

ANNUAL REPORT

2002-2003



CARNATION INDUSTRIES LIMITED

BOARD OF DIRECTORS

MR. P. M. NARIELVALA	-	Chairman
MR. R. P. SEHGAL	-	Managing Director
MR. AMAL BANERJEE	-	Director
MR. MANOJ BOSE	-	Whole Time Director
MR. VINAY KR. AGARWALLA	-	Additional Director
MR. RAJESH KR. PANDEY	-	Additional Director

REGISTERED OFFICE

28/1, JHEEL ROAD
LILUAH, HOWRAH - 711 204

CORPORATE & HEAD OFFICE

222, A. J. C. BOSE ROAD
1ST FLOOR, ROOM NO. 4 & 5
KOLKATA - 700 001

AUDIT COMMITTEE

Mr. P. M. Narielvala
Mr. Amal Banerjee
Mr. Vinay Kumar Agarwalla

REGISTRARS

AMI COMPUTERS INDIA LTD.
60, A & B CHOWRINGHEE ROAD
KOLKATA - 700 020
TELEPHONE : (033) 2280 0812/0900
FAX : (033) 2280 0901

**SHARE HOLDERS/INVESTORS
GRIEVANCE COMMITTEE**

Mr. Amal Banerjee
Mr. Rajesh Kr. Pandey
Mr. R. P. Sehgal

SOLICITORS

R. GINODIA & CO.
4E & F, HASTINGS CHAMBER
7C, KIRAN SHANKAR ROY ROAD
KOLKATA - 700 001

COMPANY SECRETARY

Mr. Rajesh Mundhra

AUDITORS

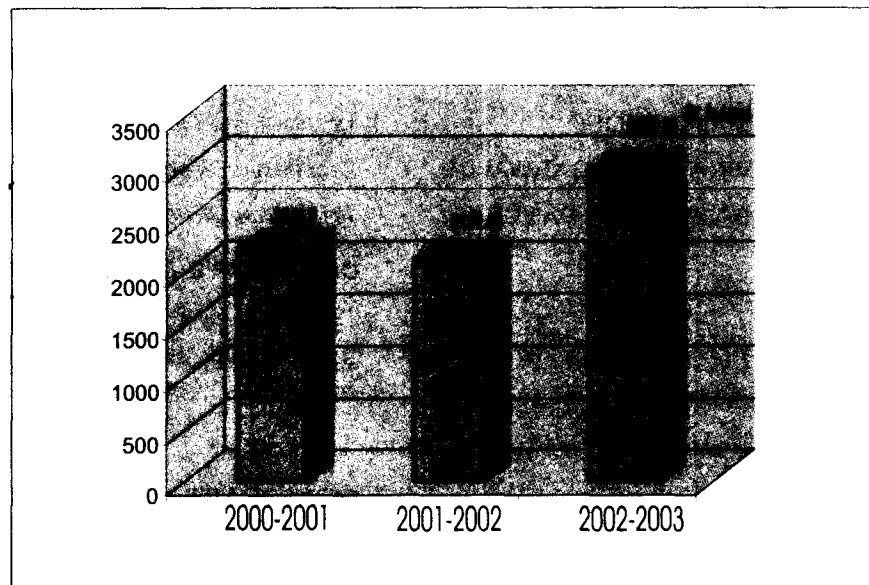
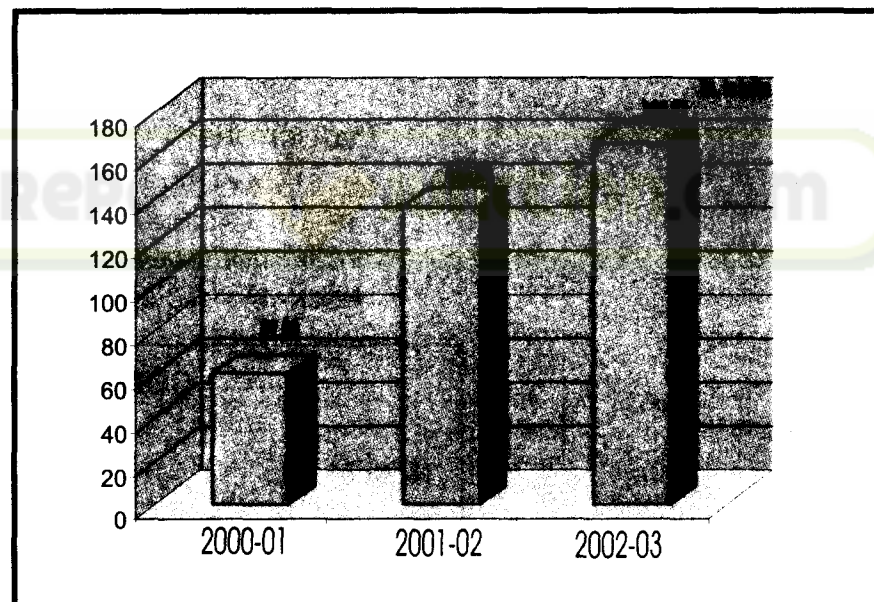
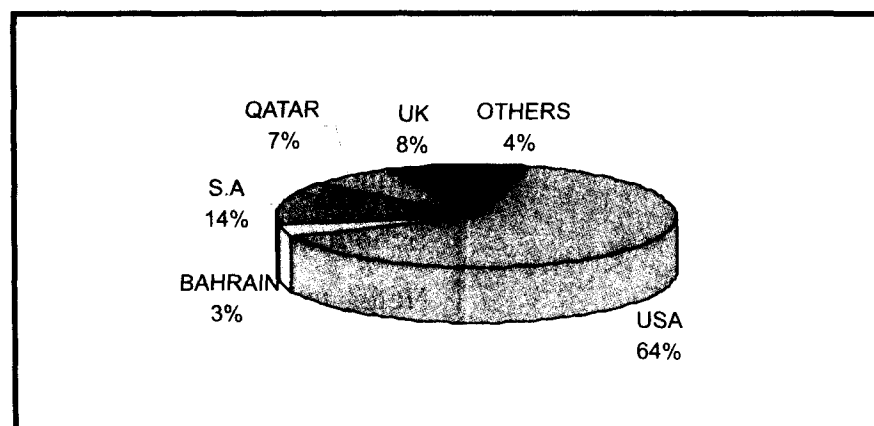
M/s. JAIN & BAGARIA
CHARTERED ACCOUNTANTS
18, MANGOE LANE (2ND FLOOR)
KOLKATA - 700 001

BANKERS

STATE BANK OF HYDERABAD
PUNJAB NATIONAL BANK

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Turnover**Profit Before Tax****Carnation Global Outlook**

CARNATION INDUSTRIES LIMITED**NOTICE**

Notice is hereby given that the 20th Annual General Meeting of the Company will be held on 24th day of June, 2003 at 11:30 A.M. at "**SARAT SADAN**", 5, Mahatma Gandhi Road, Howrah 711 101 to transact the following business :

1. To receive, consider and adopt the Profit and Loss Account for the year ended 31st March, 2003 and the Balance Sheet as on that date alongwith the report of the Directors and Auditors thereon.
2. To declare Dividend.
3. To appoint a Director in place of Mr. P. M. Narielvala who retires by rotation and being eligible offers himself for re-appointment.
4. To appoint Auditor of the company and fix their remuneration.

SPECIAL BUSINESS :

5. To consider and if thought fit to pass with or without modification the following resolution as an **ORDINARY RESOLUTION** :

" Resolved that Mr. Vinay Kumar Agarwalla who was appointed as an Additional Director of the Company by the Board of Directors under Section 260 of the Companies Act, 1956 and Article 115 of the Articles of Association of the company and who holds office upto the date of the Annual General Meeting and in respect of which the Company has received a notice in writing proposing his candidature for the office of a Director be and is hereby appointed as a Director of the Company liable to retire by rotation".

