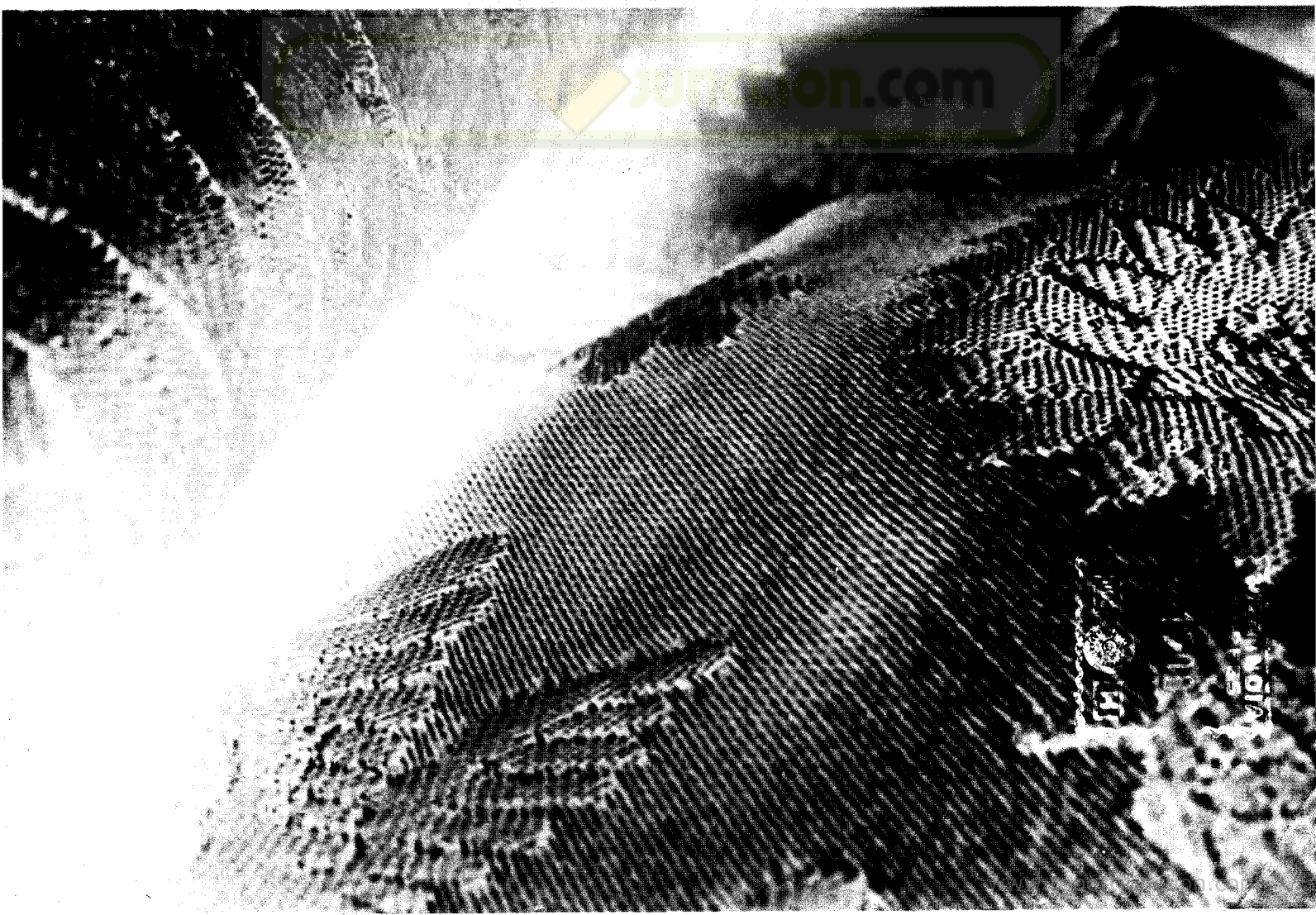


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EASTERN SILK INDUSTRIES LTD.

