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ARTEFACT SOFTWARE & FINANCE LIMITED
16th Annual Report 2003-2004



ARTEFACT SOFTWARE & FINANCE LIMITED

DIRECTORS

Mr. Manoj B. Shah, Managing Director

Mr. Pankaj B. Shah

Maj Gen (Retd.) B. K. Mehta

Mr. Anil K. Verma (upto 05.12.03)

Mr. Girish R. Dhabalia

AUDITORS

Naresh Patadia & Co.

Chartered Accountants

Opp. Ram Mandir, Tilak Road,

Mahal, Nagpur - 440 002

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BANKERS

Central Bank of India, Main Branch, Nagpur

Canara Bank, Gandhi Nagar Branch, Nagpur

REGISTERED OFFICE

429, Joshi Wadi, Opp. Kurvey's High School,

Dr. Munje Road, Sitabuldi, Nagpur- 440 012.

CORPORATE OFFICE

1st Floor, Bhiwapurkar Chambers, Opp. Yeshwant Stadium,

Dhantoli, Nagpur - 440 012.



DIRECTORS REPORT

Your directors have pleasure in presenting their 16th Annual Report and Audited Statement of Accounts for the year ended 31st March 2004 on the business and operations of the Company.

FINANCIAL RESULTS :-

Particulars	(Rs. in Lacs)	
	2003-2004	2002-2003
Gross Income	799.34	686.97
Non Cash Charges	22.64	34.42
Profit Before Tax	34.19	33.48
Provision for Taxation	9.75	12.10
Net Profit (Including excess tax written back)	25.25	22.12
Profit brought forward from previous year	229.07	206.97
Profit available for disposal	254.32	229.07
Profit carried to Balance sheet	254.32	229.07

DIVIDEND :-

Your Directors do not recommend any dividend for the year ended 31st March 2004, as they would like to reserve the profits for future expansions and operations of the company.

OVERVIEW :-

There was an increase in the gross income of the company. In the Previous year the company had a gross income of Rs. 6.87 Crores, but during the year under report, the gross income is Rs. 7.99 Crores. Your directors anticipate the same trend of increase in the revenue even in the current financial year 2004-2005.

PLANS FOR CURRENT YEAR :-

The company has considerably consolidated its position in its division of Infrastructure and Project Management Consultancy. The company has substantial orders in hand. The Company is paying its focussed attention to the overall improvement of its operations.

Your company is also adopting procedures in line with requirements for ISO 9001 certification which may help the company in future and the management hopes to achieve ISO Certification in near future.

**DIRECTORS :**

Mr Girish R. Dhabalia who was appointed as an Additional Director on the Board, will cease to be a director of the Company at this ensuing Annual General Meeting. A notice as required under Section 257 of the Act has been received from a member, proposing his appointment as a Director of the company. Hence the company proposes to regularise his appointment in this Annual General Meeting.

Mr. Anil Verma, Director, resigned wef 05.12.03 due to personal reasons. The Board places on record great appreciation for his cooperation extended during his tenure.

AUDITOR :

Naresh Patadia & Co, Chartered Accountants, auditor of the company hold office until the conclusion of the ensuing Annual General Meeting and is recommended for reappointment. The company has received letter from them, to the effect that their appointment, if made would be within the prescribed limits under section 224 (I-B) of the Companies Act, 1956. The resolution for their appointment will be placed before the shareholders in the ensuing Annual General Meeting, for their consideration and approval.

DIRECTORS RESPONSIBILITY STATEMENT

Pursuant to the requirement of Section 217(2AA) of the Companies Act, 1956. The Directors to their best of knowledge and belief, confirm that:

- ✓ In the preparation of the Profit and Loss Account for the Financial Year ended 31st March 2004 and the Balance Sheet as at that date [hereinafter referred to as the "Financial Statements"] applicable accounting standards have been followed;
- ✓ Appropriate accounting policies have been selected and applied consistently and such judgements and estimates that are reasonable and prudent have been made so as to give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit of the company for that period;
- ✓ Proper and sufficient care has been taken for the maintenance of 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 and other irregularities. To ensure this, the company has established internal control systems, consistent with its size and nature of operations. In weighing the assurance provided by any such system of internal controls, inherent limitations should be recognised. These systems are reviewed and updated on an ongoing basis. Periodic internal audits are conducted to provide reasonable assurance of compliance with these systems. The Audit Committee meets at regular intervals to review the internal audit function;
- ✓ The financial statements have been prepared on a going concern basis.

