequent to 2.8.1988 to the Board for Industrial and Financial Reconstruction (BIFR). The Scheme of Rehabilitation has been kept in abeyance by BIFR in view of the fact that the Division Bench of the Gujarat High Court has allowed an appeal by Central Bank of India and Bank of Baroda against the scheme of arrangement sanctioned by Gujarat High Court. As reported earlier, the Company had filed a SLP before the Hon'ble Supreme Court against the order of the Hon'ble High Court. In the said matter, the Hon'ble Supreme Court has granted special leave to the Company and accordingly the appeals filed by the Company are now pending for final disposal. The stay earlier granted by the Hon'ble Supreme Court against the operation of the Gujarat High Court's order will continue till disposal of the said appeals.

Auditors:

Members are requested to appoint Auditors to hold office until to conclusion of the next Annual General Meeting and to fix their remuneration.

Acknowledgement:

Your Directors record their appreciation of the services of employees who have given their full co-operation to the Management in furthering the Company's interest.

For and on behalf of the Board

Kartikeya V. Sarabhai

Chairman

Baroda
30.7.1998

Annexure to the Directors' Report

Disclosure of additional particulars as required under the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988, forming part of the Directors' Report for the year ended 31st March, 1998.

A. Conservation of energy :

- Energy conservation measures taken :
The Company has undertaken various measures for conservation of energy in critical areas including :
 - Power factor improvement
 - Measures to ensure quicker heat transfer
 - Monitoring of combustion efficiency of Glass Furnace and Boiler.
 - Reuse of steam condensate as boiler feed water
 - Repairing of damaged insulation on steam line
 - Stopping of machines during idle hours.

The above measures have resulted in energy saving.

- Additional investments and proposals :
It is proposed to gradually replace some of the refrigeration equipment with more modern ones to reduce energy consumption.
It is proposed to install Co-generation plant based on natural gas.
- Impact of measures :
Though economies in consumption for comparable level of operations over previous year was achieved, the increase in tariffs had minimised the absolute benefits.
- Total energy consumption and energy consumption per unit of production:
The required information is given in the prescribed Form A.

B. Technology absorption :

- Efforts made in technology absorption :
Efforts made in Technology absorption are as per enclosed Form B.

C. Foreign exchange earnings and outgo :

- Serious efforts are being made to increase the exports of basic drugs and formulations and to commence exports of third party products including non-pharmaceutical products. Efforts are also being made to identify and improving quality of few selected products for export purposes and identifying few dealers abroad who could import our products and provide sound technical services.
- Total foreign exchange earned and used :
Earnings from export of goods, commission etc. : Rs. 671.97 lakh
Used for import of raw materials, books and periodicals, travel expenses, etc. : Rs. 898.50 lakh

FORM A

(DISCLOSURE OF PARTICULARS WITH RESPECT TO CONSERVATION OF ENERGY)

A. Power and fuel consumption

	Unit	Current year	Previous year
1. Electricity			
a) Purchased (kwh)	'000	22918	25782
Total amount	Rs. lakh	1075	958
Rate/Unit	Rs./Kwh	4.69	3.72
b) Own generation			
(i) Through diesel generator(Kwh)	'000	76	903
Units per ltr. of diesel oil	Kwh/Ltr.	2.90	2.81
Cost/Unit	Rs./Kwh	3.40	2.90
(ii) Through steam turbine/generator			
Units per Ltr. of fuel oil/gas		Nil	Nil
Cost/Unit			
2. Coal (specify quantity and where used)		Nil	Nil
3. Furnace oil			
Quantity	K.Ltrs.	483	606
Total amount	Rs. lakh	34	42
Average rate	Rs./K.Ltrs.	7049	6906
4. Others - Natural Gas			
Quantity	1000 M ³	10373	11767
Total cost	Rs. lakh	325	310
Rate/Unit	Rs./1000 M ³	3131	2633

B. Consumption per unit of production :

Products	Standards	Current Year	Previous Year
Electricity	The Company produces a wide range of bulk drugs, pharmaceutical products, veterinary formulations and electronic instruments. It is not practicable to establish productwise energy consumption since bulk of electricity is used for services like water supply, cooling water steam, airconditioning, refrigeration, etc. which are common to all products. The Company is therefore not in a position to give the productwise information.		
Furnace Oil			
Coal			
Others			

FORM B

(DISCLOSURE OF PARTICULARS WITH RESPECT TO TECHNOLOGY ABSORPTION)

Research and Development (R & D)