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Annual Report 2004-05



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**BOARD OF DIRECTORS**

S. S. Shah *Chairman & Managing Director*  
G. D. Harnathka  
H. S. Gopalka  
O. P. Agarwal  
R. L. Gaggar  
R. S. Rungta  
Sundeep Shah *Executive Director*

**SECRETARY**

K. T. Sheth

**REGISTERED OFFICE**

19 R. N. Mukherjee Road  
Kolkata - 700 001

**FACTORIES****Unit 1**

411, Telugarahalli Road, Anekal,  
Bangalore – 562 106

**Unit 2**

Kammansandra Agrahara Kasaba Hobli,  
Anekal, Bangalore – 560 106

**Unit 3**

11A, 2nd Cross Industrial Area, Nanjangud,  
Karnataka – 571 302

**Unit 4**

Falta Special Economic Zone,  
24 Parganas (South), West Bengal

**AUDITORS**

B. K. Shroff & Co.  
23A, Netaji Subhas Road  
Kolkata - 700 001

**BANKERS**

Allahabad Bank  
Canara Bank  
Oriental Bank of Commerce  
State Bank of India  
State Bank of Mysore  
State Bank of Hyderabad  
The Federal Bank Ltd.  
UCO Bank  
Union Bank of India

**REGISTRARS & SHARE  
TRANSFER AGENT**

ABS Consultant Pvt. Ltd.  
99, Stephen House, 6th Floor  
4, B.B.D. Bag (East)  
Kolkata - 700 001



## NOTICE

The Adjourned Fifty-ninth Annual General Meeting of Eastern Silk Industries Ltd. will be held on Thursday, the 11th May, 2006 at 11.00 A.M. at Kala Kunj, 48, Shakespeare Sarani, Kolkata – 700 017, to transact the following business:

1. To receive, consider and adopt the Profit & Loss Account for the year ended 31st March, 2005 and the Balance Sheet as at that date together with the report of the Directors and Auditors thereon.
2. To declare dividend.

### SPECIAL BUSINESS :

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

RESOLVED THAT pursuant to the provisions of Section 81(1A) and all other applicable provisions, if any, of the Companies Act, 1956 (including any amendment thereto or re-enactment thereof) (hereinafter referred to as "the Act") and in accordance with the applicable guidelines issued by the Securities and Exchange Board of India ("SEBI") or any other relevant authority and clarifications thereon issued from time to time, if any, and subject to all such statutory, regulatory and government approvals, permissions or sanctions as may be necessary and subject to such conditions and modifications as may be prescribed or imposed by any of them while granting such approvals, permissions or sanctions, which may be agreed to by the Board of Directors of the Company (hereinafter referred to as "the Board"), the consent of the Company be and is hereby accorded to the Board to create, issue and allot, in one or more tranches, and upon such terms and conditions as may be deemed appropriate by the Board, by way of preferential allotment upto 23,00,000 Equity shares of Rs.10 each of the Company for cash, at a price of Rs.250.16 per equity share (i.e. at a premium of Rs.240.16 per share), ranking pari passu in all respects, including as to dividend, with the existing equity shares of the Company (the "Shares"), to the following Investors upto the number of shares mentioned against their respective names and on such other terms and conditions, as the Board may deem appropriate in its absolute discretion.

Sl.No.	Name of Investors / Promoters	No. of Equity Shares
1.	IL&FS Trust Co. Ltd. A/c. IL&FS Private Equity Trust – Leverage India Fund	13,99,100
2.	TAIB Bank B.S.C. (C)	3,99,700
3.	Evolve India Fund – Coinvest V	1,99,870
4.	TRUSTEES, IL&FS Employees Welfare Trust	9,990
5.	TRUSTEES, IVC Employees Welfare Trust	9,990
6.	Promoters	2,81,350
	<b>Total:</b>	<b>23,00,000</b>

### RESOLVED FURTHER THAT :

- (a) The relevant date for the purpose of pricing of issue of the Shares in accordance with the Securities and Exchange Board India (Disclosure and Investor Protection) Guidelines, 2000 be fixed as 11th April 2006, being the 30th day prior to 11th May 2006 (i.e. the 30th day prior to the date on which the meeting of the general body of shareholders is held, in terms of Section 81(1A) of the Act, to consider the proposed issue).
- (b) The Board be and is hereby authorized to decide and approve the other terms and conditions of the issue of the Shares and also shall be entitled to vary, modify or alter any of the terms and conditions, including the issue price and the size of the issue, as it may deem expedient, without being required to seek any further consent or approval of the Company in a General Meeting.
- (c) The offer, issue and allotment of the aforesaid Shares shall be made at such time or times as the Board may in its absolute discretion decide.
- (d) The Board be and is hereby authorized to delegate all or any of the powers herein conferred by this resolution to any director or directors or to any committee of directors or any other officer or officers of the Company to give effect to the aforesaid resolution.





