

**THIRTY NINTH ANNUAL REPORT
2001-02**



ARUNODAY MILLS LIMITED



ARUNODAY MILLS LIMITED

BOARD OF DIRECTORS :

Shri Kantilal K. Sheth	(Chairman and Managing Director)
Shri Babubhai C. Shroff	
Shri Girijashanker U. Mehta	
Shri Ramniklal G. Kikani	
Shri Yeshwantlal R. Shah	
Shri Vishal U. Sheth	
Shri Vamanray M. Mehta	(G.S.F.C. Nominee)
Shri C. R. N. Swamy	(Technical Director)
Shri Bhupendra K. Patel	(Director - H.R.D.)

BIPIN MANEKLAL SHAH COMPANY SECRETARY

AUDITORS :

Messrs B. S. Mehta & Co.
Chartered Accountants,
Mumbai - 400 001.

BANKERS

Bank of India
Bank of Baroda
Syndicate Bank

SHARE TRANSFER AGENTS :

R & D Consultants Pvt. Ltd.
610, Dalarnai Tower,
211, Nariman Point,
Mumbai - 400 021.

REGISTERED OFFICE AND MILLS :

MAHENDRA NAGAR
MORBI (GUJARAT)
PIN : 363 641

CORPORATE OFFICE :

Sakhar Bhavan, 5th Floor,
Nariman Point,
Mumbai - 400 021.

NOTICE

NOTICE is hereby given that the **39th Annual General Meeting** of the Members of **ARUNODAY MILLS LIMITED** will be held at the Registered Office of the Company situated at Mahendra Nagar, Morbi (Gujarat), Pin 363 641 on Thursday the 26th September, 2002 at 4.30 P.M. to transact the following business :-

1. To receive and adopt the Directors' Report and the Audited Statement of Accounts for the year ended 31st March, 2002.
2. To appoint a Director in place of Shri Yeshwantlal R. Shah who retires by rotation and being eligible offers himself for re-appointment.
3. To appoint a Director in place of Shri Babubhai C. Shroff who retires by rotation and being eligible offers himself for re-appointment.
4. To appoint Auditors for the current year to hold office from the conclusion of this Meeting until the conclusion of the next Annual General Meeting and to fix their remuneration.

NOTES :

1. A MEMBER ENTITLED TO ATTEND AND VOTE IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF AND PROXY NEED NOT BE A MEMBER OF THE COMPANY.

2. The Register of Members and Share Transfer Books of the Company will remain closed from 20th September, 2002 to 26th September, 2002 (both days inclusive) for the purpose of Annual General Meeting.
3. Members are requested to intimate to R & D CONSULTANTS PRIVATE LIMITED, Share Transfer Agents at 610, Dalamal Towers, 211, Nariman Point, Mumbai - 400 021, for changes, if any, in their registered address.
4. Shareholders desirous of any information at the Annual General meeting, with regard to accounts, are requested to write to the Company their queries 7 days before the date of meeting so as to enable the Management to keep the information ready.

BY ORDER OF THE BOARD OF DIRECTORS

Dated : 26th July, 2002
Place : Mumbai

Bipin M. Shah
Company Secretary

Regd. Office:
Mahendra Nagar,
Morbi (Gujarat),
Pin Code 363 641





DIRECTORS' REPORT

Dear Shareholders,

Your Directors have pleasure in presenting herewith the **39th Annual Report of the Company with the Audited Statement of Accounts for the year ended 31st March, 2002.**

	Rs. in Lacs	
	2001-02	2000-01
1. FINANCIAL RESULTS		
Sales & Operative Income	7,734.10	9499.22
Gross Profit before Interest	(54.24)	116.18
Interest	617.79	705.95
Profit /Loss before Depreciation & Tax	(672.03)	(589.77)
Less : Provision for		
i) Depreciation	463.50	436.48
ii) Taxation	-	-
Profit / Loss for the year	(1,135.53)	(1026.25)
Add : Brought forward from last year	(933.59)	105.10
Add : Deferred Tax Asset (Net)	14.74	-
Less :		
i) Prior years' adjustment	Nil	8.18
ii) Short Provision for Taxation	Nil	4.26
Balance carried to Balance Sheet	(2054.38)	(933.59)

2. DIVIDEND

In view of the Loss for the year, your Directors do not recommend any dividend for the year under review.