**PERSONNEL :-**

The company has paid remuneration to one employee, exceeding Rs. 2 lacs per month who was employed throughout the year.

The Statement under Section 217(2A) of the Companies Act, 1956 is given herein below:

S. No.	Name of the employee	Designation	Gross Salary	Date of appointment	Date of leaving
1	Mr. Yau Chuan Choong	Team Leader	Rs. 3823505	25.11.2002	NA

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

The company has not earned any Foreign Exchange during the year.

But the company has spent in Foreign Currency, equivalent value in INR is Rs.15,43,105/- towards travelling Expenditure and Remuneration of Expatriate Technical Personnel.

DEPOSITS :-

The company has not accepted any deposits within the meaning of Section 58A of the Companies Act, 1956 and / or Rules framed thereunder.

CORPORATE GOVERNANCE :

Necessary measures have been taken to comply with the requirements of the listing agreement with the Stock exchanges where the company's shares are listed. The report on Corporate Governance is included as a part of Directors' Report.

A certificate from the Auditors of the Company regarding compliance of conditions of Corporate Governance stipulated under Clause 49 of the Listing Agreement is attached to this Report.

ACKNOWLEDGEMENT :-

The Directors would like to express their grateful appreciation for the assistance and co-operation received from Auditors of the company, banks, Government Authorities, customers, vendors and shareholders during the year under report. Your Directors also wish to place on record their deep sense of appreciation for the committed services of the Executives and Staff of the Company.

FOR AND ON BEHALF OF THE BOARD

Place : Nagpur

Date : 28th June, 2004

MANOJ B. SHAH

MANAGING DIRECTOR

PANKAJ B. SHAH

DIRECTOR



MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY STRUCTURE & SCENARIO :

Indian economy is on a growth path for the last few years. The GDP growth for 2004-05 was estimated at 8 % based on the Economic Survey by Reserve Bank of India. The Industry grew by 6.50% in the third quarter of Financial Year 03-04 (Source - FICCI). This is a very suitable platform for focus on service sector as against primary or secondary sector, to sustain future growth and to unleash the potential of the Country to be a global player.

The Company's present priorities in providing expert Project Management Services are in the Highways & Township Sectors. Govt. of India has earmarked substantial funds for development of National Highways & upgradation & inter-linking of Rural Roads across the country. Also, substantial urban infrastructure development is witnessed in recent past like urban transport, integrated road development programmes for the major cities, development of special economic zones, etc.

The industry outlook for NBFC has not improved in the past few years but may gradually improve with recent Government policy announcement of extending the Act on Securitization to NBFC sector also hitherto available only to banks. However, the pace of implementation and benefits thereof to small and medium sized NBFC needs to be seen.

REVIEW OF ARTEFACT'S BUSINESS :

Government has announced and undertaken ambitious road development programme and with urban and other infrastructure development getting more focus and funds, your company has been beneficiary of this improved business investment climate where Indian Infrastructure Development is booming.

Artefact which is primarily engaged in providing specialised Project Consultancy Services in various infrastructure projects of roads, urban transport & infrastructure development have substantially expanded its area of working & expertise during the year. It is associated today with prestigious National Highway Development Programme & Rural Road Development Programme. The company is providing consultancy services in these various segments with & in association of International Consultants of repute from United States, United Kingdom, Malaysia etc. with whom your Company has forged a collaboration and alliance. The company is providing services to various prestigious Government clients like National Highway Authority of India, Agra Development Authority, Airport Authority of India, Mumbai Metropolitan Region Development Authority, Madhya Pradesh Rural Road Development Authority, Madhya Pradesh Rajya Setu Nirman Nigam, many more organisations and authority.

The services of the Company for all its ongoing projects have been appreciated by its client and satisfactory completion certificates are issued by the client for all the assignments completed. The company has a present order booking position for next 2 years, at present level of operations & few orders are for 6 years also. Your company anticipates substantial growth in its areas of operation in Infrastructure consultancy in coming years.

With the given conditions of Financial Markets, the company further anticipates to reduce its exposure & level of operation in financing activities unless the conducive environment with appropriate Government initiatives & regulations are put in place and a level playing field is established for NBFC's as far as cost of funds is concerned vis-a-vis Banks.

FUTURE OUTLOOK :

Large investment is planned in various segments in which the Company is providing its Consultancy services like Roads, Airports, Water Supply & Management, Urban Infrastructure Development. With projects like Non-NHDP (National Highway Development Programmes) promoted by previous Government under implementation,



upgradation of additional kms of National Highway are envisaged, upgradation of metro & non metro airports, establishment of special economic zones (SEZ's) by various states and interlinking of inland river water in progress, Project Management Consultancy envisages rendering of services for all stages of Project Development from initial conceptualization together with detailed engineering, contract management, to the construction supervision & the handing over of the project. All the major infrastructure projects are being taken up with the assistance of services of Expert Project Consultants only. Today your company is a leading service provider in this sector. The company hopefully looks forward to penetrate further in these areas to have a substantial market share in expanding business opportunities.

FINANCIAL REVIEW :

The turnover has increased by 15% from Rs.686 lacs in 2003 to Rs.799 lacs in 2004.

Due to volume increase in turnover, its book debts also increased substantially to Rs. 432 lacs. However the Company is resorting to aggressive receivables management to curtail its book debts and improve the liquidity in its operation.

With a view to conserve the resources for attending to the greater fund requirements resulting out of increased levels of business, the company did not recommend any dividend during the year under review.

There is no increase / decrease in the company's paid up capital during the year.

OPPORTUNITIES & THREATS :

Infrastructure development is going to remain a mainstay of country's economic progress for atleast next decade. Investments and establishment of state of the art infrastructure is going to be the lifeline of the country's economy. An estimated investment of US \$ 40 billion is required every year for next 10 years for infrastructure development in this country. The major thrust of investment lies in roads, water, airports, urban area development, power, and transport. Artefact renders its consultancy services in majority of these areas and huge potential is available to it for its future growth.

These projects have by its very nature, long gestation period. Moreover huge amount of funds requirement entails to ensure continuous availability of Government funds without which the projects runs the risk of getting stuck or abandoned. All these factors pose as a threat to the company's future business plan.

The management is continuously making the efforts to insulate itself from most of these factors by creating its own niche area of operations and to take long tenure contracts to overcome these uncertainties. The company's motto of keeping itself "Ahead of times all the time" equips itself to manage the threats to its advantage in most of the adverse conditions.

ADEQUACY OF INTERNAL CONTROLS :

An extensive system of internal controls is practiced by Artefact to ensure that all its assets are safeguarded and protected against loss from unauthorized use or disposition and that transactions are authorised, recorded and reported correctly.

The company has an internal control system that is geared towards achieving efficiency in operations, optimum utilization of resources, effective monitoring and compliance with all laws and regulations.

An extensive programme of internal audits, reviews by management and documented policies, guidelines and procedures, supplements the internal control systems that are designed to ensure reliability of financial and all other records to prepare financial and other data and to maintain accountability of assets.



The effectiveness and efficiency of Artefact's internal control systems have improved with the implementation of various financial and business management systems, which provide a high level of checks and controls.

Artefact has independent audit systems to monitor the entire gamut of operations and services at frequent intervals. Internal Audit includes evaluation of all financial, operating and information technology system controls.

ENVIRONMENT AND SAFETY :

Clean environment for sustainable development is of prime concern and is an important business objective, achieved by every employee's contribution and responsibility towards environmental performance.

A layered system of environmental monitoring and audit is followed in compliance with all environmental protection laws of the land through all project stages.

Commitment to safety is of paramount importance. Several health, safety and environmental policies have been formulated and implemented accordingly.

CAUTIONARY STATEMENT :

Statements in this Management Discussion and Analysis describing the Company's opportunities, challenges, objectives and expectations may constitute "Forward Looking Statements" within the meaning of applicable laws and regulations. These forward-looking statements are based on certain assumptions and expectations of future events. The company cannot be cent percent sure whether they are accurate or realisable. Actual results might differ materially from those either expressed or implied.





CORPORATE GOVERNANCE

Artefact's Corporate Governance Principles uphold its global standing at the forefront of Corporate Governance best practices. Artefact continues to periodically review its corporate governance practices to ensure effectiveness and responsiveness to the needs of all the investors and stake holders.

The company's shares are listed on Mumbai Stock Exchange in India. In accordance with Clause 49 of the Listing Agreement with the domestic stock exchanges, the compliance by the company with respect to Corporate Governance is as follows:

Company's Philosophy on Corporate governance :

Artefact's philosophy on Corporate Governance ensures and envisages utmost level of transparency, accountability and responsibility, in all facets of its operations, in all its interactions with the Government, its shareholders, employees and lenders. Artefact continues to review its practices on Corporate governance to ensure that they continue to reflect domestic and international developments and it continues to periodically review the guidelines to ensure effectiveness and responsiveness to the needs of all the investors and stakeholders.

A. Board of Directors :

The Board of Directors consists of 4 Directors. The composition and category of Directors are as follows :

Promoter Directors: Mr. Manoj B Shah
[Managing Director]
Mr. Pankaj B Shah

Independent Directors: Mr. B K Mehta
Mr. Anil Verma
[upto 05.12.2003]
Mr. Girish R. Dhabalia (w.e.f. 30/01/04)

B. Board meetings :

The Company holds minimum Four meetings, in each year as required under the provisions of Section 285 of the Companies Act, 1956. Besides the above, additional meetings if required are also held with due notice to all the Directors. All meetings of the Board are held in the corporate office of the Company at Nagpur.

The minutes of the Board meeting are properly recorded within 30 days of the conclusion of the meeting and the minutes book are properly maintained as required under the Companies Act, 1956.

C. Attendance of each Director at the Board meetings, last AGM and number of other Directorship Chairmanship/membership of Committee of each Director in various companies :

Name of the Director	Attendance		No.of other directorship / Committee membership/chairmanship		
	At Bd Mtg.	Last AGM [27.09.2003]	other directorship	committee membership	Committee chairmanship
Mr. Manoj B Shah	4	Present	1	0	0
Mr. Pankaj B Shah	4	Present	1	0	0
Mr. B K Mehta	3	Present	1	0	0
Mr. Anil Verma*	3	Present	1	0	0
Mr. Girish R. Dhabalia @	1	-	0	0	0

* was appointed on the Board on 28th April 2003 and resigned on 05.12.2003.

@ was appointed on the Board on 30th January 2004.



D. Number of Board meetings held and the date on which held :

Four (4) Board meetings were held during the year. The dates on which the meetings were held are as follows:

27th June 2003, 28th July 2003, 30th October 2003 and 30th January 2004. The maximum time gap between any two meetings was not more than three calendar months.

BOARD COMMITTEES :

A. Audit committee:

The Board of directors had constituted an Audit Committee, comprising three Directors, viz., Mr. Anil Verma, having financial and accounting knowledge, Shri Pankaj B Shah, Shri B K Mehta. Later in Dec. 2003, Mr. Anil Verma resigned from the Committee and in Jan 04 Mr. Girish R. Dhabalia a Director with financial and Accounting knowledge was appointed on the Audit Committee. The Constitution of the Audit Committee is also in line with the requirements of Section 292A of the Companies Act, 1956.

The powers and responsibilities of the Audit Committee as given by the Board of the Company which are in line with the requirements given under Clause 49 of the Listing Agreement, are as detailed below:

- Overview of the Company's financial reporting process and the disclosure of its financial information to ensure that the financial statement is correct, sufficient and credible.
- Recommending the appointment and removal of Statutory auditor, fixation of audit fee and also approval for payment for any other services.
- Reviewing with management the annual financial statements before submission to the Board, focussing primarily on ;
 - Any changes in the accounting policies and practices;
 - Major accounting entries based on exercise of judgement by management;
 - Qualification in draft audit report;
 - Significant adjustments arising out of Audit;
 - The going concern assumption;
 - Compliance with Accounting Standards;
 - Compliance with Stock Exchange and legal requirements concerning financial statements;
 - Any related party transactions, i.e., transactions of the company of material nature with promoters or the management, their subsidiaries or relatives etc, that may have potential conflict with the interests of the company at large;
- Reviewing with the management, external and internal auditors, the adequacy of internal control systems;
- Reviewing the adequacy of internal audit function, including the structure of the internal audit department, staffing and seniority of the official heading the internal audit department, reporting structure coverage and frequency of internal audit;
- Discussion with internal auditors, any significant findings and follow up thereon;