

Bengal Tea & Fabrics Ltd.

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*Twentythird Annual Report
& Accounts 2005 - 2006*



BENGAL TEA & FABRICS LIMITED

BOARD OF DIRECTORS

Mr. Adarsh Kanoria
Chairman & Managing Director

Mr. Radhe Shyam Saraogi
Wholetime Director

Mr. Golam Momen
Mr. Supriya Gupta
Mr. Dharendra Kumar
Mr. Samveg A Lalbhai

AUDITORS

M/s. Jain & Co.
Chartered Accountants

BRANCH AUDITORS

M/s. Dalal & Shah
Chartered Accountants

COST AUDITORS

M/s. N. D. Birla & Co.
Cost Accountants

BANKERS

State Bank of India
Punjab National Bank
Bank of India
Citi Bank

TEA DIVISION

Ananda Tea Estate
P.O. Pathalipam 787 056
Dist. North Lakhimpur (Assam)

TEXTILE DIVISION

Asarwa Mills
Asarwa Road
Ahmedabad 380 016 (Gujarat)

REGISTERED OFFICE

45, Shakespeare Sarani
4th Floor, Century Towers
Kolkata 700 017, India
Telefax Nos. : 2283-6416/17
E-mail : mail@bengaltea.com
Website : www.bengaltea.com

REGISTRAR & SHARE TRANSFER AGENT

C.B. Management Services (P) Ltd.
P-22, Bondel Road, Kolkata 700 019
Telephone : 2280-6692/93/94
Fax : 91-033-2287-0263
E-mail : cbmsl1@cal2.vsnl.net.in

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BENGAL TEA & FABRICS LIMITED**NOTICE****TO THE MEMBERS**

NOTICE is hereby given that the 23rd Annual General Meeting of the Members of **Bengal Tea & Fabrics Limited** will be held at "Kalakunj", 48, Shakespeare Sarani, Kolkata 700 017 on Saturday, the 22nd day of July, 2006 at 10.30 A.M. to transact the following business: -

1. To receive, consider and adopt the Audited Accounts for the year ended 31st March, 2006 and the Reports of the Directors' and Auditors' thereon.
2. To appoint a Director in place of Mr. Golam Momen, who retires by rotation and being eligible, offers himself for re-appointment.
3. To appoint Auditors in place of retiring Auditors, from the conclusion of the 23rd Annual General Meeting until the conclusion of the 24th Annual General Meeting and to authorise the Board of Directors to fix their remuneration.

As Special Business :

4. To consider and if thought fit, to pass with or without modification(s), the following resolution as an Ordinary Resolution :

"RESOLVED that the consent of the Company be and is hereby accorded in terms of Section 293(1)(a) of the Companies Act, 1956 to mortgaging and/or charging by the Board of Directors of the Company of all or any of the immovable and movable properties of the Textile Division of the Company, wherever situate, present and future, and/or conferring power to enter upon and to take possession of assets of the Textile Division of the Company in certain events, to or in favour of Industrial Development Bank of India Limited, State Bank of India and Bank of India (hereinafter collectively referred as "the Lenders"), to secure Rupee Term Loan not exceeding Rs. 2700 lacs (Rupees Two Thousand Seven Hundred Lacs only) lent and advanced/agreed to be lent/advanced by the Lenders together with interest thereon at respective agreed rates, compound interest, additional interest, liquidated damages, upfront fees, premia on prepayment or redemption, costs, charges, expenses and other monies, including any increase as a result of devaluation/revaluation/fluctuation in the rates of exchange of foreign currencies involved, payable by the Company to the Lenders under their respective Loan Agreements/Letters of Sanctions/Memorandum of Terms and Conditions entered into/to be entered into by the Company in respect of the said term loans."

"RESOLVED FURTHER that the Board of Directors of the Company be and is hereby authorised to finalise with the Lenders the documents for creating aforesaid mortgage and/or charge and to do all such acts, deeds and things as may be necessary for giving effect to the above resolution."

5. To consider and if thought fit, to pass with or without modification(s), the following resolution as a Special Resolution :

"RESOLVED

- (i) THAT in terms of Sections 81, 81(1A) and other applicable provisions, if any, of the Companies Act, 1956 and in accordance with the provisions of the Memorandum and Articles of Association of the Company and subject to consent of the Securities and Exchange Board of India (SEBI) and all other concerned authorities, if and to the extent necessary, and such other approvals, permissions and sanctions as may be necessary and subject to such conditions and modifications as may be prescribed in granting such approvals, permissions and sanctions which may be agreed to by the Board of Directors (hereinafter referred to as "the Board" which term shall be deemed to include committee(s) of the Board), at its sole discretion, consent of the Company be and is accorded to the Board to create, offer, issue and allot not more than 60,03,990 Equity Shares of the Company of the face value of Rs. 10/- each for cash at par or such premium and in such proportion as may be decided by the Board, to the members on rights basis on a date to be fixed by the Board as the Record Date, aggregating not more than Rs. 6.50 crores (Rupees Six crores and Fifty Lacs only).

BENGAL TEA & FABRICS LIMITED**NOTICE (Contd.)**

- (ii) RESOLVED FURTHER THAT for the purpose of giving effect to the above resolution the Board or Committee thereof be and is hereby authorised on behalf of the Company to agree and to make and accept such condition(s), modification(s) and alteration(s) stipulated by any of the relevant authorities while according approvals, consents or permissions to the issue as may be considered necessary, proper and expedient and to prescribe Form of Application, to issue Letter of Offer, Prospectus, to appoint Advisors, Consultant(s), Manager(s), Registrar(s) to the Issue and other Agencies as may be deemed expedient, for the purpose of proposed Rights Issue and pay, if it so think fit, underwriting commission and/or brokerage as may be lawful and reasonable and to take all such actions and to give all such directions as may be necessary or desirable and also to settle any question or difficulty that may arise in regard to the Offer, Issue and Allotment of the securities and further to do all such acts, deeds, matters and things and to execute all such deeds, documents and writings as may be necessary desirable or expedient in connection with such Offer/Issue/Placement/allotment.
- (iii) THAT the equity shares to be issued as aforesaid shall be subject to the Memorandum and Articles of Association of the Company and shall rank *pari passu* in all respects with the existing fully paid equity shares of the Company.
- (iv) THAT the offer of the equity shares as aforesaid shall be issued on such terms and conditions as the Board may determine and the Board be and is hereby authorised to finalize the same and wherever deemed fit or necessary in consultation with any authority.
- (v) THAT in case any fractional shares arise from the aforesaid issue of equity shares, such fractional shares shall be consolidated and allotted to such persons as the Board may in its absolute discretion decide and the said shares shall be disposed of by the said person or persons in such manner as may be deemed expedient by the Board and the Board shall arrange to distribute the proceeds thereof to the shareholders concerned in the proportion they are respectively entitled to.
- (vi) THAT for the purpose of giving effect to this resolution, the Board be and is hereby authorized to do all such acts, deeds, matters and things as it may in its discretion, deem necessary or desirable and to settle any question, difficulty or doubt that may arise in regard to the offer, issue and allotment of the said equity shares as it may think fit."

Registered Office :
 45, Shakespeare Sarani
 Kolkata 700 017
 Dated, the 9th day of June, 2006

By Order of the Board

ADARSH KANORIA
 Managing Director

NOTES :

1. A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote instead of the member and the proxy need not be a member of the Company. Proxies, in order to be effective, must be received by the Company not less than 48 hours before the meeting.
2. The Register of Members of the Company shall remain closed from 15th day of July, 2006 to 22nd day of July, 2006 (both days inclusive).
3. Members holding shares in dematerialised form are requested to bring their supporting evidence in respect of their Client ID & DP Nos. for easier identification of the attendance at the meeting.
4. Members desirous of getting any information on the accounts or operations of the Company are requested to forward the queries to the Company at least seven working days prior to the meeting so that the required information may be readily available at the meeting.

BENGAL TEA & FABRICS LIMITED

NOTICE (Contd.)

5. **Members still possessing the share certificates issued prior to 25th July, 1998 are requested to surrender the said share certificates for the reduced shareholdings as only the new share certificates are eligible for demat.**
6. The Explanatory Statements, pursuant to Section 173(2) of the Companies Act, 1956, in respect of Item nos. 4 and 5 of the Notice are as under :

In respect of Item No. 4

The Company has approached Industrial Development Bank of India Limited, State Bank of India and Bank of India for financial assistance to the extent of Rs. 2700 lacs in the form of term loans, for the Expansion-cum-Modernisation and Renovation Project of the Textile Division of the Company entailing a capital expenditure of Rs. 3375 lacs.

The above financial assistance would be secured, inter-alia, by way of mortgage of all immovable properties, both present and future, pertaining to the Textile Division of the Company on a first charge basis and also by way of second charge on the movable properties, both present and future, pertaining to the Textile Division of the Company. In accordance with the provisions of Section 293(1)(a) of the Companies Act, 1956, consent of the shareholders of the Company is required for such mortgage.

Copies of the following letters sanctioning term loans under TUFS by :

- (i) Industrial Development Bank of India Limited bearing reference no. IDBI.ABO.NO.7863/CFD dated 13.01.2006 and letter No. IDBI.ABO.NO.1322/CFD(BTFL) dated 03.06.2006
- (ii) State Bank of India bearing reference no. CBA/CPC/1208 dated 10.03.2006 and
- (iii) Bank of India bearing reference no. ACBB:ADV:GMA:323 dated 29.05.2006 and other relevant documents/correspondence are open for inspection at the Registered Office of the Company between 11.00 A.M. and 1.00 P.M. on any working day prior to the date of the meeting.

None of the Directors of the Company are interested in the above resolution.

The Board recommends to pass the above resolution as an Ordinary Resolution.

In respect of Item No. 5

The Company has embarked upon an Expansion-cum-Modernisation and Renovation Project of the Textile Division of the Company entailing a capital expenditure of Rs. 3375 lacs at its location at Asarwa Road, Asarwa, Ahmedabad. The Company has already been sanctioned term loans amounting to Rs. 2700 lacs by Industrial Development Bank of India Limited, State Bank of India and Bank of India.

To part finance the project the Board of Directors of the Company have proposed to issue right shares to the members of the Company within the limits as set out in the resolution itself.

As required under Section 81/81(1A) of the Companies Act, 1956, the approval of members is required for issue of further share capital.

None of the Directors, except Mr. Adarsh Kanoria and Mr. Golam Momen to the extent of their shareholding, are concerned or interested in the resolution.

The Board of Directors of the Company recommends the above resolution to pass as a Special Resolution.

BENGAL TEA & FABRICS LIMITED**DIRECTORS' REPORT**

Dear Members,

The Directors of the Company present their 23rd Annual Report and Audited Accounts for the year ended 31st March, 2006.

FINANCIAL RESULTS

The financial results for the year ended 31st March, 2006 and the corresponding figures for the last year are as under :

	(Rupees in Lacs)			
	2005-2006		2004-2005	
Profit before Interest, Depreciation and Tax		1273.37		1189.35
Less : Interest & Finance Charges	314.00		360.60	
Depreciation	658.35	972.35	692.76	1053.36
Profit after Interest & Depreciation		301.02		135.99
Less : Provision for Taxation (Net of MAT Credit Entitlement)	12.95		20.00	
Provision for Fringe Benefit Tax	9.84		—	
Provision for Deferred Taxation	77.62	100.41	32.19	52.19
Profit after Tax		200.61		83.80
Less : Debit balance brought forward		533.20		617.00
Debit balance carried to Balance Sheet		332.59		533.20

DIVIDEND

With a view to conserve the resources of the Company, the Directors do not recommend any dividend for the year ended 31st March, 2006.

OPERATIONS**Tea Division**

Tea Industry has consolidated its base during the later part of the year 2005 to achieve greater heights in the future. During the year, all India production of tea increased by about 4% whereas the average auction prices fell by about 10% due to sluggish demand and lower exports.

During the year under review, the Company has achieved production of 19.82 lac kgs of black tea, which is higher by about 5.7% over the last year. This has been possible due to higher own crop as well as processing of outsourced green tea leaves in higher quantity. The Company has been able to maintain the average realisation of tea sold in an otherwise weak market, which has been possible due to its adherence to maintain the quality of production. Since, the electricity purchased from Assam State Electricity Board is relatively cheaper as compared to own generation, the Company has decided to switch fully to the purchased electricity by keeping the generators standby.

To cope with the higher crop of green tea leaves, the Company follows the policy of increasing the factory capacity consistently in a phased manner, which is being funded by a combination of internal accruals, subsidies and utilisation of the amount deposited with NABARD in accordance with Section 33AB of the Income Tax Act, 1961.

In the current season, the prices of tea are ruling steady due to better demand both in domestic & international markets mainly caused by the reports indicating shortfall of crop in other parts of the world. Considering the present scenario including weather conditions, the prices are expected to remain firm with an upward bias and the outlook appears to be good.

BENGAL TEA & FABRICS LIMITED**DIRECTORS' REPORT (Contd.)****Textile Division**

Indian Cotton Textile Industry has experienced a favourable season 2005-2006, in which the crop of cotton has increased in the second year in a row and also to historical levels, mainly due to higher yield upon usage of BT cotton, favourable weather conditions and sowing of more area under cotton. Such bumper crop has maintained the prices of cotton at comfortable level, which alongwith other factors, like removal of quota system, rationalisation of excise duties, favourable policies of Government, liberal financing etc, had a very good impact on the functioning of the Industry.

During the year under review, the performance of the Textile Division of the Company has been very good, which turned around smartly after remaining under pressure for several years. During the second half, the division has fully switched on to the grid power instead of own generation, which has resulted into saving of power cost. The Company has also widened its product base by entering into knitted fabrics segment.

The Company has undertaken an Expansion-cum-Modernisation and Renovation Project, entailing a capital expenditure of Rs. 3375 lacs, out of which Rs. 2700 lacs would be funded by Banks in the form of term loans under TUFS and the balance amount would be funded through internal accruals and issue of Right Shares. The project, expected to be completed by the end of this year, inter-alia, involves setting up of a processing house at a cost of about Rs. 700 lacs, on which capital subsidy @ 10% would be availed in addition to normal interest subsidy of 5% available on term loans under TUFS.

Considering the strong demand of textile products, expected good crop of cotton in the ensuing season, introduction of VAT in the State of Gujarat, favourable economic policies, expansion & modernisation of the division, the outlook appears to be optimistic.

CORPORATE GOVERNANCE

In compliance with Clause 49 of the Listing Agreement, the Management Discussion & Analysis Report and Report on Corporate Governance are attached herewith marked as **Annexures – A and B** respectively.

DIRECTORS' RESPONSIBILITY STATEMENT

The Directors hereby confirm :

- (i) That the Company had followed the applicable accounting standards in the preparation of the annual accounts for the year ended 31st March, 2006;
- (ii) That the Directors have made judgments and estimates that are reasonable and prudent and have selected accounting policies and applied them consistently to give true and fair view of the state of affairs of the Company as at 31st March, 2006 and its profit for the year ended on that date;
- (iii) That the Company has a proper and adequate system of internal control to ensure that all assets are safeguarded against losses and the system is capable of detecting fraud and other irregularities;
- (iv) That the annual accounts placed before you have been prepared on a going concern basis.

FIXED DEPOSITS

Despite several reminders, a sum of Rs. 31,500/- remained unclaimed as on date as well as on 31st March, 2006 towards the fixed deposits accepted from public and matured for repayment.

DIRECTORS

Mr. Golam Momen retire by rotation at the ensuing Annual General Meeting and being eligible, offers himself, for reappointment.

BENGAL TEA & FABRICS LIMITED

DIRECTORS' REPORT (Contd.)

AUDITORS

Messrs Jain & Co., Chartered Accountants, Auditors of the Company retire at the conclusion of the 23rd Annual General Meeting and being eligible, expressed their willingness to continue, if so appointed.

PERSONNEL

The Company operates in labour intensive business and the relations with the personnel generally remained cordial throughout the year.

The Board expresses its appreciation for the contribution of the employees at all levels. During the year under review, the Company had no employee drawing remuneration in excess of the limit prescribed under Section 217(2A) of the Companies Act, 1956.

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

A statement showing additional information on conservation of energy, technology absorption and foreign exchange earnings and outgo, as required 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 is attached herewith marked as

Annexure – C

ACKNOWLEDGEMENT

The Directors appreciate the cooperation and timely assistance extended by Banks and all other associates and look forward to continued fruitful association with all business partners of the Company.

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For and on behalf of the Board

Kolkata

Dated, the 9th day of June, 2006

ADARSH KANORIA

Chairman

BENGAL TEA & FABRICS LIMITED**ANNEXURE - A****MANAGEMENT DISCUSSION & ANALYSIS REPORT**

(Forming part of the Directors Report for the financial year ended 31st March, 2006)

Textile Division

Industry Structure and Development : The removal of quota system has stretched the boundaries of the Indian Textile Industry and the favorable policies of the Government have lent support to grow the same by leaps and bounds.

The Textile Division of the Company has been maintaining the standards for quality, product development, technological upgradation, efficient logistic and effective cost control measures to cope with such developments.

Opportunities and Threats : Indian Textile Industry has tremendous potential to derive immense benefit in the post quota regime mainly due to easy availability of raw material and cheap labour. Further, the rationalisation of excise duties on textile products, introduction of VAT, liberal financing at effectively low rates of interest etc, have offered ample opportunities to the Industry. The Company has taken firm steps to grab such opportunities and also widened the product range by entering into the knitted fabrics segment.

However, such opportunities would always come with the threat of increasing competition, inter-alia, in the domestic as well as international markets.

Product-wise Performance : During the year under review, the production of the cloth increased significantly due to good demand, whereas the production of yarn decreased marginally due to greater emphasis on cloth segment. The average realisation of both the products namely cloth and yarn, changed marginally. The gist of performance of the major textile products of the Company, during the financial year 2005-2006 is as under :

	Cloth			Yarn		
	Production (Lac Mtrs.)	Sales (Lac Mtrs.)	Average Realisation (Rs. Per Mtr.)	Production (Lac Kgs.)	Sales (Lac Kgs.)	Average Realisation (Rs. Per Kg.)
2005-06	72.10	78.09	30.21	53.44	53.74	115.59
2004-05	48.77	63.59	29.25	56.75	56.92	117.05
Change	(+) 47.84%	(+) 22.80%	(+) 3.28%	(-) 5.83%	(-) 5.59%	(-) 1.25%

Outlook : Considering the strong demand of the products in domestic as well as international markets and lower prices of cotton due to higher crop, the outlook appears to be encouraging. The expansion cum modernisation project, undertaken by the Company, would certainly boost the business of the Company in coming years.

Risks and Concerns : Being an agro based Industry, the availability of quality cotton through out the year at reasonable prices is a matter of concern in addition to the increased competition at domestic and international levels.

Discussion on the Financial Performance with respect to the Operational Performance : The Textile Division of Company has reported a net profit after several years, which has been possible due to better operating margins and effective financial management. Overall, the performance of the Division appears to be good.

Tea Division

Industry Structure & Development : The basic structure of Indian Tea Industry, which is largely dependent upon the exports due to surplus production as compared to domestic consumption, has remained unchanged during the year under review.

Opportunities & Threats : The various initiatives taken by the Government/Tea Board, including setting up of Tea Fund, undertaking brand building exercise, providing incentives in the form of subsidies etc, are likely to benefit the Industry in long term. The shortfall of crop in other parts of the world may result into higher exports thereby giving a chance to the Industry to regain its glorious days. The Company is also augmenting its factory capacity to grab the opportunities. Since it is a labour intensive industry, it has its own pitfalls.

Product-wise Performance : During the year under review, the production of green tea leaves of Ananda Tea Estate was up from 67.70 lacs kgs to 70.54 lacs kgs. The Company continued to exploit the opportunities for processing outsourced green tea leaves in higher quantities. During the first half of the year the markets saw lower levels, but during the second half, the prices gained strength on the back of good demand. The average realisation of the tea sold by the Company fell

BENGAL TEA & FABRICS LIMITED**MANAGEMENT DISCUSSION & ANALYSIS REPORT (Contd.)**

marginally as compared to deeper fall in average prices of the Industry as a whole. It has been possible mainly due to its concentrated efforts to maintain standard of the quality of production. The gist of performance of the division during the financial year 2005-2006 is as under :

Black Tea			
	Production (Lac Kgs.)	Sales (Lac Kgs.)	Average Realisation (Rs. Per Kg.)
2005-2006	19.82	20.00	80.42
2004-2005	18.75	18.20	80.96
Change (%)	(+) 5.71%	(+) 9.89%	(-) 0.67%

Outlook : Considering low carryover stocks, draught in Kenya and resultant impact thereof by way of increasing exports, the prices of tea are expected to remain firm with an upward bias. The Company is expected to perform relatively better than the average of the Industry, due to its aggressiveness on maintaining quality with a blend of judicious product mix.

Risks & Concerns : Besides climatic conditions, the stagnancy of domestic consumption, price blends, the strategy of bought leaf factories, import of cheap teas for re-export and Government policies also affect the fate of the Tea Industry.

Discussion on Financial Performance with respect to Operational Performance : The Company has steadily increased the quantities of outsourced green tea leaves, which has resulted into maintaining the profitability and considering the overall scenario of the Industry, the performance of the Company appears to be satisfactory.

Internal Control Systems and their Adequacy : The working systems of the Company have been designed in such ways that have in built internal checks at different levels. In addition to the Management Audit, Internal Auditors of both divisions furnish their reports at regular intervals and their reports are discussed at the Meetings of the Audit Committee and necessary steps are taken thereon. In the opinion of the management, the existing internal checks & controls are adequate.

Information regarding Human Resources/Industrial Relations : The relationships were cordial through out the year at both the divisions. The total number of manpower employed by the Textile & Tea Division as on 31st March, 2006 were 764 & 1290 respectively.

Cautionary Statement : The forward-looking statements and the views expressed in the Management Discussion and Analysis Report are based on certain assumptions. The actual results may differ materially from those stated therein. The Company would not be held liable, in any manner, if the future turns out to be quite different, even materially.

For and on behalf of the Board

Kolkata
Dated, the 9th day of June, 2006

ADARSH KANORIA
Chairman