6. To consider and if thought fit to pass with or without modification the following resolution as an **ORDINARY RESOLUTION** :

" Resolved that Mr. Rajesh Kumar Pandey who was appointed as an Additional Director of the Company by the Board of Directors under Section 260 of the Companies Act, 1956 and Article 115 of the Articles of Association of the company and who holds office upto the date of the Annual General Meeting and in respect of which the Company has received a notice in writing proposing his candidature for the office of a Director be and is hereby appointed as a Director of the Company liable to retire by rotation".

7. To consider and if thought fit to pass with or without modification the following resolution as an **SPECIAL RESOLUTION** :

"Resolved that, subject to such consents and approvals, the Equity Shares of the Company be de-listed from The Ahmedabad Stock Exchange, The Hyderabad Stock Exchange, and The Delhi Stock Exchange".

"Resolved Further that for the purpose of giving effect to the above resolution the Board be and is hereby authorised and empowered to give such directions for settling any doubts, questions or difficulties which may arise in regard to de-listing of Equity Shares and to do all acts, deeds, matters and things as it may in its absolute discretion consider necessary, expedient, usual and proper in this regard".

NOTES :

1. An Explanatory Statement pursuant to Section 173 (2) of the Companies Act, 1956 is annexed herewith and forms part of the Notice.
2. A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF AND THE PROXY NEED NOT BE A MEMBER OF THE COMPANY.
3. The Instrument of Proxy should however be deposited at the Registered Office of the Company atleast 48 hours before the meeting.
4. The Register of Members and the Share Transfer Books of the Company will remain closed from 21.06.03 to 24.06.03 (both days inclusive) for ascertaining the eligibility of members for the purpose of payment of dividend on Equity Shares. The Dividend on Equity Shares as recommended by the Directors, if approved, at the meeting

CARNATION INDUSTRIES LIMITED

will be payable to those Shareholders whose name shall appear in the Register of Members as on 24.06.03. In respect of shares held in electronic form, the dividend will be paid on the basis of the Beneficial Ownership as per details furnished by National Securities Depository Limited / Central Depository Services Limited for the purpose.

5. Members are requested to send to the Registrar his / her Bank Account details to ensure safe and prompt receipt of dividend warrant and to avoid any fraudulent encashment of such warrants.
6. Members / Proxies should bring the attendance slip duly filled in for attending the meeting.
7. Members who hold shares in dematerialised form are requested to bring their client ID and DPID numbers for easy identification of attendance at the meeting.

By order of the Board

Place : Kolkata
Date : 19.05.03

RAJESH MUNDHRA
(Company Secretary)

Explanatory Statement pursuant to section 173 (2) of the Companies Act, 1956

Item No. 5

Mr. Vinay Kumar Agarwalla was appointed as an Additional Director of the company by the Board in the meeting held on 31.01.03 in accordance with section 260 of the Companies Act 1956 and Article 115 of the Article of Association of the Company. He holds the office upto the date of the Annual General Meeting of the company. The Company has received a notice proposing his candidature for the office of the Director of the Company.

None of the Directors are interested and concerned in the above resolution except Mr. Vinay Kumar Agarwalla.

Item No. 6

Mr. Rajesh Kumar Pandey was appointed as an Additional Director of the company by the Board in the meeting held on 31.01.03 in accordance with section 260 of the Companies Act 1956 and Article 115 of the Article of Association of the Company. He holds the office upto the date of the Annual General Meeting of the company. The Company has received a notice proposing his candidature for the office of the Director of the Company.

None of the Directors are interested and concerned in the above resolution except Mr. Rajesh Kumar Pandey.