RESOLVED FURTHER THAT for giving effect to this Resolution, the Board be and is hereby authorized to take such steps and to do all such acts, deeds and things as the Board may, in its absolute discretion, consider necessary, expedient, usual, proper or incidental to this resolution and to settle any question, remove any difficulty or doubt that may arise from time to time in relation to the offer, issue and allotment of the shares and the utilization of the issue proceeds of the shares for the Company's expansion plans, comprising both additional capital expenditure as well as increased working capital requirements, to prescribe the forms of application, enter into any agreements or other instruments, and to take such actions or give such directions as they may consider as being necessary or desirable and to obtain any approvals, permissions, sanctions which may be necessary or desirable, as they may deem fit.

RESOLVED FURTHER THAT the Board be and is hereby authorized to accept any amendments, modifications, variations and alterations as the SEBI or any other regulatory authority may stipulate in that behalf.

**Registered Office:**

19, R. N. Mukherjee Road  
Kolkata – 700 001  
Dated : The 12th April, 2006

By Order of the Board  
**K. T. SHETH**  
SECRETARY

**NOTES :**

1. A member entitled to attend and vote is entitled to appoint a proxy to attend and vote instead and the proxy need not be a member of the Company. The proxy, in order to be effective, must be deposited at the Registered Office of the Company not less than 48 hours before the meeting.
2. The Register of Members and Share Transfer Books of the Company will remain closed from 3rd May 2006 to 11th May 2006, both days inclusive.
3. Dividend, when declared will be made payable to those shareholders whose names appear in the Register of Members of the Company on 11th May, 2006. In respect of shares held in electronic form, the dividend will be payable on the basis of beneficial ownership as per details furnished by the National Depository Ltd. (NSDL) and Central Depository Services (India) Ltd. (CDSL) for this purpose.
4. An Explanatory Statement pursuant to Section 173(2) of the Companies Act, 1956 relating to the Special Business is annexed hereto.
5. The certificate of M/s. B.K. Shroff & Co., Statutory Auditors of the Company, (certifying that the proposed preferential issue of shares as mentioned in the resolution at Item No. 3 are in accordance with the requirements contained in SEBI Disclosure and Investor Protection Guidelines, 2000) and the non-binding letter of interest from the Investors dated 7.4.2006 shall be open for inspection to the members of the Company at the adjourned Annual General Meeting.

**Explanatory Statement under Section 173(2) of the Companies Act, 1956:****Item No. 3**

With a view to meet the cost for setting up a new project for manufacture of home furnishing, and expansion of machine made fabric capacity of the existing units, the Board of Directors of the Company in its meeting held on 12th April 2006, subject to approval by the Company in General Meeting and requisite statutory approvals, and subject to negotiation and execution of appropriate legal documentation and fulfillment of conditions mentioned therein, has proposed to offer for subscription by way of preferential allotment, upto 23,00,000 Equity shares of Rs.10/- each of the Company out of which 20,18,650 shares are proposed to be offered to the investors named in the resolution, in one or more tranches, at an issue price of Rs.250.16 per share, for an aggregate value of upto Rs. 50,49,85,484/- and the balance 2,81,350 shares are proposed to be offered to the Promoters and its Nominees at an issue price of Rs.250.16 per share for an aggregate value of upto Rs.7,03,82,516/-.

The Special Resolution has been proposed under the provisions of Section 81(1A) of the Companies Act, 1956 in view of the fact that the shares will be offered to persons who may or may not be the existing members. Further, under the Listing Agreement with stock exchange, the Company, in the first instance, is required to offer all shares to be issued for subscription, pro-rata to the existing equity shareholders unless they decide otherwise in a General Meeting.



As per SEBI's Guidelines for Preferential Issues, an issue of shares on a preferential basis can be made only at a price which is not less than the higher of the following:

- (i) The average of the weekly high and low of the closing prices of the shares quoted on the stock exchange during the six months preceding the "relevant date"; or
- (ii) The average of the weekly high and low of the closing prices of the shares quoted on a stock exchange during the two weeks preceding the "relevant date".