3. PERFORMANCE

During the year under report, the sales and operative income of Rs. 7,734.10 Lacs, was lower as against Rs. 9,499.22 Lacs during the preceding year. The Company incurred an Operating Loss of Rs. 54.24 Lacs before Interest and Depreciation for the year under review as compared to an Operating Profit of Rs. 116.18 Lacs in the last year. After providing interest of Rs. 617.79 Lacs and Depreciation of Rs. 463.50 Lacs, there was a net Loss of Rs. 1,135.53 Lacs against the net Loss of Rs. 1,026.25 Lacs in the preceding year.

The performance of the Company was severely affected as production during the year under review, was lower as compared to that of previous year, due to the ring frames and other machinery damaged during the earthquake in Gujarat.

As earthquake affected unit IDBI has sanctioned term loan of Rs.300 Lacs on 9th November, 2001 under Technological Upgradation Fund Scheme for replacement of the machinery damaged in the earthquake. IDBI sanction inter-alia included pre-disbursement conditions viz., (i) to obtain NOC from the existing first chargeholders and (ii) to obtain debt restructuring package from all the secured creditors.

There were inordinate delays in getting requisite NOCs issued by the existing chargeholders and also approving the restructuring proposals submitted in May - June, 2001.

Such delays by each of the Lenders put the Company in a situation that it could not get the requisite disbursement from IDBI for replacement of machineries damaged in the earthquake and forced to continue production till date and worked at 15 to 20% lower capacity. The Company worked during the year under review with installed capacity of 37680 spindles against 42720 spindles in the previous year. i.e. the production capacity is reduced by 5040 spindles over the previous year. This is one of the major factors for our loss during the year.

Normal production will be possible only after getting new machines against the sanctioned IDBI Loan to the Company.

Your attention is also invited to para on Relief Package stated hereafter.

4. FINANCE

i. During the year under review, the Company's financial and liquidity position was under severe pressure due to various factors such as the riotous situation in the State of Gujarat, lower production, excess production of yarn in the country and depressed prices in domestic market and losses suffered by the Company.

ii. The Company has incurred Capital Expenditure in Plant & Machinery and Other assets aggregating to Rs. 341.86 Lacs during the year under review. IDBI has sanctioned the Term Loan of Rs.300 Lacs under Technological Upgradation Fund Scheme for replacement of the machinery damaged in the earthquake, Government of Gujarat has sanctioned Rs.46.20 Lacs as the earthquake subsidy towards capital expenditure and Rs.10 Lacs each for two

DIRECTORS' REPORT

years towards interest paid / payable to Banks on borrowings.

- iii. During the year under review the interest expenditure has come down due to the lower interest rate approved by Banks and Financial Institutions as a part of relief package.
- iv. The Company has not accepted any Fixed Deposits from the Public within the meaning of Section 58A of the Companies Act, 1956 and the rules framed thereunder.

5 RELIEF PACKAGE

As earthquake affected unit and considering RBI norms for earthquake relief, your Company has received a support as under to the restructuring proposals submitted to the Financial Institutions and Consortium of Banks

IDBI and Exim Bank of India have approved on 10th January, 2002 and 5th February, 2002 the reduction in rate of interest on outstanding term loans and also sanctioned new funded interest term loan for interest deferred till 30th September, 2002.

Development Credit Bank Ltd., have approved on 21st November, 2001 the reduction in interest rate and converted FCNR(B) Loan into Rupee Loan.

Bank of India have approved on 18th March, 2002 the reduction in interest on term loans and on Working Capital Limits, rephasing of Debentures by new Rupee Term Loan, approved conversion of ECB Loan, to new Rupee Loan, new funded interest term loan for deferred interest and also provided new Working Capital Term Loan.

Similarly, Bank of Baroda have approved on 12th April, 2002 the reduction in interest on Working Capital Limits, new funded interest term loan for deferred interest and new Working Capital Term Loan.