Item No. 7

The Equity Shares of the Company are listed for more than 3 years in The Ahmedabad Stock Exchange, The Hyderabad Stock Exchange, and The Delhi Stock Exchange but the trading activity in the shares is very low. The Company in accordance with guidelines issued by SEBI (De-listing of Securities), 2003 has decided to voluntarily de-list its Equity Shares from the Ahmedabad Stock Exchange, The Hyderabad Stock Exchange, and The Delhi Stock Exchange. As the company will continue to be listed in Mumbai Stock Exchange which is having nationwide terminals the liquidity of the shares will not be affected.

None of the Directors are concerned or interested in the above resolution.

By order of the Board

Place : Kolkata
Dated : 19th May, 2003

RAJESH MUNDHRA
(Company Secretary)

CARNATION INDUSTRIES LIMITED

**Details of Directors Seeking Appointment / Re-appointment at the
20th Annual General Meeting.**

Name of Director	Mr. P. M. Narielvala	Mr. Vinay Kumar Agarwalla	Mr. Rajesh Kumar Pandey
Date of Birth	12.07.1926	07.04.1944	28.09.1973
Qualification	B.A., L.L.B., FCA, FCA (England & Wales)	B.Com	B.E. (Mech).
Expertise in Specific Functional areas	Has a rich experience in the field of Accounts, Taxation & Law	Industrialist. He has a rich experience in Steel and Iron Castings and overseeing business operations.	Has an experience in implementation of Projects and Castings business.
List of Companies in which other Directorship held	Director : Eri-Tech Ltd. Petrofarms Ltd. White Cliff Holding Pvt. Ltd. Rockwool (India) Ltd. Corporate Health Check Services Pvt. Ltd. White Cliff Tea Pvt. Ltd. Carritt Properties Pvt. Ltd. RDL Infotech Ltd. Grob Tea Ltd.	R. P. Agarwalla & Brothers (P) Ltd., Swastik Board and Paper Mills (P) Ltd., Property Development Trust (P) Ltd., Surya Kiran Holdings (P) Ltd., Aashiyana Distributors (P) Ltd. Kolaghat Cold Storage (P) Ltd., Ajanta Roofings (P) Ltd., Ways Enterprises (P) Ltd.	Shakti Ferrous Alloys and Castings (P) Ltd.
Chairman / Member of the Committee of the Board of the Companies in which he is a Director.	5	NIL	NIL

DIRECTORS REPORT AND MANAGEMENT DISCUSSION AND ANALYSIS REPORT

Your Directors are pleased to present the Annual Report and the Audited Statement of Accounts for the year ended 31st March, 2003.

FINANCIAL PERFORMANCE

	<u>(Rs.in Lakhs)</u>	
	<u>For Year ended 31.03.2003</u>	<u>For Year ended 31.03.2002</u>
Export Sales (Net of freight)	3008.22	2129.45
Gross Profit (before depreciation Interest & Finance charges)	306.69	286.92
Interest and Finance charges	84.59	84.16
Depreciation	56.83	66.21
Profit before Tax	165.27	136.55
Provision for Tax		
- Current	27.20	13.65
- Deferred	7.81	3.23
Profit after Tax	130.26	119.67
Profit/Loss brought forward	277.15	187.87
Available for Appropriation	407.41	307.54
Proposed Dividend	20.39	20.39
Dividend Tax	2.62	-
Transfer to General Reserve	15.00	10.00
Surplus carried forward	369.41	277.15

FINANCIAL REVIEW

The Export Sale (Net of freight) of the Company was Rs. 3008.22 lakhs during the year as compared to 2129.45 lakhs during last year registering a growth of about 41%. The Profit after Tax (after providing for Deferred Tax) for the year was Rs.134.27 Lakhs as compared to Rs. 119.67 Lakhs during the last year registering a growth of about 12% .Even though there was a steep increase in raw material prices, besides the falling dollar rates and increase in shipping freight which lowered the profitability but overall it was satisfactory.