The "relevant date" for the above purpose means the date thirty days prior to the date on which the General Meeting is held to consider the proposed issue under Section 81(1A) of the Act. As the date of the adjourned Annual General Meeting (AGM) of shareholders is May 11, 2006, the "relevant date" is 11th April 2006. The issue price computed on the above basis comes to Rs.250.16 per share approximately. Accordingly, the shares are proposed to be issued at Rs.250.16 per share. The shares to be allotted shall be subject to the Memorandum and Articles of Association of the Company and the terms of issue as decided by the Board. The equity shares shall rank pari-passu in all respects with, and carry the same rights including dividend as, the existing equity shares.

In connection with the proposed issue, the Company has received a letter of non binding interest from the Investors approving the said investment.

The Board considers that the proposed offer will be in the best interest of the Company and its members.

**Information as required under Clause 13.1A of the SEBI (Disclosure and Investor Protection) Guidelines, 2000 for Preferential Issues:**

**1. Object of the Issue:**

The object of the issue are to mobilize funds for implementing the Company's growth plans as mentioned above. The funds raised from this preferential issue will go towards meeting, partially, the Company's plans of setting up a unit for manufacturing home furnishing as well as for expansion of machine made fabric capacity of the existing units.

**2. Intention of Promoters/Directors/Key Management Persons to Subscribe to the Offer:**

Names of the Promoters who intend to subscribe to the issue of Equity Shares offered pursuant to this Resolution are as follows :

Names	No. of Shares
i) Gemini Overseas Ltd.	50,000
ii) Tarun Fabrics Ltd.	50,000
iii) Vijoy Trading Co.	50,000
iv) Sri Shyam Sunder Shah	46,350
v) Sri Sundeep Shah	35,000
vi) Smt. Ginia Devi Shah	25,000
vii) Smt. Kavita Shah	25,000
<b>Total</b>	<b>2,81,350</b>



**3. Shareholding Pattern before and after the Proposed Preferential Issue (based on the shareholding pattern as on 31/03/2006) :**

CATEGORY	Pre Issue of Equity Shares		Post Issue of Equity Shares	
	Shares Held (*)	% Share Holding	Shares Held	% Share Holding
<b>A. Promoter's Holding</b>				
1. a) Indian Promoters	52,99,075	39.28	55,80,425	35.34
b) Foreign Promoters	19,76,848	14.65	19,76,848	12.52
2. Persons acting in Concert	—	—	—	—
<b>Sub Total</b>	<b>72,75,923</b>	<b>53.93</b>	<b>75,57,273</b>	<b>47.86</b>
<b>B. Non-Promoter Holding</b>				
<b>1. Institutional Investors</b>				
Mutual Funds, Banks, FIs, Insurance Companies & FIs	15,01,828	11.13	15,01,828	9.51
<b>Sub Total</b>	<b>15,01,828</b>	<b>11.13</b>	<b>15,01,828</b>	<b>9.51</b>
<b>2. Equity Investors</b>				
(a) Indian Investors :				
i) IL&FS Trust Co. Ltd. A/c. IL&FS Private Equity Trust-Leverage India Fund	Nil	Nil	13,99,100	8.86
ii) TRUSTEES, IL&FS Employees Welfare Trust	Nil	Nil	9,990	0.06
iii) TRUSTEES, IVC Employees Welfare Trust	Nil	Nil	9,990	0.06
(b) Foreign Investors				
i) TAIB Bank B.S.C. (C)	Nil	Nil	3,99,700	2.53
ii) Evolvence India Fund - Coinvest V	Nil	Nil	1,99,870	1.27
<b>Sub Total</b>	<b>Nil</b>	<b>Nil</b>	<b>20,18,650</b>	<b>12.78</b>
<b>3. Others</b>				
a) Private Corporate Bodies	9,66,021	7.16	9,66,021	6.12
b) NRIs	92,623	0.69	92,623	0.59
c) Indian Public	36,54,129	27.09	36,54,129	23.14
<b>Sub Total</b>	<b>47,12,773</b>	<b>34.93</b>	<b>47,12,773</b>	<b>29.85</b>
<b>GRAND TOTAL</b>	<b>1,34,90,524</b>	<b>100.00</b>	<b>1,57,90,524</b>	<b>100.00</b>

(\*) Shares of Face Value Rs.10/-

**4. Proposed time within which allotment will be completed:**

The allotment of the Shares is expected to be completed within 15 days of the date of passing of the above resolution. Provided that where the allotment is pending on account of pendency of any Regulatory Approval or the Central Government, the allotment is expected to be completed within 15 days of such approval.

