

ASHIMA LIMITED

NINETEENTH ANNUAL REPORT 2000-2001

BANKERS

State Bank of India
Bank of Baroda
UTI Bank Ltd.
State Bank of Saurashtra
Citibank N.A.
United Bank of India

AUDITORS

M/s Dhirubhai Shah & Associates
Chartered Accountants
Ahmedabad

BOARD OF DIRECTORS

Mr. Chintan N. Parikh	- Chairman & Managing Director
Dr. Lavkumar Kantilal	- Director
Mr. Gary Smith	- Director
Mr. Saurabh V. Shah	- Director
Dr. Bakul Dholakia	- Director
Mr. S. Ramasubramanian	- Nominee Director
Mr. D. H. Shinde	- Nominee Director
Mr. Raj Singh Nirwan	- Nominee Director
Mr. Deepak Parulekar	- Director (Technical)
Mr. Nitin D. Parekh	- Executive Director

COMPANY SECRETARY

Mr. B. Ravi

SHARES LISTED ON STOCK EXCHANGES AT :

Ahmedabad
Calcutta
Chennai
Delhi
Mumbai
National Stock Exchange

REGISTERED OFFICE

310, Ashima House
Kavi Nanalal 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 have pleasure in presenting the nineteenth annual report together with audited annual accounts for the year ended 31st December 2001.

1. Financials :

Your company's performance during 2000-2001 is summarised below:

	2000-2001	(Rs. in lacs)
	18 months	1999-2000
		12 months
Profit before interest and depreciation	11561.62	6115.38
Less : Interest	7203.97	1678.71
Profit before depreciation	4357.65	4436.67
Less : Depreciation & amortization of expenses	5549.99	2695.94
Profit before tax (Loss)	(1192.34)	1740.73
Less : Provision for taxation	160.00	110.00
Profit after tax (Loss)	(1352.34)	1630.73
Opening stock adjustment	(431.60)	Nil
Add : Profit brought forward from previous year	4399.49	3489.52
Profit available for appropriation	2615.55	5120.25
Your directors appropriate the same as under:		
Transfer to debenture redemption reserve	250.50	100.00
Transfer to capital redemption reserve II	—	37.50
Transfer to general reserve	—	45.00
Proposed dividend		
Equity shares	—	416.90
Preference shares	—	24.30
Tax on proposed dividend	—	97.06
Balance carried forward to next year	2365.05	4399.49

2. Extension of the Accounting Year:

Your directors have to inform you that the accounting year of the company, which was ending on 30th June, 2001 has been extended upto 31st December, 2001, with the permission of the Registrar of Companies (Gujarat). Thus the current accounting year 2000-2001 is of a period of 18 months.

3. Dividend:

In view of the current financial condition and losses during the period under review the directors express their inability to declare any dividend on preference shares as well equity shares of the company.

4. Director's Responsibility Statement :

Pursuant to section 217(2AA) of the Companies (Amendment) Act, 2000, on the basis of information placed before them the directors confirm that :

- (i) in the preparation of the annual accounts , the applicable accounting standards, have been followed alongwith proper explanation relating to the material departures, if any,
- (ii) appropriate accounting policies have been selected and applied consistently, and the judgements and estimates that have been made are reasonable and prudent so as to give a true and fair view of the state of affairs of the company as at December 31, 2001 and the loss of the company for the said period,
- (iii) 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,
- (iv) the annual accounts have been prepared on a going concern basis.

5. Industry Outlook:

The year under review showed a series of events leading to one of the most difficult times for cotton textile industry. Due to various macro economic and monetary factors, the textile industry has been facing the problem of lower profitability for quite sometime. However, till recently, technologically advanced companies like yours were not affected as much in terms of profitability. But certain recent developments have started affecting adversely the profitability of such companies also.

The introduction of 16% excise duty on garments in the budget of year 2001 and the strike by many garment manufacturers had an impact on the off take of fabrics and also resulted in lowering of the fabric prices to certain extent. The overall slow down in the USA and other parts of the world and recession in the domestic markets have affected the profitability and liquidity of the business of your company. The exports of fabrics and garments from India were significantly down in the year 2001 compared to year 2000, leading to price pressures. The US slow down has not been confined to USA alone but has spread to other parts of the world leading to a all pervasive recession of a serious nature. The effects of September 11's attacks on WTC further worsened the situation and left the major global buyers in an indecisive state of affairs.

The company's strong marketing efforts coupled with optimum product mix and introduction of new reputed international customers have helped the company in increasing the exports turnover on an annualised basis, though the prices remained under pressure.

The lower off take experienced at retail levels by most of the brands and retail chain customers increased the operating cycle of the company and have resulted in high investment in working capital assets.

The present financial conditions are likely to improve after next 6 to 9 months' time, expecting the upturn in the US economy and also better domestic industrial scenario. As a measure of prudence and to ease and improve the liquidity position of the company, the company has requested for the realignment of debts and reduction in the interest rates on loans. These initiatives have found good response from the lending institutions and the company hopes that the same will help the company in maintaining the flow of business operations in the present difficult times for textile industry. The company is thankful to all lending institutions for their kind support in this regard.

The company has always relied on the international quality of products based on its most sophisticated plant and machinery. The company has customer base consisting of well-reputed international and national brands, all operating in premium slots of industry. This segment is likely to show improvement in tune with the up surge in international markets and thus help in improving the profitability of the company.

6. Performance of the company:

The cotton textiles market remained depressed globally and domestic during the year. The performance of the year gone by reflects the effect of the global slowdown on Ashima in an extremely tough environment.

ASHIMA LIMITED* **Denims division:**

Denim market has shown good signs of improvement both internationally and locally. The change in the fashion trend towards denims has been felt in the operations to a certain extent.

The denim performance of the company has always been consistent, since the company continues its endeavours to improve its product mix in tune with changes in fashion trends especially in women and children's wear segments. This strategy has allowed the company to increase its share of high niche markets in Europe. The company expects to continue its presence in export markets in future.

* **Grey Fabric division:**

The slow down in the shirting and bottomweights market has had its impact on the performance of fabrics division during the year. The profitability and offtake from this division depends on the demand for the processed fabrics of shirting and bottomweights. As the high quality value added products require matching support in terms of grey weaving, the division's operational efficiency though consistent has been affected in terms of margins.

* **Spinfab division**

The period under review consists of increased manufacturing capacity of this division. The division worked at nearly full capacity utilisation and introduced new product constructions for discerning customers. The response time for meeting customer requirements has been improving. The yarn dyed shirting produced by the company faced keen competition from new players and brought down the operating margins of the business. The international collections introduced met with good response from the customers.

* **Attires division**

The Attires division business increased during the year. The brands of ICON and LOGO continued to perform well. The lower off take at the retail level however did not allow the company to achieve the envisaged growth in LOGO brand. The company strengthened its distribution network. With a view to increase its visibility the company also advertised its brands at national level through television network.

During the year the company has given licenses for use of ICON and LOGO brands along with right to use the name of "Ashima" and also entered into an agreement to provide technical know how in relation to these brands.

* **Captive power**

The captive power plant worked at high efficiency and provided uninterrupted quality of power for the manufacturing plants of the company.

However due to the lower off take of the fabrics the power requirement was lower, not allowing optimum capacity utilisation. The reduction in price of furnace oil helped in improving the profitability of this division.

7. 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.

8. 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 on all the exchanges.

9. Merger of The Ahmedabad New Cotton Mills Company Limited with Ashima Limited

As you are aware The Ahmedabad New Cotton Mills Company Limited (ANC) a sick industrial undertaking closed since 1985 and registered with the Board for Industrial and Financial Reconstruction (BIFR) was taken over by Ashima Limited (AL), through BIFR by its order in October 1996 for its revival and rehabilitation.

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The boards of AL and ANC had in their meetings held on 28th August, 2000, separately decided to merge the two companies, subject to approvals as may be necessary.

Your directors wish to state that while deciding for the merger of ANC with AL various benefits and synergies were also considered.

The shareholders of AL had also in their Extra -Ordinary General Meeting held on 5th May 2001 approved the scheme of merger subject to the approval of BIFR and such other requisite approvals. The directors and officials of both the companies were empowered to take appropriate actions for merger of ANC with AL. The shareholders had also passed appropriate resolution according approval to issue equity shares of AL to the shareholders of ANC as per the share exchange ratio as may be approved by BIFR.

Your directors are happy to inform you that the honourable BIFR has vide its order dated 4th February 2002 approved the merger of ANC with AL w.e.f. 1st July 2001. The equity shareholders of ANC will receive 1 equity share of Rs.10 each of AL as fully paid up in exchange of 5 equity shares of Rs.10 each of ANC as held by them on record date to be fixed by the board of directors of AL. Your directors are taking further actions to implement the merger scheme.

10. Directors

During the year under review, Mr. Michael Fox was appointed as additional director of the company, with Mr. Gary Smith as his alternate director. Mr. Michael Fox resigned as director of the company during the year under review. With the resignation of Mr. Michael Fox, Mr. Gary Smith ceased to be alternate director.

During the year under review Mr. Cyrus Driver was appointed as alternate director to Ms. Bina Trivedi. Ms. Bina Trivedi resigned as director of the company. Mr. Cyrus Driver the alternate director ceased to be director of the company with resignation of Ms. Bina Trivedi.

During the year under review Mr. Cyrus Driver, Mr. Gary Smith, Dr. Bakul Dholakia and Mr. Saurabh Shah were appointed as additional directors of the company, to broaden the board.

Mr. Deepak Vaidya was appointed as alternate director to Mr. Sunil Chandiramani.

During the year under review Mr. Ashish Shah, Mr. V M P Shah, Mr. Jayendra Shah, Mr. Cyrus Driver, Mr. David Bray (alternate director to Mr. Miguel Ruberia), Mr. Sunil Chandiramani (alternate director to Mr. Deepak Vaidya) resigned as directors of the company. During the year under review Mr. M.M. Singhi, director of the company has resigned from the board of the company. During the year under review, Mr. M. K. Chanduka, nominee of IFCI, was replaced by Mr. D. H. Shinde. The Company appointed Mr. Raj Singh Nirwan as nominee of BIFR, pursuant to order of BIFR dated 4-2-2002.

The board wishes to put on record the appreciation of services rendered by directors during their tenure with the board.

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

11. Implementation of Corporate Governance under listing agreement

The board of directors wish to inform that as per the requirements of standard listing agreement regarding corporate governance, audit committee of 4 members of the board was constituted at the meeting of the board of directors.

12. 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.

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13. Auditors

The statutory auditors of the company M/s Dhirubhai Shah & Associates, Chartered Accountants, Ahmedabad have merged into M/s Dhirubhai Shah & Co., Chartered Accountants, Ahmedabad, thereby causing casual vacancy. The members to consider to fill the casual vacancy, by appointment of M/s Dhirubhai Shah & Co., Chartered Accountants, Ahmedabad.

14. 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.

15. Fixed Deposits

The company has accepted fixed deposits to the tune of Rs.3763.10 lacs upto 31st December 2001, which includes due but unclaimed/unpaid deposits of Rs.78.90 lacs.

16. Appreciation

Your directors would like to thank all its employees for rendering diligent services to the company. The deep sense of belonging and hard work of the employees has enabled Ashima to face up to the challenges of the competitive environment.

17. Acknowledgements

Your directors would take this opportunity to express their gratitude to the customers, vendors, investors, banks and financial institutions for their continued support. Your directors thank Government of India, State Government and others for their support and look forward to their continued support and guidance.

For and on behalf of the board

Ahmedabad
March 30, 2002

Chintan N. Parikh
Chairman & Managing Director



AUDITORS' REPORT

To,
The Shareholders of
ASHIMA LIMITED
Ahmedabad.

We have audited the attached Balance Sheet of Ashima Limited as at 31st December, 2001 and also the annexed Profit and Loss Account of the company for the period ended on that date and report that:

1. 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 give in Annexure, a statement on the matters specified in paragraphs 4 and 5 of the said order.
2. Further to our comments in the Annexure referred to in paragraph 1 above, we report that:
 - (a) 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.
 - (b) 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.
 - (c) The Balance Sheet and Profit and Loss Account referred to in this report are in agreement with the books of account.
 - (d) In our opinion, the Profit & Loss Account and Balance Sheet comply with the Accounting Standards as prescribed under the provisions of section 211(3C) of The Companies Act, 1956.
 - (e) On the basis of written representation received from the directors of the company as at December 31, 2001 and taken on record by the board of directors, we report that none of the director is disqualified from being appointed as director of the company under clause (g) of sub-section (1) of section 274 of The Companies Act, 1956.
 - (f) Attention is invited to the following notes in Schedule 17 :
 - (i) Note No. 4 relating to balances of sundry debtors, creditors, loans and advances which are subject to confirmation and reconciliation ;
 - (ii) Note No. 8(b) relating to treatment by the Company in respect of accounting of benefit in respect of DEPB licences for which application was not made before the end of the reporting period, which is contrary to the opinion of the Institute of Chartered Accountants of India. Had this treatment been not adopted loss for the period would have been higher by Rs. 151.52 lacs;
 - (iii) Note No. 16 relating to provision of bad and doubtful debts / advances ; and
 - (iv) Note No. 21 relating to managerial remuneration which is subject to approval of Central Government

Subject to the foregoing, in our opinion and to the best of our information and according to the explanations given to us, the accounts 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 31st December, 2001, and
- (b) In the case of the Profit and Loss Account of the loss of the company for the period ended on that date.

For & on behalf of
DHIRUBHAI SHAH & ASSOCIATES
Chartered Accountants

Place : Ahmedabad
Date : 30th March, 2002

KAUSHIK D. SHAH
Partner

ASHIMA LIMITED**ANNEXURE TO AUDITORS' REPORT**

(Referred to in paragraph 1 of our report of even date on the accounts for the period ended December 31, 2001 of Ashima Limited)

- (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 period 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 period.
- (3) The stocks of finished goods, stores, spares and raw materials have been physically verified by the management during the period at reasonable intervals and/or at the close of the period, except stocks lying with third parties which have been confirmed and stocks in transit which have been subsequently received.
- (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.
- (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. In terms of sub section (6) of section 370 of the Companies Act, 1956 the provisions of the sub section (1B) dealing with companies under the same management are not applicable to a company on or after 31st October, 1998.
- (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. In terms of sub section (6) of section 370 of The Companies Act, 1956. The provisions of sub section (1B) dealing with companies under the same management are not applicable to a company on or after 31st October, 1998.
- (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 period 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 realisable 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.

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- (16) With regard to Corporate, 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 regularly deposited during the period 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 31st December, 2001 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.

Place : Ahmedabad
Date : 30th March, 2002

Kaushik D. Shah
Partner



ASHIMA LIMITED**BALANCE SHEET AS AT 31ST DECEMBER, 2001**

		(Rupees in lacs)	
	Schedule	AS AT 31-Dec-01	AS AT 30-Jun-00
SOURCES OF FUNDS			
1 SHAREHOLDERS' FUNDS			
(a) Share capital	1	5,386.88	3,785.18
(b) Reserves and surplus	2	19,328.59	21,112.52
		24,715.47	24,897.70
2 LOAN FUNDS :			
(a) Secured loans	3		
(i) Non convertible debentures		4,226.85	3,300.00
(ii) Term loans and working capital facilities		32,685.07	24,469.57
		36,911.92	27,769.57
(b) Unsecured loans	4	7,016.52	5,455.48
		43,928.44	33,225.05
TOTAL		68,643.91	58,122.75
APPLICATION OF FUNDS			
1 FIXED ASSETS	5		
(a) Gross block		50,247.12	42,818.43
(b) Less : Accumulated depreciation		13,858.72	9,009.81
(c) Net block		36,388.40	33,808.62
(d) Capital work-in-progress		—	2,593.90
(e) Total		36,388.40	36,402.52
2 INVESTMENTS	6	3,420.74	4,519.84
3 CURRENT ASSETS, LOANS AND ADVANCES	7		
(a) Inventories		7,270.12	7,328.72
(b) Sundry debtors		18,061.59	5,887.87
(c) Cash and bank balances		1,451.63	2,181.33
(d) Other current assets		2,875.47	208.28
(e) Loans and advances		4,214.27	3,081.83
		33,873.08	18,688.03
Less : CURRENT LIABILITIES AND PROVISIONS	8		
(a) Liabilities		6,752.59	1,960.74
(b) Provisions		98.68	613.51
		6,851.27	2,574.25
NET CURRENT ASSETS		27,021.81	16,113.78