

**SEVENTEENTH
ANNUAL REPORT
1998-99**

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ASHIMA LIMITED

SEVENTEENTH ANNUAL REPORT 1998-99

BANKERS

State Bank of India
Bank of Baroda
UTI Bank Ltd.
State Bank of Saurashtra
Citi Bank
United Bank of India

AUDITORS

M/s Dhirubhai Shah & Associates
Chartered Accountants
Ahmedabad - 380 006

COMPANY SECRETARY

Mr. B. Ravi

**SHARES LISTED ON
STOCK EXCHANGES AT :**

Ahmedabad
Calcutta
Chennai
Delhi
Mumbai
National Stock Exchange

BOARD OF DIRECTORS

Mr. Chintan N. Parikh	- Chairman & Managing Director
Mr. David Bray	
Mr. V.M.P. Shah	
Mr. Sunil Chandiramani	
Mr. Bharat Kewalramani	
Dr. Lavkumar Kantilal	
Mr. Mohanraj M. Singhi	- Nominee Director (ICICI)
Mr. S. Ramasubramanian	- Nominee Director (IFCI)
Mr. M.K. Chanduka	- Alternate Director to Mr. David Bray
Mr. Gary Smith	- Alternate Director to Mr. V.M.P. Shah
Mr. Jayendra N. Shah	- Alternate Director to Mr. Sunil Chandiramani
Mr. Deepak Vaidya	- Alternate Director to Mr. Bharat Kewalramani
Ms. Bina Trivedi	- Executive Director
Mr. Nitin D. Parekh	- Director (Technical)
Mr. Deepak Parulekar	

REGISTERED OFFICE

310, Ashima House
Kavi Nanlal Marg,
Ellisbridge,
Ahmedabad - 380 006

WORKS

1B, Ashima Complex,
Kalol - Kadi Highway,
Village Karannagar,
Taluka : Kadi
District Mehsana
North Gujarat

Texcellence Complex,
Nr. Anupam Cinema
Khokhara Mehmedabad
Ahmedabad 380008

ASHIMA LIMITED**Directors' Report**

Dear shareholders,

Your directors take pleasure in presenting the seventeenth annual report togetherwith audited annual accounts for the year ended 30th June, 1999.

1. Performance of the company :

Your company's performance during 1998-99 is summarised below:

	1998-99	(Rs. in lacs) 1997-98
Profit before interest & depreciation	5569.87	5286.88
Less : Interest	1599.09	1049.98
Profit before depreciation	3970.78	4236.90
Less : Depreciation & amortization of expenses	2369.87	1986.68
Profit before tax	1600.91	2250.22
Less : Provision for taxation	71.00	301.00
Profit after tax	1529.91	1949.22
Add : Profit brought forward from previous year	3194.04	3005.16
Profit available for appropriation	4723.95	4954.38
Your directors appropriate the same as under :		
Transfer to debenture redemption reserve	599.12	900.00
Transfer to general reserve	80.00	200.00
Proposed dividend	500.28	600.31
Tax on proposed dividend	55.03	60.03
Balance carried forward to next year	3489.52	3194.04
	4723.95	4954.38

2. Dividend :

Your directors are pleased to recommend for your approval and subject to other necessary approvals, a dividend of Rs.1.50 (previous year Rs.1.80) per equity share of Rs. 10/- each on 3,33,51,816 equity shares, fully paid up resulting in dividend pay-out of 36.3%.

3. Year in retrospect :

Ashima's encouraging performance, in this tough environment, reflects the global competitiveness of its operations, its proven leadership in a growing domestic market, the international quality of its products, and the indomitable spirit of all its people, in overcoming the most difficult of challenges.

During the year, Ashima has strengthened its position in all its products. Ashima continued to emphasis on delivering world class quality and building its customer base. The marketing tie-up with Cone and the local distribution network offers a competitive value proposition to its customers.

Product substitution, and new product development, contributed to the satisfactory performance as compared to industry performance.

The trend is expected to be maintained in the future, in view of the low per capita consumption rates still prevailing in India, as compared to the world averages.

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- **Denim division :**

The overall denim market, both locally and internationally, for the year 1998-99 has remained very sluggish. Over capacities created in local market have not helped the industry either. Change in the fashion trend has put tremendous pressure on export and local selling prices. The situation was slightly redeemed due to lower cotton prices. The current year is also likely to be depressive as world over the denim market is sluggish with no immediate recovery in sight.

Ashima, during the year, has developed two new products, stretch denim and black-on-black denim with the help of Cone Mills Corporation. These varieties of denim fabric offer higher value addition compared to normal 14.50 oz. indigo denim. With Cone Mills marketing efforts, we are expected to sell much of these quantities in the current year.