**5. Identity of the Proposed Allottees and the percentage of post preferential issue capital that may be held by them:**

Sl.No.	Name of the Proposed Allottee & Identity	No. of Equity Shares to be Allotted	% of Post Issue Shareholding
1.	IL&FS Trust Co. Ltd. A/c. IL&FS Private Equity Trust – Leverage India Fund	13,99,100	8.86
2.	TAIB Bank B.S.C. (C)	3,99,700	2.53
3.	Evolve India Fund – Coinvest V	1,99,870	1.26
4.	TRUSTEES, IL&FS Employees Welfare Trust	9,990	0.06
5.	TRUSTEES, IVC Employees Welfare Trust	9,990	0.06
6.	Promoters		
	i) Gemini Overseas Ltd.	50,000	0.32
	ii) Tarun Fabrics Ltd.,	50,000	0.32
	iii) Vijoy Trading Co.	50,000	0.32
	iv) Sri Shyam Sunder Shah	46,350	0.29
	v) Sri Sundeep Shah	35,000	0.22
	vi) Smt. Ginia Devi Shah	25,000	0.16
	vii) Smt. Kavita Shah	25,000	0.16
	<b>Total:</b>	<b>23,00,000</b>	<b>14.55</b>

The shares to be allotted to the above Investors/Promoters under the proposed offering shall be subject to a lock-in of one year from the date of allotment, in accordance with the SEBI (Disclosure and Investor Protection) Guidelines, 2000.

A copy of the certificate from M/s. B.K. Shroff & Co., Kolkata, Statutory Auditors of the Company, certifying that the issue of shares is being made in accordance with the requirements of SEBI Guidelines for Preferential Issues as contained in the SEBI (Disclosure and Investor Protection) Guidelines, 2000, shall be placed before the shareholders at the AGM.

Sri S. S. Shah and Sri Sundeep Shah, Directors of the Company may be treated as concerned or interested in the Resolution to the extent of the proposed allotment of shares to the Promoters.





## DIRECTORS' REPORT

Dear Shareholders

Your Directors have pleasure in presenting their fifty-ninth Annual Report together with the Audited Accounts of your Company for the year ended 31st March 2005.

### FINANCIAL RESULTS

	2005	(Rs. in Lacs) 2004
Profit before depreciation and taxation	4,233.73	2,033.67
Less: Depreciation	898.42	114.64
Profit before taxation	3,335.31	1,919.03
Less: Provision for current taxation	175.00	60.43
	3,160.31	1,858.60
Less: Deferred tax liability	698.50	310.44
	2,461.81	1,548.16
Add: Balance brought forward from previous year	3,736.16	2,716.38
	6,197.97	4,264.54
Which the directors have appropriated as follows:		
General reserve	250.00	223.00
Preference share redemption reserve	120.00	120.00
Interim dividend on equity shares	107.27	—
Proposed dividend on equity shares	134.91	128.72
Proposed dividend on preference shares	64.00	35.61
Corporate dividend tax	41.91	21.05
Balance carried forward to next year	5,479.88	3,736.16
	6,197.97	4,264.54

### PERFORMANCE REVIEW

*(Figures and growth rates indicated have been calculated assuming consolidation of the financials of the companies for the year under review and the previous year to facilitate a better understanding).*

Your Company reported 15.19% increase in sales and processing income amounting to Rs. 33,792.83 lacs through the following:

- 32.26% growth in the sale of fabrics
- Full year of Anekal operations (production from February 2004)
- Shift from handloom to machine-made fabrics resulting in improved realisations

Your Company reported an increase in the EBIDTA margin by 3.55% to 17.27% and a Rs. 1,811.52 lacs increase in EBIDTA to Rs. 5,835.42 lacs during the year under review, the highest in your Company's history.

Concurrently, your Company rationalised its interest outflow, rationalised its average cost of debt and strengthened its interest cover from 2.33x to 2.59x.

As a result, profit before tax grew 43.50% to Rs.3335.31 lacs and profit after tax grew 37.40% to Rs. 2,461.81 lacs in 2004-05.