FOREIGN EXCHANGE EARNINGS AND OUTGO

	<u>(Rs. in Lakhs)</u>	
	<u>For Year ended 31.03.2003</u>	<u>For Year ended 31.03.2002</u>
Earnings - Export (F.O.B.)	3008.22	2129.45
<u>Outgoings</u>		
Travelling & Conveyance	5.94	15.05
Commission	44.17	71.51
Foreign Bank charges	8.93	6.42
Sales Promotion	0.08	-
ISO 9002 Expenses	-	4.51

MANAGEMENT DISCUSSION AND ANALYSIS**INDUSTRY STRUCTURE AND DEVELOPMENT**

The Foundry industry is at the cross roads now with steep increase in prices of raw materials which is

proving to be a major set back for the buoyant demand in the market. The markets are witnessing an apparent shift towards quality products and brand recognition. The increase in prices of raw materials have led to erosion of profitability of the products. The threat from China seemed to recede with the increase in Chinese prices of the casting but now with Indian raw material prices galloping ahead that advantage seems to be nullified.

OPPURTUNITIES AND THREAT

With the brand image of Carnation well established in the overseas market, the recent trend towards quality and brand recognition may prove beneficial to the company. The resurgence of the Gulf Market and major reconstruction plans in Iraq after war will provide tremendous oppurtunities to your company. European Market which was dominated by Chinese is showing signals of revival for Indian suppliers on account of increase in prices of castings from China. The American market, inspite of an initial slow down due to bad weather and cautious approach on account of war, has opened up and should hold steady.

Your company has cleared the requirement of UL Certification for its Ductile Iron Products for U.S.A. and is now part of the Dun and Bradstreet Global Database. The steep increase in the price of raw material is affecting the profitability of the company. The falling

dollar rates alongwith multiple surcharge on container cargo may affect the competitiveness of the Indian product in the International market. The aggressive Pricing Policy of Chinese manufacturers may also have its impact on Product realisation and Market Share in Europe.

RISKS AND CONCERN

The Freight rate to U.S.A. has increased substantially which is affecting the competitiveness of our product in the U.S. Market. Moreover the USA government in order to promote their industries has put "BUY AMERICAN" clause in many projects across U.S.A., which may result in loss of business for manufacturers in India. The Industry has taken up the matter with the Ministry of Commerce, India and the Indian Embassy in USA and is expecting a favourable response.

FUTURE OUTLOOK

Your company is very optimistic and upbeat over the opportunities in the Gulf market and Post Iraq War rehabilitation. The revival of European market has begun and is expected to improve in future.

The UL certification for Ductile Iron Products will help the company to tap huge business opportunities in U.S.A. The Company is thrusting on tighter control on operations and improving productivity to cope with the increase in prices of raw material.

INTERNAL CONTROL SYSTEM AND THEIR ADEQUACY

Your company has a proper and adequate system of internal controls to ensure that all activities are monitored and controlled against any unauthorised use and that the transaction are authorised, recorded and reported correctly.

Your company adheres to all internal control policies and procedures. The Audit Committee will review the adequacy of internal controls.

HUMAN RESOURCE DEVELOPMENT

The company continues to have cordial and harmonious relations with its employees during the period under review. The Board acknowledges its thanks to all the shop floor personnel and other employees for making significant contribution to your company.

STATUTORY AUDIT

There were strong representation made to the Commerce Ministry after the Doha Meet of WTO that the Income Tax deduction under section 80 HHC could

easily continue uptill 2005-2006 without attracting adverse WTO reactions. The Commerce Ministry had agreed to take up the matter and was actively reviewing it. The Management was hopeful that the Government would give a favourable consideration to the representation thus did not pay the advance tax as given in point no. 17 of the Auditor's Report.

DIVIDEND

Your Directors are pleased to recommend a Dividend of Rs. 0.60 per Equity Share of Rs. 10 each aggregating Rs. 2300536/- (inclusive of Dividend Tax) for the year ended 31st March, 2003. The Dividend will be paid to all those share holders whose name appear in the Register of Members as on 24.06.2003.