Syndicate Bank has yet to approve the restructuring proposal of the Company.

Based on Company's restructuring exercise and with support of the Banks and Financial Institutions and with sharp focus on cost control, addition of value added products, higher productivity, quality improvements and efforts on marketing front for better price realisation, your Directors are hopeful that the Company will have sufficient strength to withstand the current adverse

phase and with corrective steps taken during the current year, barring unforeseen circumstances, will produce beneficial results in coming years.

6. ISSUE OF SHARES

IDBI, as a part of restructuring agreed to grant relief and concessions in interest on the outstanding term loan of Rs.18 Crores against allotment of Optionally Convertible Cumulative Redeemable Preference Shares with a coupon rate of 9% aggregating to Rs.50 Lacs. Further, the unsecured loan to the extent of Rs.50 Lacs of Kanaru Investment Pvt. Ltd., is to be converted into Equity Shares of the Company.

The Extra Ordinary General Meeting of the Members was held on 10th July, 2002 approved the requisite amendment to the capital clause of Memorandum and Articles of Association and also approved Special Resolution under Section 81 (1A) of the Companies Act, 1956 to issue and allot the above referred Preference Shares to IDBI and Equity Shares to Kanaru Investments Pvt. Ltd.

7. SUBSIDIARY COMPANY

In the year under review, upon acquiring the balance 54,000 equity shares in Keti Services Ltd. (KSL), KSL had become a Wholly Owned Subsidiary of the Company with effect from 3rd September, 2001.

KSL will now look after local and export marketing, especially to develop the market for the value added products. This will greatly help the Company in expanding its exports.

The Annual Accounts of the Company include the full year's results of KSL, which has recorded services and sales of Rs.107.80 Lacs and profit before tax of Rs.2.16 Lacs and net profit of Rs.0.80 Lacs.

8. INSURANCE

Adequate Insurance cover has been taken for properties of the Company including Buildings, Plant & Machineries and Stocks.

9. DIRECTORS

Pursuant to Article 131 of the Articles of Association of the Company Shri Yeshwantlal R. Shah and Shri Babubhai C. Shroff Directors retire by rotation and being eligible offer themselves for re-election.

Shri Manhartal M. Sheth, Shri Harkishon N. Udani, Shri



D I R E C T O R S ' R E P O R T

Prabhat R. Kothari and Shri Premal M. Vora resigned as Directors. The Board recalled and placed on record the significant contribution made by them during their tenure with the Company.

10. DIRECTORS' RESPONSIBILITY STATEMENT :-

As stipulated under Section 217 (2AA) of the Companies Act, 1956 your Directors' confirm as under :

- 1] In the preparation of the annual accounts, the applicable accounting standards have been followed alongwith proper explanations relating to material departures.
- 2] The Directors had selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the Financial year and of the loss of the Company for that period.
- 3] The Directors had taken proper and sufficient care 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.
- 4] The Directors had prepared the Annual Accounts on a going concern basis.

11. COST AUDITORS

Pursuant to the directives of the Central Government under the provisions of Section 233 B of the Companies Act, 1956, qualified Cost Auditors have been appointed to conduct cost audit relating to yarn manufactured by the Company.

12. AUDITORS

The retiring Auditors, M/s. B.S. Mehta & Co., Chartered Accountants, are eligible for re-appointment and have indicated their willingness to act as such. In terms of Section 224A of the Companies Act, 1956, their appointment needs to be confirmed and their remuneration has to be fixed.

13. AUDITORS' REPORT

The Notes to the Accounts referred to in the Auditors' Report and observations made by the Auditors are self contained and self explanatory and also have been

properly dealt with in the Notes to the Accounts and therefore do not call for any further explanation under Section 217 (3) of the Companies Act, 1956.

14. PERSONNEL

Relations with the employees continued to be cordial and satisfactory during the year.

Provisions of Section 217(2A) of the Companies Act, 1956 read with Companies (Particulars of Employees) Rules, 1975, as amended, do not apply to the Company for the year under Report.

15. CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION, FOREIGN EXCHANGE EARNINGS AND OUTGO

A statement giving details of conservation of energy, technology absorption, foreign exchange earnings and outgo, in accordance with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 is annexed and marked Annexure : 'A' which forms part of this Report.

16. LISTING OF SHARES

Equity Shares of the Company are listed with Mumbai Stock Exchange and Ahmedabad Stock Exchange and the listing fees have been paid.

17. DEPOSITORY SYSTEM

Your Company continues its arrangement with Central Depository Services (India) Limited (CDSL) and National Securities Depository Limited (NSDL) for dematerialization of the shares in accordance with the provisions of the Depositories Act, 1996.

18. CORPORATE GOVERNANCE

As per Clause 49 of the Listing Agreement, the mandatory provisions of Corporate Governance are applicable to your company from the financial year 2002-03. However, your Company has already constituted Audit Committee, during year 2001-02 and other provisions are being implemented during the current year.

19. AUDIT COMMITTEE

Pursuant to Section 292 - A of the Companies Amendment Act, 2000 read with clause 49 of the listing agreement with Stock Exchanges Ahmedabad & Mumbai, the Board appointed the Audit Committee

DIRECTORS' REPORT

whose members were Shri Kantilal K. Sheth, Shri Yeshwantlal R. Shah and Shri Premal M. Vora Directors of the Company. Shri Premal M. Vora on his resignation as Director resigned from Audit Committee.

20. ENVIRONMENT, SAFETY AND POLLUTION CONTROL

Your Company has been taking proper care in complying with all statutory requirements relating to Safety, Environmental and Pollution Control.

21. EROSION OF NET WORTH

Due to substantial losses incurred during the past two years, the accumulated losses after considering the losses for the current financial year, would exceed 50% of the "Peak Net Worth" during the past four financial years. As required by the provisions of the Sick Industrial Companies (Special Provisions) Act, 1985, **(SICA)** the Company would be required to comply with the relevant provisions of SICA and submit the report of potential sickness to the Board for Industrial and Financial Reconstruction (BIFR).

22. ACKNOWLEDGMENT

Your Directors are grateful for the continued co-operation and assistance extended by the Financial Institutions and Banks in meeting financial requirements of the Company and especially the whole hearted support extended in respect of the restructuring of the facilities as narrated herein above.

Your Directors also wish to place on record their appreciation of the services of the Employees of the Company.

FOR AND ON BEHALF OF THE BOARD

KANTILAL K. SHETH

Chairman and Managing Director

Place : Mumbai

Dated : 26th July, 2002

Registered Office:

Mahendra Nagar, Morbi, (Gujarat), Pin Code 363 641





ANNEXURE I

Information pursuant to Section 217 (1) (e) of the Companies Act, 1956 read with the Companies (Disclosure of particulars in the report of Board of Directors) Rules, 1988 forming part of Directors' Report.

(A) (a) Energy Conservation measures taken :

- (1) Energy Conservation is an ongoing process within the Company.
- (2) Heat generated by Captive Power Plant being used for Dyeing.

(b) Additional investment and proposals, if any being implemented for reduction of consumption of energy.
NIL

(c) Impact of measures at (a) and (b) above for reduction of energy consumption and consequent impact of the cost of production of goods.

The above measures will help in reducing cost.

(d) FORM -A

Power and Fuel Consumption :

	<u>2001-2002</u>	<u>2000-2001</u>
1. Electricity		
(a) Purchased Unit ('000 KWH)	819	1086
Total Amount (Rs.in lacs)	86.40	100.78
Rate per Unit	10.55	9.27
(b) Own generation		
(i) Through Diesel		
Generator - Units (000 KWH)	407	1,222
Through CPP Furnace (000 KWH)	24891	26220
Unit per litre of Diesel (KWH)	4.00	3.10
Cost per Unit	7.66	5.34
Furnace Oil (KWH)	9.36	4.18
Cost per unit Furnace	3.24	2.55
2. Coal - (Lignite, used for Boiler for Dyeing.) (Tonnes)	150	198
3. Others	Nil	Nil
(B) Consumption per unit of production		
Production Yarns (M.T)	6048	6503
Electricity per M.T. of Production	4318	4387
Coal per M.T. of Production (only Dyed production)	0.74	0.49

ANNEXURE I

(B) FORM B:**Research and Development**

- | | |
|---|--|
| 1. Specific areas in which R & D carried out by the Company. | R & D carried out for blending of different types fibres and development of ideal ratios of blending of different fibres to enhance the tenacity of yarn and fault free knitting properties. |
| 2. Benefits derived as a result of above R & D | Reduction in cost of output. |
| 3. Future plan of action | The above activities shall continue and more efforts in this direction will be made. |
| 4. Expenditure on R & D | No system of maintenance of separate accounts have been developed. The expenditure is merged with various other heads of expenses. |
| a) Capital | |
| b) Recurring | |
| c) Total developed | |
| d) Total R & D expenditure as a percentage of total turnover. | |

Technology absorption, Adoption and innovation.

- | | |
|--|---|
| 1. Efforts in brief technology absorption, adoption and | The plants are based on indigenous technology |
| 2. Benefits derived as a result of above efforts e.g. output improvement, cost reduction, product development, import substitutions. | NIL |
| 3. Details of imported technology | No technology has been imported during the last 5 Years |

(C) Foreign Exchange Earnings and outgo

	<u>2001-2002</u> <u>Rs.in Lacs</u>	<u>2000-2001</u> <u>Rs.in Lacs</u>
Total Earnings	3654.31	4136.99
Total Expenditure	140.14	364.08



**AUDITORS' REPORT TO THE MEMBERS
OF ARUNODAY MILLS LIMITED**

We have audited the attached Balance Sheet of **ARUNODAY MILLS LIMITED** as at 31st March, 2002 and also the Profit and Loss Account for the year ended on that date annexed thereto. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimate made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

1. We report that:

- (i) 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;
- (ii) In our opinion, proper Books of Accounts, as required by law, *subject to non provision of liability in respect of Bonus and Leave Encashment (refer to Note no. 8 & 9 of Schedule XXII)*, have been kept by the Company, so far as it appears from our examination of such books.
- (iii) The Balance Sheet and Profit and Loss Account dealt with by this report are in agreement with the books of account;
- (iv) *Subject to notes 8, 9 and 11 regarding non-provision of Liability for Bonus, non-provision of accrued Leave Encashment, and amortisation of Product Development Expenses respectively*, in our opinion, the Balance Sheet and Profit and Loss Account dealt with by this report comply with the accounting standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956;
- (v) On the basis of written representations received from the directors, as on 31st March, 2002 and

taken on record by the Board of Directors, we report that none of the directors is disqualified as on 31st March, 2002 from being appointed as a director in terms of clause (g) of sub-section (1) of section 274 of the Companies Act, 1956;

- (vi) In our opinion and to the best of our information and according to the explanations given to us, *the said accounts, read with the notes thereon, subject to Notes No. 8, 9, 11 and 12 of Schedule XXII regarding non-provision of Liability for Bonus, non-provision of accrued Leave Encashment, and amortisation of Product Development Expenses and Interest on Delayed Payment to Small scale Industrial Undertaking respectively*, give the information required by the Companies Act, 1956, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:
 - (a) in the case of the Balance Sheet, of the state of affairs of the Company as at 31st March, 2002; and
 - (b) In the case of the Profit and Loss Account, of the Loss for the year ended on that date.

2. As required by the Manufacturing and Other Companies (Auditor's Report) Order, 1988 issued by the Central Government of India in terms of sub-section (4A) of section 227 of the Companies Act, 1956 and on the basis of such checks of the books and records of the Company as were considered appropriate and on the basis of the information and explanations given to us during the course of the audit, we further state on the matters specified in Para 4 & 5 of the said Order that:

- i. The Company has maintained proper records to show full particulars including quantitative details and situation of fixed assets. As explained to us, the fixed assets have been physically verified by the Management during the year, at reasonable intervals. In our opinion having regard to the size of the Company and nature of its assets, the procedures noticed on such verification are reasonable. No material discrepancies between the book records and physical inventory were noticed on such verification.