- **Grey Fabric division :**

The overall performance of fabrics division during the year has remained satisfactory. This division continued to mainly supply to Ashima Dyecot Limited, the process house promoted by your company. The division has worked at more than full capacity and has been able to maintain consistently good quality production. Over the years the unit has been contributing steadily to the profits of the company.

- **Spinfab division :**

The yarn dyed shirting division of the company has done extremely well during the year. Since the last quarter of the year 1998-99, the country has been witnessing heavy demand of quotas for yarn dyed shirting/garments, thereby pushing quota costs. This has resulted in temporary slowdown on purchases of yarn dyed fabrics by ready-made garment exporters. Ashima through Cone Mills is targeting South-East Asian markets and other non-quota countries and at the same time trying to procure ready goods quota due to its higher price realisation.

- **Attires division:**

For Attires division, this was the year of consolidating its brand name "ICON" and new brand "LOGO". Overall, the division has performed to the expectations.

The exclusive showrooms for "ICON" have increased many-fold during the year and the fabric is now available across the counters at different retail outlets. The distribution network has now encompassed the whole of India except some of the northeast states. The "ICON" brand has generated immense brand value for the company.

- **Captive power :**

The captive power plant, the most vital input for the company was fully commissioned during the year under review.

The company is now able to produce high quality power at very low cost. The company has the benefit of low operating costs in captive power generation due to state-of-the-art technology from UK.

The long-term textile vision built on strong fundamentals, product development, technology and aggressive global marketing with Cone tie-up is destined to make your company one of the most successful Asian companies in the times to come. It is already a forerunner with its exemplary textile vision being emulated by one and all.

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4. Expansion cum Modernisation projects :

Your company has undertaken the following expansion activities:

a. Ring Can project:

Ashima has opted for Ring Can technology to manufacture ring spun yarn for use in the manufacture of ring denim. The demand for denim fabric manufactured from ring spun yarn is growing rapidly and commands a premium in the market in terms of higher price than conventional denim fabric.

b. Yarn Dyed shirting:

The capacity of yarn dyed shirting is being increased by about 4 tonnes looking to the good response and the anticipated demand in yarn dyed shirting. The demand is expected to increase due to the closing down of certain units abroad including that of Cone. In the new project Picanol rapier looms are being installed which would allow upto 12 colour weft insertion giving more value addition.

c. Captive Power Plant :

Looking to the fast growth of the company the power requirements of the company has also grown tremendously. As said earlier your company is expanding the existing yarn dyeing shirting facilities. This will further increase the gap between demand and supply of power. The quality of power received from the external agency has not been up to the mark and is also more expensive. It is further expected to go up. Your company believes in self-reliance and keeping all costs under control and hence is expanding the captive power generation capacity by another 3.84 MW. This would make your company self sufficient in power.

Apart from the above your company, is also modernising the spinning facility in yarn dyed shirting to increase productivity and quality of yarn manufactured.

5. Auditors' report :

The observations in the auditors' report are dealt with in notes forming part of accounts at the appropriate places and are self-explanatory.

6. Y2K Compliance :

Your company witnessed major growth only after 1992, with "Texcellence" as a philosophy and cotton textile as major thrust area. The new technology is the latest and sophisticated. System implementation with new hardware and software started only after 1992, and hence are already Y2K compliant.

To tackle Y2K problem, in GROUP ASHIMA, we have identified two major areas, where Y2K impact on the operations will be felt. These two major areas are as under:

1. Information Technology Department (IT Department), which takes care of various hardware, software and network component and systems related issues. For each hardware vendor, we have acquired Y2K compliant certificate. In software arena, we have examined each individual system for Y2K compliance. Ashima has embarked upon implementing Enterprise-wide Resource Planning (ERP) software package called Textile Integrated Manufacturing (TIM), which has been imported from Datatex, Italy and is installed on AS/400. TIM as an ERP covers practically all the major activities related to sales, purchase, manufacturing etc. Datatex has already installed Y2K compliant version 6.0 of TIM, which ensures that major risk areas are covered.

We have verified all the individual systems and programs and our Task Force has modified all the programs so as to make them Y2K compliant. The task force team will train the user for implementing the Y2K solution.

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Manufacturing Technology Department (MT Department), which takes care of physical plant machinery operations and related hardware and software issues. Here, Y2K compliant certificate is required from supplier of the plant and machinery. We have verified all the individual systems and programs and our Task Force has modified all the programs so as to make them Y2K compliant. The task force team will train the user for implementing the Y2K solution.

2. Most of the vendors have already supplied Y2K compliance certificate for the plant and machinery supplied to us.

Status :

All the work related to Y2K compliance for IT Department and MT Department is over except one machine needs upgradation and we expect to upgrade it by 31st October 1999.

Costs to address the Company's Y2K issue :

The total costs incurred are Rs.16 lakhs for making the hardware Y2K compliant and Rs.3 lakhs for certain testing equipment.

Company's contingency plan :

The major ERP software, which will govern Group Ashima's IT functions, TIM, is Y2K compliant. Hence, we do not anticipate any major contingency arising, as no system breakdown / failure is likely to occur due to Y2K problem. We have capable IT team who till now has been successful in getting all the hardware and software Y2K compliant. Group Ashima already has a Task Force specifically deployed on Y2K issues. And if any contingency arises, they will be able to tackle it successfully. We still have budget of Rs.14 lakhs to meet any contingency arising out of Y2K problem.

7. Listing Agreement :

The equity shares of the company are listed on stock exchanges at Ahmedabad, Mumbai, Calcutta, Chennai, Delhi & National stock exchange. The company has already paid listing fees for the requisite period to all the exchanges.

8. Details of subsidiary :

The reports and accounts of The Ahmedabad New Cotton Mills Company Limited (ANC), a subsidiary of the company are annexed to this report along with the statement pursuant to 212 of the Companies Act, 1956.

9. Directors :

During the year under review, Mr. Bharat Kewalramani was appointed as an additional director on the board in place of Mr. Anil Ahuja, who resigned as director due to his other pre-occupations. Mr. Kewalramani's terms of office expire at the forthcoming annual general meeting of the company. He has offered his candidature as director to be appointed at the annual general meeting. Ms. Bina Trivedi has been appointed as an alternate director to Mr. Bharat Kewalramani, whose terms of office also expire at the forthcoming annual general meeting. Mr. David Bray was also appointed as an additional director on the board to represent Cone Mills Corporation, in place of Mr. Frans Spits. Mr. Bray's terms of office expire at the forthcoming annual general meeting. Mr. David Bray is recommended to be appointed at the annual general meeting as a director not liable to retire by rotation. Mr. Gary Smith has been appointed as an alternate director to Mr. David Bray, whose terms of office also expire at the forthcoming annual general meeting. IFCI has nominated, on the board of the company, Mr. M K Chanduka in place of Mr. D U Rao, who ceased to be a director of the company.

At the ensuing general meeting Mr. Nitin D. Parekh, Mr. Deepak Parulekar and Mr. M. M. Singhi are to retire by rotation and being eligible offer themselves for reappointment.

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10. Insurance :

All the properties and insurable interests of all the divisions of the company including plant and machinery, stocks and liabilities under the legislative enactments are adequately insured.

11. Auditors :

The retiring auditors M/s Dhirubhai Shah & Associates, Chartered Accountants, are eligible for reappointment and have indicated their willingness to act as such. You are requested to appoint auditors to hold office till the conclusion of next annual general meeting and fix their remuneration.

12. Information regarding conservation of energy etc. and employees :

Information required under Section 217(1)(e) of the Companies Act, 1956 read with Rule 2 of the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 and information under section 217 (2-A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975 as amended from time to time form part of this report. However, as per the provisions of section 219(1)(b)(iv), the report and the accounts are being sent to all shareholders of the company excluding the information relating to conservation of energy, technology absorption and foreign exchange earning and outgo, and the statement of particulars of employees. Any shareholder interested in obtaining such particulars may inspect the same at the registered office of the company or write to the secretary for a copy.

13. Deposits :

The company has accepted fixed deposits to the tune of Rs. 2876.12 lacs upto 30th June, 1999, against which due but unclaimed/unpaid deposits were Rs.38.35 lacs.

14. Appreciation :

The directors place on record their deep sense of appreciation and thanks to the workers and employees of the company for their devoted services and commendable efforts.

The company is also grateful to the state government, district level authorities, banking circles, financial institutions and investors for the co-operation, assistance extended and the faith reposed in the company and contributing to the various achievements made by it from time to time.

For and on behalf of the board

Chintan N. Parikh
Chairman & Managing Director

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AUDITOR'S REPORT

To,
The Shareholders of
ASHIMA LIMITED,
Ahmedabad.