POLLUTION CONTROL MEASURE

The Pollution control measure installed for the units of the company are in full operation as required under the statutes.

DIRECTORS

In terms of section 256 of the Companies Act and Articles of Association of the company Mr. P. M. Narielvala retires by rotation and being eligible offer himself for re-appointment. Mr. J. Ghatak has resigned from the Board of Directors and the Board acknowledges his contributions and extends gratitude for his services.

Mr. Vinay Kumar Agarwalla and Mr. Rajesh Kumar Pandey were appointed as Additional Directors and hold office upto the date of Annual General Meeting. The company has received a notice proposing their candidature for the office of the Directorship of the Company.

AUDITORS

M/s. Jain & Bagaria, Chartered Accountants, retires at the conclusion of the forthcoming Annual General Meeting and are recommended for re-appointment. They have also furnished a certificate pursuant to Section 224(1) of the Companies Act, 1956.

CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION AND RESEARCH AND DEVELOPMENT.

The particulars in respect of energy conservation as per Companies (Disclosure of Particulars) Rules 1988 is not required to be provided by your company as it is not the industry included in the Schedule to the Rules. The Company has however taken measures for conservation

of energy. The Company has installed a Divided Blast Cupola in the units at Liluah which has significantly reduced the coke consumption. The production was carried using the previous technology. The company has a quality cell which ensures the quality of the product before being sent to the customers.

PARTICULARS OF EMPLOYEES

The information required under section 217(2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975 is not applicable as none of the employees is drawing salary more than the limit prescribed under the aforesaid Rule.

PUBLIC DEPOSITS

The Company has not taken any fresh Public Deposits during the year.

STOCK EXCHANGE

The Equity Shares of the company during the year under review are listed in Five (5) Stock Exchanges as follows :

1. The Calcutta Stock Exchange Association Ltd.,
6, Lyons Range, Calcutta 700 001.
2. The Stock Exchange, Mumbai
Phiroz Jeejeeboy Towers, Dalal Street,
Mumbai 400 001.
3. The Delhi Stock Exchange Association Ltd
DSE House 3/1, Asaf Ali Road,
New Delhi 110002.
4. The Stock Exchange, Ahmedabad
Kamdhenu Complex , Opp. Sahajananda College
Panjara Pole, Ahmedabad 380015.
5. The Hyderabad Stock Exchange Ltd.,
3-6-275, Himayat Nagar,
Hyderabad 500 029.

The Annual Listing Fees for the year 2003-2004 have been paid to all the Stock Exchanges in which the Shares of the Company are listed.

The Company intends to de-list its shares from The Hyderabad Stock Exchange, The Ahmedabad Stock Exchange and The Delhi Stock Exchange as the trading activity of our shares on these Stock Exchanges is very low. The necessary resolution to be passed in this regard forms part of the notice.

CORPORATE GOVERNANCE

Your company attaches considerable significance to good Corporate Governance. Pursuant to clause 49 of the Listing Agreement with the Stock Exchange a compliance report on Corporate Governance forms part of the Annual Report alongwith the Auditors Certificate on its compliance.

DIRECTORS RESPONSIBILITY STATEMENT

Your Directors confirm that in preparation of the Annual Accounts the applicable accounting standards has been followed alongwith proper explanation relating to material departures. The Directors have selected such accounting policies and applies them consistently and made judgements and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the company as on 31.03.2003 and of the Profit and Loss of the company for that period. The Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities. The Directors have prepared the accounts on a going concern basis.

ACKNOWLEDGEMENT

Your Directors wish to place on record their appreciation and thanks to the Banks, Financial Institutions, various Government Authorities for their valuable assistance and cooperation and for the trust and confidence reposed in the company by the Overseas Customers and Shareholders.

Your Directors also thank the Executives, staff and workforce of the company for their efficient and dedicated services.

On behalf of the Board

R.P. Sehgal
(Managing Director)

Manoj Bose
(Director)

Dated : 19.05.2003

Place : Kolkata