

40TH ANNUAL REPORT

2002 - 2003

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ARUNODAY MILLS LIMITED

- BOARD OF DIRECTORS** : **Shri Kantilal K. Sheth**
(Chairman & Managing Director)
- Shri Girijashankar U. Mehta**
- Shri Yeshwantlal R. Shah**
- Shri Vishal U. Sheth**
- Shri Vamanray M. Mehta**
(G.S.F.C. Nominee)
- Shri Bhupendra K. Patel**
(Director - H.R.D.)
- Shri Mahendra S. Shah**
- COMPANY SECRETARY** : **Bipin Maneklal Shah**
- 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, Dalamal Tower,
211, Nariman Point,
Mumbai 400 021.
- REGISTERED OFFICE & MILLS** : Mahendra Nagar,
Morbi (Gujarat), Pin Code : 363 641
- CORPORATE OFFICE** : Sakhar Bhavan, 5th Floor,
230, Nariman Point,
Mumbai 400 021.



NOTICE

NOTICE is hereby given that the **40th** Annual General Meeting of the Members of **ARUNODAY MILLS LIMITED** will be held at the Registered Office of the Company situate at Mahendra Nagar, Morbi (Gujarat), Pin 363 641 on Tuesday the 23rd December, 2003 at 4.30 P.M. to transact the following business :-

1. To receive, consider and adopt the Directors' Report and the Audited Statement of Accounts for the financial year ended 30th June, 2003.
2. To appoint a Director in place of Shri Vishal U. Sheth who retires by rotation and being eligible offers himself for re-appointment.
3. To appoint a Director in place of Shri Girijashankar U. Mehta 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.

SPECIAL BUSINESS

5. To consider and if though fit, to pass with or without modification the following Resolution as an ORDINARY RESOLUTION.

"RESOLVED THAT, Shri Mahendra S. Shah who was appointed as an Additional Director Under Section 260 of the Companies Act, 1956 and whose term of office expires at the conclusion of this meeting be and is hereby appointed as a Director of the Company liable to retire by rotation."

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 19th December, 2003 to 23rd December, 2003 (both days inclusive) for the purpose of Annual General Meeting.
3. Details pertaining to Directors on Re-appointment and Appointment :
 - a. Re-appointment of Directors : At the ensuing Annual General Meeting, Shri Vishal U. Sheth and Shri Girijashankar U. Mehta retires by rotation and being eligible offers themselves for re-appointment.
 - b. Appointment of Directors : Shri Mahendra S. Shah, Additional Director is appointed as Director liable to retire by rotation.
 - c. The information or details pertaining to the Directors to be provided in terms of Clause 49 of the Listing Agreement with the Stock Exchanges are furnished in the statement on Corporate Governance published in this Annual Report.

4. As required under Section 173 of the Companies Act, 1956, the relevant Explanatory Statement sets out material facts relating to the SPECIAL BUSINESS mentioned in the Notice under item No. 6 Annexed hereto.
5. 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.
6. 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

Bipin M. Shah
Company Secretary

Place : Mumbai

Dated : 5th November, 2003

Regd. office :

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

EXPLANATORY STATEMENT

Pursuant to Section 173 of the Companies Act, 1956, the following Explanatory Statement sets out material facts in respect of the SPECIAL BUSINESS mentioned in the Notice dated 5th November, 2003.

ITEM NO. 6

Shri Mahendra S. Shah was appointed as an Additional Director of the Company at the Board Meeting held on 6th June, 2003 in accordance with the provisions of Section 260 of the Companies Act, 1956 and Article 116 of the Article of Association of the Company. Shri Mahendra S. Shah will continue to hold the office as Director till the date of this Annual General Meeting. A notice has been received from a member as required under section 257 of the Companies Act, 1956 signifying his intention to propose Shri Mahendra S. Shah as a candidate for the office of Director of the Company. The Company, has received his consent in writing to act as Director, if appointed.

Your Directors feel that it is in the interest of the Company to continue his appointment as a Director on the Board. Hence, this resolution for his appointment as a Director of the Company, liable to retirement by rotation, is placed before the Members. Your Directors commend the passing of this resolution.

Except Shri Mahendra S. Shah no other Director is concerned or interested in the resolution.

BY ORDER OF THE BOARD OF DIRECTORS

Dated : 5th November, 2003

Place : Mumbai



Blpin 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 40th Annual Report of the Company with the Audited Statement of Accounts for the financial year ended 30th June, 2003.

	Rs. in Lacs	
	2002 - 03 (15 months)	2001 - 02 (12 months)
1. FINANCIAL RESULTS :		
Sales & Operative Income (Net)	10,012.81	7,734.10
Gross Profit before Interest	32.07	(54.24)
Interest	1,108.79	617.79
Profit / (Loss) before Depreciation & Tax	(1,076.72)	(672.03)
Add : Provision for		
i) Depreciation	574.40	463.50
ii) Taxation	0.00	0.00
Profit / (Loss) for the year	(1,651.12)	(1,135.53)
Add : Brought forward from last year	(2,054.38)	(933.59)
Add : Deferred Tax Asset (Net)	0.00	14.74
Add : Short Provision for		
Taxation	0.59	0.00
Balance carried to Balance Sheet	(3,709.09)	(2,054.38)

As the net worth of the Company has been completely eroded, the Company has become Sick Industrial Company as per the provisions of the Sick Industrial Companies (Special Provisions) Act, 1985 ("SICA"). As required under the provisions of SICA, the Company will take appropriate steps and file the necessary reference with the Board for Industrial and Financial Reconstruction (BIFR) for determination of the measures to be adopted with respect to the revival of the Company.

2. DIVIDEND :

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

3. ACCOUNTING YEAR :

The Company's accounting year which commenced from 1st April 2002 to 31st March, 2003 has been changed to 1st April, 2002 to 30th June, 2003 as such the accounts are prepared for the said period of 15 months.

4. PERFORMANCE :

During the year under report, the sales and operative income (net) of Rs. 10,012.81 Lacs, was higher as against Rs. 7,734.10 Lacs during the preceding year. The Company made an Operating Profit of Rs. 32.07 Lacs before Interest and Depreciation for the financial year under review as compared to an Operating Loss of Rs. 54.24 Lacs in the last year. After providing interest of Rs. 1,108.79 Lacs and Depreciation of Rs. 574.40 Lacs, there was a net Loss of Rs. 1,651.12 Lacs against the net Loss of Rs. 1,135.53 Lacs in the preceding year.

The performance of the Company was severely affected as the operations of the Company could not be upgraded to optimum level so also there was lack of coordination and delays amongst each of the lenders and inadequate support from Banks and Financial Institutions as an Earthquake affected unit.

Due to such lower utilisation of production capacity and continuous liquidity pressure for working capital, the Company incurred continuous losses from February 2001 till today.

Normal production will be possible only after getting new machines and mills' working at 100% capacity and adequate Working Capital support is provided by Consortium of Banks.

Your attention is also invited to separate para on 'Restructuring' stated hereafter.

5. FINANCE :

- i. During the year under review, the Company's financial and liquidity position was under severe pressure due to various factors such as depressed prices in domestic market due to unhealthy competition and general sluggishness in demand. Further, Banks have not released the full Working Capital Limits. IDBI did not disburse the sanctioned loan of Rs. 300 lacs. Due to these, continuous losses were incurred by the Company.
- ii. Company has to incur substantial capital expenditure towards civil work and Plant & Machinery, damaged during the earthquake.
- iii. 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.

6. RESTRUCTURING :

Under the Corporate debt Restructuring Scheme (CDR) the Company has on 16th May, 2003 submitted, with a view to achieve long term financial and economic viability, a Comprehensive Proposal for Financial Restructuring to IDBI and copy of the said proposal to all Term Lenders and Consortium of Banks. IDBI in turn called meeting on 21st June, 2003 of all secured creditors. At the said meeting all the secured creditors unanimously agreed to consider favourably the restructuring proposal of the existing debts of the Company subject to Technical Evaluation Viability Report by technical study by institution like ATIRA is done and same is found favourable.

The Company received on 3rd September, 2003 Report on Vetting of Technical Aspects and Profitability of the Restructuring proposal by ATIRA and the said report stated that with Financial Restructuring, AML could become a potentially viable unit in the long run provided :

- i. Ring Frames damaged due to earthquake are replaced and Company carries out modernisation phase wise including third phase as suggested by ATIRA in a time bound period,

DIRECTORS' REPORT

- ii. Manufactures the yarns as per the proposed product mix and reviews the same periodically to take care of the changing demand,
- iii. Makes an effort to reduce fixed expenses.

Taking into consideration norms recommended by ATIRA and based on Textile Relief Package offered by Govt., of India vide press note dated 11th September, 2003, the Company submitted on 3rd October, 2003, the TOTAL MODIFIED SCHEME to IDBI and all secured creditors.

The TOTAL MODIFIED SCHEME include inter-alia following Reliefs and Concessions :

- i. Waiver of compound interest, liquidated damages and penal interest outstanding as on the cut-off date and further subsequent period.
- ii. Reschedulement of the Principal Loan installment payments.
- iii. To defer interest payment for further period.
- vi. The Funded Interest Term Loans (FITL) to be converted into Cumulative Redeemable Preference Shares or Bonds. If first option is agreed, Company's net worth will become positive and will be out of the purview of provisions of SICA and BIFR.

Your Directors are hopeful that with support of Banks and Financial Institutions, Company can be revived gradually.

7. ISSUE OF SHARES :

During the year under report, the Company to meet the preconditions laid down by IDBI for interest reduction and for Funded Interest Term Loan sanctioned on 1st November, 2002, allotted 50,000 Optionally Convertible Cumulative Redeemable Preference Shares of Rs. 100/- each, with a coupon rate of 9% aggregating to Rs. 50 Lacs to IDBI and 5,00,000 Equity Shares of Rs. 10 each aggregating to Rs. 50 lacs to Kanaru Investment Pvt. Ltd.

8. SUBSIDIARY :

The Directors' Report and the Audited Accounts for the year ended 31st March, 2003 alongwith the Report of the Auditors and the statement required under section 212(1) (e) of the Companies Act 1956 for Keti Services Ltd., a wholly owned subsidiary, is appended.

9. INSURANCE :

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

10. DIRECTORS :

Pursuant to Article 131 of the Articles of Association of the Company Shri Vishal U. Sheth & Shri Girijashankar U. Mehta Directors retire by rotation and being eligible offer themselves for re-election.

Shri Mahendra S. Shah was appointed as an Additional Director by the Board of Directors at its meeting held on 6th June 2003, pursuant to Section 260 of the Companies Act, 1956 and Article 116 of the Articles of Association of the Company. He holds office upto the date of ensuing Annual General Meeting and is eligible for appointment. Necessary resolution is placed

before you for approval.

Board also appointed Shri K. V. Parekh as an additional Director on 6th September, 2002. Shri K. V. Parekh passed away on 5th February, 2003. Shri Babubhai C. Shroff and Shri Ramniklal G. Kikani resigned as Directors. Shri C.R.N. Swamy the Technical Director retired from the services of the Company, and hence resigned as Director of the Company. The Board recalled and placed on record the significant contribution made by them during their tenure with the Company

11. 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.

12. COST AUDITORS :

Pursuant to the directives issued by 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.

13. 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.

14. AUDITORS' REPORT :

The Notes to the Accounts referred to in the Auditors' Report and observations, qualifications made by the Auditors in their report 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.

15. PERSONNEL :

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



DIRECTORS' REPORT

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.

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

A statement giving details of conversation 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 : 'I' which forms part of this Report.

17. LISTING OF SHARES :

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

18. 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.

19. CORPORATE GOVERNANCE :

The information required to comply with Clause 49 of the Listing Agreement is given as a separate Report on Corporate Governance. The Auditors have examined the Company's compliance and their certificate is reproduced in the Report.

Management Discussion and Analysis statement is separately given in the Annual Report.

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. ACKNOWLEDGMENT :

Your Directors wish to record their sincere appreciation of the support extended to the Company by its customers, suppliers and shareholders as well as the Company's bankers and financial institutions.

Your Directors also wish to place on record their appreciation of the efforts and contribution of the Company's employees at all levels during the difficult year under review.