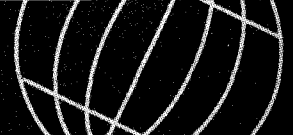
### SCHEME OF AMALGAMATION

Your Company merged Eastern Jingying Ltd. and Sstella Silks Ltd. with itself, creating one of the few vertically integrated silk fabric manufacturers in India.

The Scheme of amalgamation of Eastern Jingying Ltd. and Sstella Silks Ltd. with your Company was sanctioned by the Hon'ble Calcutta High Court and Karnataka High Court vide orders dated 7th February 2005 and 14th December 2005 respectively.

The shareholders of Eastern Jingying Ltd. and Sstella Silks Ltd. were allotted shares of your Company as per the exchange ratio fixed in the Scheme of Amalgamation. The Board of Directors welcomes the shareholders of Eastern Jingying Ltd. and Sstella Silks Ltd. who have now become the shareholders of your Company.

As a result of the amalgamation, the accounts of your Company for the year ended 31st March 2005 were prepared taking into account the above amalgamation and therefore, the figures for the year under review are not comparable with those of the previous year.



## CORPORATE HIGHLIGHTS

Your Company performed significantly better during the year under review in all areas. Strategic shift: Your Company evolved from a handloom weaver to a vertically integrated silk manufacturer through vertical and horizontal extensions; moved from fabrics woven on handlooms and power looms to fabrics manufactured on automated looms; from plain fabrics to intricately embroidered fabrics and made-ups.

Operations: Your Company significantly enhanced the production of silk yarn and fabrics over the previous year. Product quality improved following the deployment of state-of-the-art equipments, leading to a growth in average realisation and operating margins.

## POST-BALANCE SHEET DEVELOPMENTS

*(For the nine month period ended 31st December 2005)*

## PERFORMANCE ANALYSIS

Your Company recorded a 24.36% growth in revenue from Rs. 24,730.60 lacs to Rs. 30,754.06 lacs, largely on account of the increased production and higher realisation compared to the corresponding period ended 31st December, 2004 (derived from an increased proportion of value added fabrics).

Your Company leveraged the benefit of vertical integration to reduce cost: operating cost as a proportion of total income declined by 312 basis points for the nine-month period ending 31st December 2005 compared with the corresponding period in the previous year.

Operating margin for the period under review jumped from 14.80% to 17.92% in the corresponding period of the previous year. Cash profit grew by 59.95% and profit after tax increased from Rs. 2,056 lacs to Rs. 3,268 lacs in the previous period.

## OTHER HIGHLIGHTS

- **Products** : Contribution from embroidered fabrics grew from 0.02% of the revenue basket to 1.66% in the nine-month period ending 31st December 2005, improving realizations and profitability.

- **Markets** : Your Company strengthened its marketing presence in developed and fastgrowing developing economies like Australia, Greece and Iran.

- **Operations** : During the year under review your Company received the ISO 9001: 2000 quality accreditation for its Unit 2 at Anekal and the yarn manufacturing Unit 3 at Nanjangud. Unit 1 at Anekal has received this quality certification in 2002. Now all the units of your Company have successfully implemented internationally accepted quality management systems.

Besides, it commissioned best-in-practice testing facility at an investment of Rs. 50 lacs resulting in quality assurance testing at every stage of the manufacturing process as compared to the erstwhile practice of testing the end product.

## PROJECTS UNDER IMPLEMENTATION

Made-ups facility: Your Company is setting up a new made-ups facility at Bommasandra at an investment of Rs. 1,657 lacs. Civil works: The designing, bill of quantity and tendering for the project has been completed. Your Company has received a number of tenders for civil works of the new facility and negotiations are underway. We expect to finalise on the same shortly.

Placement of orders for equipment: Your Company is in conversation with a number of internationally reputed equipment manufacturers and the specifications are being detailed for the machinery to be procured. It is expected to be finalised shortly.

Expansion: Your Company is expanding its fabric capacity at Unit 2 at Anekal from 14 lac metres to 19 lac metres at an investment of Rs. 5,220 lacs. This enhanced capacity is expected to come on stream by March 2007.

## OUTLOOK

Since your Company's business addresses improved lifestyles, the long-term prospects appear optimistic. The strengthening of the global economy, translating into greater prosperity, a larger shift in the social status from the middle of the pyramid to the upper end, reflected in increasing renovation, has resulted in growing opportunities. