BELLS CONTROLS LIMITED

Annual Report 2001-2002

BELLS CONTROLS LIMITED

BOARD OF DIRECTORS

Milan Sen
Pramod Kumar Khaitan
Anoop Hoon
Executive Director
S.D. Mookerjea
Executive Director
Sardar H. Jaffri
S.K. Pal

AUDIT COMMITTEE

Sardar H. Jaffri
Pramod Kumar Khaitan
S.K.Pal

SHAREHOLDERS' GRIEVANCE COMMITTEE

Sardar H. Jaffri
Anoop Hoon
Pramod Kumar Khaitan

REMUNERATION COMMITTEE

Sardar H. Jaffri
Pramod Kumar Khaitan
S.K.Pal

SECRETARY

N. Ravi

PRINCIPAL BANKERS

Allahabad Bank
State Bank of India
Canara Bank
Standard Chartered Bank

AUDITORS

Lodha & Co.

REGISTRARS & SHARE TRANSFER AGENTS

Advance Management Services Limited
137, S.P. Mukherjee Road
Kolkata 700 026

REGISTERED OFFICE

Bells House
21, Camac Street
Kolkata 700 016

Directors' Report & Management Discussion & Analysis

The Directors present the Seventysecond Annual Report together with the audited Statement of Accounts of the Company for the period ended 30th September, 2002.

FINANCIAL RESULTS

	Period ended 30.09.02 Rs. in lacs	Previous Year Rs. in lacs
Profit /(Loss) before depreciation, interest and tax	(2537.26)	(441.46)
Interest	606.90	375.85
Depreciation	201.37	137.93
Profit /(Loss) before tax	(3345.53)	(955.24)
Provision for tax	-	-
Profit/(Loss) after tax	(3345.53)	(955.24)
Balance brought forward from previous year	(2038.09)	(1082.85)
Balance carried forward	(5383.62)	(2038.09)

DIVIDEND

In view of loss in the period under review, the Directors regret their inability to recommend declaration of dividend.

OPERATIONS :

OVERVIEW

The Company is a part of Light Engineering Industry and has been a pioneer in various products for the past seventy odd years.

The engineering industry in India, however, has taken a severe downturn over past five years and although there has been some signs of recovery, the major sector to which your Company is a supplier, is plagued with demand-stagnation and it is unlikely that there be any immediate change in the scenario. The export market which your Company was accessing, has now become very competitive due to opening up of new economies like China and South Africa. These countries are trying to get a toehold in the international market through cut throat prices, which is adversely affecting the export prospects of your Company.

It may be recalled that the Company has been continuously suffering overall ; and cash losses from the year 1998-99 onwards and this has taken a severe toll on the operations that have been conducted in the year under review. The erosion of funds has virtually stopped necessary capital expenditure, urgent repairs and the working capital shortage has become such that cycle of production to sales has been interrupted several times. Coupled with the working capital shortage, the Company also inherits from its earlier days, an excessive manpower structure, which has raised its overhead levels to make the products un-competitive. It is clear to the Management that in its endeavour to turn around the Company, manpower numbers has to be streamlined to a realistic level and this needs to be done as early as possible. The Company also suffered from lack of upgradation/acquiring new technology as the world over the products are moving into second/third generation and the demand pattern accordingly is shifting towards the latest versions which your Company is not able to procure and supply.

PERFORMANCE

In view of the difficult situation enumerated above, the performance of the Company has suffered significantly during the period under review. The turnover of the Company has dropped by nearly 55% to register an amount of Rs.14.84 crores. The background of this alarming performance is a combination of industrial disputes at the factories, lack of funds arising from cash losses over the past few years and demand stagnation at customer end.

The industrial relations at Kolkata factory took a bitter turn as your Management proposed reduction of manpower through a step-by-step VRS system. While initially the response of the union was somewhat favourable, on May 10th, 2002, when the Management tried to re-open the factory after a temporary closure, the dispute among the members of the said union made it impossible to carry on the business of the factory smoothly. Consequent to such happening, the Management declared lock out in the factory, a status remaining unchanged as of today. It is the endeavour of the Management to run the factory on a profitable basis and for this purpose, reduction of manpower under the terms of VRS offered by the Management needs to be accepted without any indiscipline, the like of which was witnessed in May, 2002. There is continuous discussion on this subject between the two parties and we are hopeful that an amicable solution will be arrived at in the near future. However, the economic impact of the closure has been severe because certain orders have been cancelled, debtors have been slow in recovery and goodwill of your Company's products have suffered. Inspite of such temporary difficulties, your Management firmly believes that solution of manpower reduction cannot be deferred any further and hope to have a proper structure in this matter as soon as the disputes get resolved.

The problem of funds which has been negatively impacting the performance of the Company over the past few years is however a matter of deeper concern. It may be mentioned that shortage of funds is largely due to large losses the Company suffered in the Transmission Division and other failed diversification in the past years. The effect of the cash losses has led to a liability load to the bankers amounting to Rs.27.66 crores as on 30th September, 2002, creating an annual interest burden of over Rs.4.0 crores, which is impossible to carry in the existing turnover/cost structure.

The Company is currently facing difficult situation not only in making interest but also meeting its regular liabilities arising out of purchase of materials – both import and domestic as well as regular overhead outlays. The Board of your Company has also decided to take a strong look on the recoverability of the debtors and the status of stock in the factories and has also decided to provide/write off Rs.12.93 crores under various heads to reflect the true situation of the assets of the Company for its accounts.

The Management of your Company is also actively engaged in a dialogue with the consortium lenders for acceptance of a restructuring package which was submitted on December 20, 2001. While there has been reservations from the bankers on certain details, the Management is hopeful that in near future the restructuring proposal will be put into effect perhaps under a modified form, which shall greatly reduce its interest burden and generate certain amount of cash flows to run the operations.

Consequent to the above, we regret to state that your Company has suffered a loss of Rs.33.46 crores, which when accumulated with earlier loss, has exceeded the net worth of your Company.

Also due to dislocations arising from lock out at Kolkata factory, closure of Mysore factory, lack of adequate personnel in Branches, records for the purpose of audit has been unsatisfactory and the same is being reflected in the Notes to the Accounts.

It is hoped that within a specific period of time, the Management will be in a position to re-organize the entire set up and strengthen the controls and systems that has been prevalent in the Company.

FUTURE OUTLOOK

The Management is actively working with its secured lenders to reorganize the over drafts and Term Loans and for this purpose, the Company has made a presentation to the bankers proposing extension of loans, reduction of interest and certain upfront payments through sale of property. The lenders have expressed their concerns on the business prospects of the Company as well as the amount of sacrifices that was incorporated in the proposed re-structuring plan. This approach has somewhat delayed the finalization of the re-structuring plan and currently the Management has put forward two one time settlement schemes for settlement of the outstanding amounts to the banks. The schemes are under consideration although the approach of the consortium banks have not been uniform and it is the desire of the Management that the process needs to be hurried so that the viability of the business enhances in the near future. On the technical side, the Company is looking at upgradation of products and the Company had sourced one of the top world leaders in Field Bus Systems for the purpose of collaboration in this line. Subject to availability of funds, it is the desire of the Management to re-negotiate the collaboration terms if not with the same party, then with similar renowned companies who are willing to share the technology in India.

On the Fire & Security business, the present stagnant situation of working in various sites needs to be overcome through injection of sufficient funds at the earliest. It is the belief of the Management that this market is expanding both in Government and non-government sectors due to stricter regulatory enforcement and the established players like your Company should manage to get a better share than a new player. However, shortage of adequate working capital has stood in the way for the past one year and it is necessary that a solution in that direction would re-invigorate this Division to a more dominant player in Fire & Security business.

As stated earlier, the Management wishes to reduce its investment in Real Estate and other assets and use the same for reduction in personnel costs to make the organization lean and fast. It is towards this end that the negotiation with the union are being conducted and we hope to achieve a breakthrough shortly.

Your Management is confident that tackling of the above factors would greatly enhance the value of the Company and the Company would emerge as an efficient organization, which can generate profitable operation in all its divisions, perhaps in a smaller scale.

OPPORTUNITIES AND THREATS

The Company has an inherent strength in the engineering and in design, which has been acquired and sustained over a period of seventy years. With the growing needs of updated versions of engineering jobs, there is a large scope of the Company involvement in such an environment. In addition to the above, the Company has already moved lot of products from mechanical to electrical and this can facilitate further inroads in this growing market which will be very profitable in years to come.

Moreover, the Fire & Security sector is expanding and the opportunity to grab a larger share in this sector is very real and the revenue streams can be generated not only from Government Sector but both private and multi-national entities, which shall enter and set up its establishments/projects in various states in India.

Last but not the least, the Company can access whole range of Safety Products which can be dovetailed with its Fire & Security business to provide a one stop shop for the customers. It may be mentioned that a study of the safety sector has revealed that it could create a large demand if all the products can be provided through a single window and would also have the blessings of the Regulatory Authority.

The greatest threat to the Company is unstable financial situation prevailing currently. Unless and until the Company can re-structure its borrowings, gain the confidence of bankers and creditors and in the process generate adequate cash opportunities, it would be difficult to sustain the development of the Company.

In addition to above, due to closure of factories for an extended period, the customer confidence needs to be boosted because cancellation of orders can only reduce its market share. This threat is multiplying due to the presence of large international players with the newer technologies, which are accessing the Indian market through local collaborators for long term presence in engineering as well as in project related activities.

RISKS AND CONCERNS

Business lives on uncertainties and he who handles better the turbulence of future, succeeds in the long run. The risk perception of your Company today is somewhat exaggerated because of all round fund shortage and operation breakdown. It is perceived that both these weaknesses are solvable over a period. However, true risk lies in lagging behind in technology upgradation and the consequent customer dissatisfaction. This concern is also heightened because of presence of technologically equipped multi-nationals, who are beginning to operate in India.

A short term solution from the Company lies in adequate fund mobilization and addressing the twin question of reducing manpower and running present operations in earnest to recapture the customer loyalty who have remained to the Company to a great extent inspite of difficulties for the past four years.

HUMAN RESOURCES

The Company has operated from two factories located at Mysore and Kolkata and four branches located at Metro Cities and Head Office located at Kolkata. Historically, due to various reasons, the number of heads of personnel had swelled to well over requirement and this problem has aggravated due to application of new technologies requiring lower man-power intervention. Understanding this situation, your Management closed Mysore factory on 30th August, 2000 and paid out all the workers. The Management also decided to tackle the over-manning of Kolkata works by offering a step by step V.R.S. scheme which has led to industrial dispute and finally to lock-out in May, 2002. It needs to be understood that reduction of man-power, however painful it may be, needs to be carried out against back-drop of trying situation prevailing in marketing and in finance. There has been substantial reduction of man-power in branches and Head Office and today the total number of employees stands at 252.

While the Management is aware that the down-sizing of personnel is a difficult process, nevertheless, it has been found to be absolutely necessary to enable the Company to move forward. Consequent to this philosophy, the Management is in dialogue with the Union of Kolkata Factory to resolve the issue shortly.

ADEQUACY OF INTERNAL AUDIT

During the year under review, the entire operations of the Company were dislocated through lock outs, unpaid dues to external as well as to internal creditors, difficulties in creating customer confidence and finally for last five months virtual erosion of the revenue line due to absence of production work. In this atmosphere it was imperative that Management focus all its attention to solve the above issues and consequently the internal audit was not given adequate attention, which the Company proposes to re-introduce vigorously in the present year.

CAUTIONARY STATEMENT

This report contains forward-looking statements, which may be identified by words like 'belief', 'expect' etc. It must be understood that such statements are based on certain assumptions and expectations of future events. The Company cannot guarantee that these assumptions and expectations are accurate or will be realised. The Company's actual results, performance or achievements could thus differ materially from those projected in any such forward-looking statements. The Company assumes no responsibility to publicly amend, modify or revise any forward looking statements, on the basis of any subsequent developments, information or events.

SUBSIDIARIES

M/s. Bells Softech Limited, a subsidiary of your Company was desubsidiarised with effect from 28th September, 2001.

DIRECTORS' RESPONSIBILITY STATEMENT

As required under Section 217(2AA) of the Companies Act, 1956 as amended by the Companies (Amendment) Act, 2000, the Board of Directors confirm :

1. that in the preparation of the Annual Accounts for the period ended 30th September, 2002, the applicable accounting standards as far as possible have been followed along with proper explanation relating to material departure;
2. that the Directors have selected such accounting policies and applied them consistently and made judgement estimates that are reasonable and prudent as far as possible so as to give a true and fair view of the state of affairs of the Company at the end of the period ended 30th September, 2002 and of the loss of the Company for that period;
3. that the Directors have taken proper and sufficient care for the maintenance of adequate accounting records as far as possible in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and preventing and detecting fraud and irregularities; and
4. that the Directors have prepared the Accounts on a going concern basis.

PUBLIC DEPOSITS

The Company has not accepted any deposits from the public under Section 58A of the Companies Act, 1956.

AUDITORS' REPORT

The observations of the Auditors in the their Report are suitably explained in the relevant notes on the Accounts.

TECHNOLOGY ABSORPTION ETC.

The information required under the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 is given in Annexure 'A' forming part of this Report.

PERSONNEL

The Company has experienced break-down in its industrial relations while down sizing of the Company leading to closure of the Kolkata Factory .

The particulars of employees required under the Companies (Particulars of Employees) Rules, 1975 are not applicable as none of the employees of the Company are in receipt of Rs. 24 lacs per annum or Rs. 2 lacs per month.

THE CORPORATE GOVERNANCE CODE

The Securities & Exchange Board of India has introduced a code of Governance for implementation by the listed Companies by an amendment to the Listing Agreement. In accordance with the requirement of the code, a report of the Corporate Governance is attached.

DIRECTORS

Mr. Anoop Hoon and Mr. P.K. Khaitan, retire by rotation and, being eligible, offer themselves for re-appointment.

Mr. Adarsh Jalan, Mr. Albert H. Isaac, Mr. A.P. Kurian and Mr. S.C. Bhandari had resigned from the Board of Directors with effect from 5th June, 2002. The Board wishes to place on record its appreciation for the services rendered by these Directors during their association with the Company.

Mr. Sardar H. Jaffri and Mr. Shruti Kant Pal were appointed Directors with effect from 5th June, 2002 in the casual vacancies caused by the resignation of Mr. Adarsh Jalan and Mr. S.C. Bhandari respectively. Mr. Jaffri and Mr. Pal shall hold the office so long as the vacating Directors would have held the same if no vacancy had occurred.

AUDITORS

Messrs. Lodha & Co., the Auditors of the Company, retire at the forthcoming Annual General Meeting, and being eligible, offer themselves for re-appointment.

ACKNOWLEDGEMENTS

The Directors place on record their sincere appreciation of the continued support and co-operation extended to the Company by all concerned

For and on behalf of the Board
ANOOP HOON
Executive Director

Kolkata,
5th December, 2002

S. D. MOOKERJEA
Executive Director

ANNEXURE 'A' TO THE DIRECTORS' REPORT

INFORMATION REQUIRED UNDER THE COMPANIES (DISCLOSURE OF PARTICULARS IN THE REPORT OF BOARD OF DIRECTORS) RULES, 1988.

A. Conservation of Energy

The Company's operations involve low energy consumption.

B. Technology Absorption

Research and Development (R&D)

1. Benefits derived as a result of above R&D :

   R&D continues to provide valuable support to the Company's business by identifying and developing new products and modification of existing products.

2. Future plan of action:

   The Company is putting special emphasis on R&D activities for re-engineering and improving the existing product range to expand the existing customer base and to achieve cost reduction.

3. Expenditure on R&D :

a)	Capital	Nil
b)	Recurring	Rs. 14,204
c)	Deferred R&D costs	Nil
d)	Total	Rs. 14,204
e)	Total R&D expenditure as a percentage of total turnover 0.01%	

Technology absorption, adaptation and innovation :

1. Efforts, in brief, made towards technology absorption, adaptation and innovation :

   The Company continues to benefit from transfer of technology from Foxboro for manufacture of various instruments and control systems.

2. Benefits derived as a result of the above efforts:

   The Company has achieved indigenisation and cost reduction and has been able to provide a comprehensive package of instrumentation and solutions for the Indian process industries.

3. Particulars of technology imported during the last five years reckoned from the beginning of the financial year :

a) Technology imported	Magnetic Level Switches
b) Year of Import	1997-98
c) Has technology been fully absorbed	Technology is in the process of being absorbed

C. Foreign Exchange Earnings and Outgo

The information regarding Foreign Exchange earnings and outgo is contained in Notes (xxxv) and (xxxiv) in Schedule 17B of the Accounts.

Report on Corporate Governance for the period ended 30th September 2002

Pursuant to Clause 49 of the Listing Agreement with the Stock Exchanges, the Directors submit the following Report on the Corporate Governance, for the information of the shareholders :

1. **Company's Philosophy :**

   The Company has always been committed to good governance and adequate disclosure and it lays emphasis on transparency, accountability and integrity in all its operations and dealings with insiders as well as outsiders, in particular with its stockholders. It believes in active participation, transparency in systems and accountability, all of which could be achieved by proper channels of communication.

   The following are the detailed practices on Corporate Governance in your Company.

2. **Board of Directors :**

   Composition as on 30th September, 2002

   The Board of Directors of the Company comprises of six Directors, two of whom are promoters and executive Directors and remaining four are non-executive. All the non-executive Directors are independent. All the non-executive Directors are being paid the sitting fee for attending meetings of the Board or Committee thereof. The executive Directors are being paid remuneration as approved by the Shareholders and also by the Central Government, wherever applicable.

   Board Procedures

   During the extended Financial Year 2001-2002 (i.e., from 1st April 2001 to 30th September, 2002), the Board of the Company met on seven occasions. The time gap between two consecutive meetings of the Board of Directors of the Company was not more than four months. The dates of the meetings are 27th June 2001, 28th September 2001, 28th November 2001, 31st January 2002, 30th April 2002, 5th June 2002 and 30th September 2002.

   The information on attendance of the Directors of the Company at the Board Meetings held during the year under review and also at the last Annual General Meeting (AGM) of the Company are given below :

Name of Director	No. of Board Meetings attended	Attendance at the last AGM
Mr. Sudhir Jalan (upto 28th September 2001)	1	N.A.
Mr. Milan Sen	6	Absent
Mr. Adarsh Jalan (upto 5th June, 2002)	-	Absent
Mr. Albert H. Isaac (upto 5th June, 2002)	-	Absent
Mr. Pramod Kumar Khaitan	1	Present
Mr. Rajive Kaul (upto 27th June, 2001)	-	N.A.
Mr. A.P. Kurian (upto 5th June, 2002)	-	Absent
Mr. S.M. Datta (upto 28th September 2001)	-	N.A.
Mr. S. C. Bhandari (upto 5th June, 2002)	2	Absent
Mr. Anoop Hoon - Executive Director	7	Present
Mr. S.D. Mookerjea - Executive Director (with effect from 27th June, 2001)	6	Present
Mr. Sardar H. Jaffri (with effect from 5th June, 2002)	1	N.A.
Mr. Shruti Kant Pal (with effect from 5th June, 2002)	1	N.A.

The details of other Directorships, Memberships/Chairmanship of Committees held, as on 30th September, 2002, by the Directors of the Company are given below :

Name of Director	No. of other Directorships*	No. of Committees on which Member/(Chairman)
Mr. Milan Sen	2	None
Mr. Pramod Kumar Khaitan	13	None
Mr. Anoop Hoon - Executive Director	1	None
Mr. S.D. Mookerjea - Executive Director (with effect from 27th June, 2001)	1	None
Mr. Sardar H. Jaffri (with effect from 5th June, 2002)	Nil	None
Mr. Shruti Kant Pal (with effect from 5th June, 2002)	2	None

* Excluding Directorships in Private and Foreign Companies.

3. Audit Committee

The Board of Directors has set up an Audit Committee presently comprising of three non-executive and independent Directors, namely Mr. Sardar H. Jaffri, Mr. P. K. Khaitan and Mr. S. K. Pal, under the Chairmanship of Mr. Jaffri. The Committee met two times during the year under review. (10.04.2001 and on 31.07.2002). The attendance of the members of the Committee is given below :

Name of Director	No. of Meetings attended
Mr. Milan Sen(Upto 5th June, 2002)	1
Mr. Pramod Kumar Khaitan	2
Mr. S. C. Bhandari (upto 5th June, 2002)	1
Mr. Sardar H. Jaffri (with effect from 5th June, 2002)	1
Mr. Shruti Kant Pal (with effect from 5th June, 2002)	1

The terms of reference of the Audit Committee continues to be as under :

a. Overseeing of the company's financial reporting process and the disclosure of its financial information to ensure that the financial statement is correct, sufficient and credible.

b. Recommending the appointment and removal of external auditor, fixation of audit fee and also approval for payment for any other services.

c. Reviewing with management the annual financial statements before submission to the board, focusing primarily on :