- Specific areas in which R & D carried out by the Company :
 - Process development for the bulk drugs and intermediates.
 - Development of new pharmaceutical formulations.
 - Development and standardisation of product packages.
 - Establishing the standards, specifications and analytical procedures of new products and intermediates.
 - Blood level studies of the new and existing formulations.
 - Chronic and acute toxicity studies for new product formulations.
 - Updating the specifications and analytical procedures for existing formulations.
 - Conducting clinical trials for the new drugs.
 - Development of new calorimeter with LCD display/ various applications.
 - Improvement in product design and increased applications.
- Benefits derived as a result of the above R & D :
 - Developed economical processes for the manufacture of bulk drugs for captive consumption.
 - Developed formulations for new products and improvement in the existing formulations.
 - Cost reduction in existing formulations.
 - Blood level studies of new formulations.
 - New application of various equipments will have enlarged market.
 - Improved equipment design for better productivity/increased applications.
- Future plan of Action :
 - Development of formulations for new drugs
 - Blood level studies for the new formulations
 - Clinical trials for new drugs
 - Process improvement in bulk drugs and formulations.
 - Study and development of genetically engineered products.
 - Development of improved versions of various equipment
- Expenditure on R & D :

a) Capital	:	Rs. 4.00 lakh
b) Recurring	:	Rs. 122.65 lakh
c) Total	:	Rs. 126.65 lakh
d) Total R&D expenditure as a percentage of total turnover	:	0.46%

Technology absorption, adaptation and innovation :

- The Company has two in-house R & D Centres duly recognised by the Department of Science & Technology, Government of India. These centres are -
 - Sarabhai Research Centre, Baroda (This Centre relate to drugs and pharmaceuticals operations).
 - Sarabhai Electronics Research Centre, Naroda, Ahmedabad.

The Research and Development Department keeps itself abreast of the technical development and innovations relating to the Company's line of products and brings about improvements in the products of the Company for better quality, process improvement, cost effectiveness and import substitution.

The Electronics Research Centre has developed and produced analytical and testing instruments based on in-house research. The Centre has also obtained technology transfer from Central Scientific Instruments Organisation, and the Department of Science and Technology for manufacture of Spectrophotometers.
- Benefits derived as a result of the above efforts, e.g. product improvement, cost reduction, product development, import substitution, etc.
- Technology imported during the last 5 years : Technology to Manufacture anti-cancer formulation
- Year of import : 1997
- Has Technology been fully absorbed : Yes

Auditors' Report

To the members of Ambalal Sarabhai Enterprises Limited

We have audited the attached Balance Sheet of Ambalal Sarabhai Enterprises Limited as at 31st March 1998 and the Profit and Loss Account of the Company for the year ended on that date.

A. As required by the Manufacturing and other Companies (Auditors' Report) Order, 1988, issued by the Company Law Board in terms of Section 227 (4A) of the Companies Act, 1956, we give in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.

B. Further to our comments in the Annexure referred to in paragraph A above :

1. We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit :
2. In our opinion, proper books of account as required by law have been kept by the Company, so far as appears from our examination of those books, subject to our comment in para 4(a) below :
3. The Balance Sheet and Profit and Loss Account dealt with by the report are in agreement with the books of account :
4. In our opinion and to the best of our information and according to the explanations given to us, the accounts, subject to :
 - a) Note No.B.11 regarding non-provision of future gratuity to employees amounting to Rs.1945.66 lakh.
 - b) Note No.B.14 regarding non-provision for demands raised by ONGC amounting to Rs.2494.75 lakh for reasons stated in the said note.
 - c) Note No. B. 18 regarding adjustment in 1992-93 of debit balance in Profit and Loss Account amounting Rs.2519.31 lakh against revaluation reserve which was not in accordance with the accounting practice recommended by the Institute of Chartered Accountants of India.
 - d) The Company continues to value its investments in Subsidiaries/erstwhile Subsidiaries at cost as per its accounting policies, though these Companies show a negative net worth.
 - e) The Company has to receive amounts as under from Subsidiary/erstwhile Subsidiary Companies :
 - i) Swastik Surfactants Ltd. ... Rs. 2884.56 lakh
(See note under Schedule G'Loans & Advances' for Contention of the company)
 - ii) Sarabhai Machinery Ltd... Rs. 605.69 lakh
 - iii) Haryana Containers Ltd. ... Rs. 16.07 lakh
 - iv) Synbiotics Ltd. Rs. 1131.19 lakh

Sundry Debtors and Loans and Advances considered good also include Rs. 3240.09 lakh due from erstwhile Wholesale Buyers as well as other Companies. Out of this amount, Rs. 209.03 lakh is due from a Company in liquidation. No provision is made for the possible loss, if any, which may arise in respect of the recovery of the above dues, and, read with notes thereon,

Give the information required by the Companies Act, 1956, in the manner so required and give a true and fair view:-

- a) in the case of the Balance Sheet of the state of affairs of the Company as at 31.3.1998 and
- b) in the case of Profit and Loss Account of the Loss for the year ended on the date.

Ahmedabad
25.6.1998

For Sorab S Engineer & Co.
Chartered Accountants
M P Antia
Partner

Annexure to the Auditors' Report

Referred to in paragraph A of our report of even date on the accounts for the year ended on 31st March, 1998 of Ambalal Sarabhai Enterprises Limited.

1. Proper records of fixed assets other than furniture and vehicles have been maintained by the Company. Physical verification of major items of Plant and Machinery have been conducted by the management during the year. No material discrepancies were noticed on such verification.
2. None of the fixed assets were revalued during the year.
3. Physical verification has been conducted by the management at reasonable intervals in respect of finished goods, stores, spare parts and raw materials.
4. Procedures of physical verification of stocks followed by management are reasonable and adequate in relation to the size and the nature of its business.
5. No material discrepancies have been noticed on physical verification of stocks as compared to book records.
6. On the basis of our examination, we are satisfied that valuation of stocks is fair and proper and in accordance with normally accepted accounting principles and is on the same basis as in the preceding year.
7. The Company has not taken loans from companies or other parties listed in the register maintained under Section 301 of the Companies Act, 1956.
8. The Company has not granted any loans to companies or other parties listed in the register maintained under Section 301 of the Companies Act, 1956.
9. Employees to whom loans have been given are generally repaying the principal amount and interest, if any, as stipulated. In respect of advances in the nature of loans to some of the Subsidiaries/erstwhile Subsidiaries, there is no stipulation for recovery of principal amount.
10. In our opinion and according to the information and explanations given to us, there are adequate internal control procedures commensurate with the size of the Company and the nature of its business for the purchase of stores, raw materials, plant and machinery, equipment and other assets and sale of goods.
11. According to the information and explanations given to us, there were no purchases and sale of goods and services in excess of Rs. 50,000 in value during the year to firms or companies or other parties in which Directors are interested, as listed in the register maintained under Section 301 of the Companies Act, 1956.
12. As explained to us, unserviceable or damaged stores and raw materials are determined by the Company and adjustment for loss on such materials wherever necessary has been made in the accounts.
13. In respect of the deposits accepted from the Public, the provisions of Section 58A of the Companies Act, 1956, and the rules framed thereunder have been complied with.
14. In our opinion, reasonable records have been maintained by the Company for the sale and disposal of realisable scrap and by-products.
15. The Company has an internal audit system commensurate with the size and nature of its business.
16. We have broadly reviewed, without carrying out a detailed examination, cost accounts and records maintained by the Company in respect of such products as prescribed by the Central Government under Section 209(1)(d) of the Companies Act, 1956 and are of the opinion that prima facie the same have been maintained. Cost records in respect of Formulation activity could not be reviewed since they are under preparation.
17. Provident Fund and Employees' State Insurance dues have been regularly deposited by the company, however there were delays in depositing the same. Total outstanding and dues as on 31st March, 1998 in respect of Provident Fund was Rs.12.63 lakh and Employees' State Insurance was Rs.47.60 lakh.
18. There were no undisputed amounts payable in respect of Wealth Tax, Customs Duty and Excise Duty outstanding as at 31st March, 1998 for a period of more than six months from the date they became payable. As regards Sales-Tax an amount of Rs.196.50 lakh pertaining to period of more than six months is not paid.
19. Personal expenses have not been charged to Revenue Account.
20. The Company is not a sick industrial company within the meaning of Clause(O) of Sub-Section(1) of Section 3 of the Sick Industrial Companies (Special Provisions) Act, 1985.
21. In respect of trading activities of the Company, the damaged goods have been determined. Though the value of such goods is not significant, provision for such loss is made in the accounts.
22. The Company has a reasonable system of recording receipts, issues and consumption of materials and stores commensurate with its size and nature of its business. The system provides for a reasonable allocation of the materials and manhours consumed to the relative jobs.
23. There is reasonable system of authorisation at proper levels with necessary control on the issue of stores and allocation of stores and labour to jobs. The Company has an internal control system commensurate with its size and nature of its business.

Ahmedabad
25.6.1998

For Sorab S Engineer & Co.
Chartered Accountants
M P Antia
Partner

Profit & Loss Account

for the year ended 31.3.1998

	Schedule	1997-98 Rs. lakh	1996-97 Rs. lakh
Sales & services		27624.68	29432.07
Other income	A	2108.47	360.73
Income		29733.15	29792.80
Cost of sales & services	B	27628.94	25387.03
Excise duty		2528.19	2679.97
Expenditure		30157.13	28067.00
Gross margin		-423.98	1725.80
Interest			
on other than term loans	C	990.64	890.33
on term loans		776.73	96.28
Depreciation		510.90	523.98
Less : transfer from Capital Reserve No.2 (Refer to Note No. B.6)		405.29	423.46
		105.61	100.52
Income on Transfer of Intellectual Property		3400.00	--
Donations		0.41	0.78
Loss on assets discarded/sold	D	22.29	1.80
Employees Separation Scheme		1435.58	158.94
Net Profit/Loss(-)		-355.24	477.15
Fuel charges for previous years		--	400.95
Interest for previous years		--	40.49
		-355.24	35.71
Surplus brought forward		1612.11	1576.40
Surplus carried to Balance Sheet		1256.87	1612.11
Notes	N		
Schedules A to D & N form part of the Profit and Loss Account			

As per our Report attached

For Sorab S Engineer & Co.
Chartered AccountantsM P Antia
Partner

25.6.1998

Kartikaya V. Sarabhai
ChairmanCVS Narayanan
DirectorTarang Mehta
Secretary

25.6.1998