FOR AND ON BEHALF OF THE BOARD

KANTILAL K. SHETH
Chairman & Managing Director

Place : Mumbai

Dated : 5th November, 2003

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

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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) Energy Conservation measures taken :

- (a) Energy Conservation is an on going process within the Company.
 (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>2002-03</u>	<u>2001- 02</u>
1. Electricity		
(a) Purchased Unit ('000 KWH)	691	819
Total Amount (Rs.in lacs)	75.14	86.40
Rate per Unit	10.87	10.55
(b) Own generation		
(i) Through Diesel		
Generator - Units (000KWH)	2,218	407
Through CPP Furnace Oil (000KWH)	32,995	24,891
Unit per litre of Diesel(KWH)	3.31	3.25
Cost per Unit	4.91	4.38
Furnace Oil (KWH)	4.24	4.18
Cost per unit Furnace	2.84	2.24
2. Coal - (Lignite, used for Boiler for Dyeing.) (Tonnes)	36.76	150.00
3. Others	Nil	Nil

(B) Consumption per unit of production

Production Yarns (M.T)	8,417	6,048
Electricity per M.T. of Production	4,266	4,318
Coal per M.T. of Production (only Dyed production)	0.13	0.28



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 manufacturing core spun yarn and developing value added yarn. |
| 2. Benefits derived as a result of above R & D | Increase in profitability of the Company |
| 3. Future plan of action | The above activities shall continue and more efforts in this direction will be made. |
| 4. Expenditure on R & D | |
| a) Capital | No system of maintenance of separate accounts have been developed. The expenditure is merged with various other heads of expenses. |
| 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. | Improving bottom line |
| 3. Details of imported technology | No technology has been imported during the last 5 Years |

(C) Foreign Exchange Earnings and outgo

	2002-03 <u>Rs. in Lacs</u>	2001-02 <u>Rs. in Lacs</u>
Total Earnings	5,380.06	3,382.93
Total Expenditure	118.19	140.14

MANAGEMENT DISCUSSION AND ANALYSIS

A) INDUSTRY STRUCTURE AND DEVELOPMENTS:

1. The Textile Industry has been passing through one of the worst recessions. The industry continues to be dominated by un-organised sector i.e. Powerlooms and Handlooms and small spinning units. Organised sector has to compete with this un-organised sector whose cost of production is comparatively lower than that of the organised mills due to low labour cost, low overheads and various concessions in duties, taxes etc., available to them.
2. In case of our Company, during the year under review, it continued operations with lower production capacity as 5,000 spindles were damaged during the earthquake which took place in Gujarat in January, 2001. Despite sluggish market and stiff competition the Board considers the overall performance of the Company as satisfactory within the said limitations.

B) OUTLOOK, OPPORTUNITIES & THREATS AND RISKS & CONCERNS :

The demand and margins are likely to remain under pressure in the current year owing to the recession, competition, and rising cost of inputs and overheads like fuel, electricity and labour coupled with heavy interest burden. The Company is taking appropriate steps to meet the rising costs by effecting cost reduction on all fronts. The Company envisages opportunity in the value added yarn due to encouraging demand and it shall gear its operation to exploit the opportunity to its advantage. However, the impact of heavy interest burden and continuous losses can be dealt with only, if suitable financial restructuring package is finalised with, the consortium of banks and financial institutions. Negotiations have been initiated with these secured lenders for an appropriate financial restructuring.

The company has become a Sick Industrial Company and a reference to the Board for Industrial and Financial Reconstruction will be made based on the Audited accounts for the year ended 30th June, 2003

C) INTERNAL CONTROL SYSTEMS AND THEIR ADEQUACY :

The Company has proper and adequate systems of internal controls in order to ensure that all assets are safeguarded against loss from unauthorised use or disposition and that all transactions are authorised, recorded and reported correctly. Regular internal audit by firms of Chartered Accountants is an independent appraisal activity and it measures the efficiency, adequacy and effectiveness of other controls in the Company. All significant issues are brought to the attention of the Audit Committees of the Board.

D) COMPANY'S FINANCIAL PERFORMANCE & ANALYSIS :

The sales and operative income was at Rs. 10,012.81 Lacs (previous year Rs. 7,734.10 Lacs). Net loss was at Rs. 1,651.12 Lacs (previous year Rs. 1,135.03 Lacs).

E) HUMAN RESOURCE DEVELOPMENT / INDUSTRIAL RELATIONS :

The Company continued to have cordial and harmonious relations with its employees. Measures for safety of employee, training, welfare and development continued to receive top priorities.

E) 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 developments within India and the countries in which the Company conducts business and other incidental factors.