We have audited the attached Balance Sheet of Ashima Limited as at 30th June, 1999 and also the annexed Profit and Loss Account of the company for the year ended on that date and report that:

1. We have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.
2. In our opinion, proper books of account as required by law, have been kept by the company so far as it appears from our examination of those books.
3. The Balance Sheet and Profit and Loss Account referred to in this report are in agreement with the books of account.
4. In our opinion, the Profit & Loss Account and Balance Sheet have complied with the Accounting Standards as prescribed under the provisions of section 211(3c) of The Companies Act, 1956.
5. In our opinion and to the best of our information and according to the explanations given to us, the accounts read together with notes thereon and subject to,
 - treatment by the company in respect of premium on special import licence (note no. 8) which is self explanatory, 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 30th June, 1999, and
 - (b) In the case of the Profit and Loss Account of the profit of the company for the year ended on that date.
6. 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 and on the basis of such checks as we considered appropriate and as per the information and explanations given to us, we further state that:
 - (1) The company has maintained proper records to show full particulars, including quantitative details and situation of fixed assets. The fixed assets have been physically verified by the management during the year and no material discrepancy between the book records and physical inventory has been noticed.
 - (2) None of the fixed assets has been revalued during the year.
 - (3) The stocks of finished goods, stores, spares and raw materials have been physically verified by the management during the year at reasonable intervals and/or at the close of the year, except stocks lying with third parties which have been confirmed and stocks in transit which have been subsequently received.

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- (4) The procedures of physical verification of stocks followed by the management is in our opinion reasonable and adequate, having regard to the size of the company and the nature of its business.
- (5) The discrepancies noticed on verification between physical stocks and book records were not material.
- (6) In our opinion, on the basis of our examination of the stock records, the valuation of stock is fair and proper and is in accordance with the normally accepted accounting principles and is on the same basis as in the preceeding year.
- (7) In our opinion, the rate of interest and the terms and conditions on which loans have been obtained from companies or other parties as listed in the register maintained under section 301 of The Companies Act, 1956 are not prima facie prejudicial to the interest of the company. The company has not obtained any loan from company under the same management as defined under section 370(1B) of The Companies Act, 1956.
- (8) In our opinion, the rate of interest and the terms and conditions on which loans have been granted to companies or other parties as listed in the register maintained under section 301 of The Companies Act, 1956 are not prima facie prejudicial to the interest of the company. The company has not granted any loan to company under the same management as defined under section 370(1B) of The Companies Act, 1956.
- (9) Loans and advances in the nature of interest bearing and interest-free loans to employees and ex-employees are being generally repaid as stipulated.
- (10) In our opinion and according to the informations and explanations given to us, there are adequate internal control procedures commensurate with the size of the company and nature of its business with regard to purchase of stores, raw materials including components, plant and machinery, equipments and other assets and sale of goods.
- (11) According to the information and explanations given to us, the transactions for purchase and sale of goods, materials and services made in pursuance of contracts or arrangement entered in the register maintained under section 301 of The Companies Act, 1956 and aggregating during the year to Rs. 50,000/- or more in respect of each party have been made at prices which are reasonable having regard to the prevailing market prices for such goods or materials or the prices at which transactions for similar goods, materials or services have been made with other parties.
- (12) The company has determined unserviceable or damaged stores, raw materials and provision has been made in the accounts for the loss on the items so determined.
- (13) The company has accepted fixed deposits from the public and has complied with the provisions of Section 58A of The Companies Act, 1956 and The Companies (Acceptance of Deposits) Rules, 1975.
- (14) The company does not have any realizable by-products. In our opinion reasonable records have been maintained by the company for the sale and disposal of scrap.
- (15) The company has an internal audit system, which is commensurate with the size and nature of its business. However, looking at complexities of business, the scope of audit should be enlarged.

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- (16) With regard to Polyester, Fabrics, Denims, and Spinfab divisions of the company, we have broadly reviewed the records maintained by the company pursuant to the notification of the Central Government for the maintenance of the cost records under section 209(1)(d) of The Companies Act, 1956 and on the basis of the information received, are of the opinion that prima-facie the prescribed records have been made and maintained. We have not, however, made a detailed examination of these records.
- (17) According to the records of the company Provident fund and ESI dues have been almost regularly deposited during the year with the appropriate authorities.
- (18) According to the information and explanations given to us, no undisputed amounts payable in respect of income tax, wealth tax, sales tax, custom duty and excise duty were outstanding as at 30th June, 1999 for a period of more than six months from the date they became payable.
- (19) According to the information and explanations given to us, no personal expenses of employees or directors have been charged to revenue account, other than those payable under contractual obligations or in accordance with generally accepted business practices.
- (20) The company is not a sick industrial company within the meaning of clause (O) of sub section (i) of section 3 of The Sick Industrial Companies (Special Provisions) Act, 1985.
- (21) In the case of trading activities of the company, there are no damaged goods.
- (22) In our opinion the company has a reasonable system of recording receipts, issues and consumption of materials and stores, commensurate with the size and nature of its business.

For and on behalf of
DHIRUBHAI SHAH & ASSOCIATES
Chartered Accountants

Ahmedabad
25th August, 1999

Kaushik D. Shah
Partner.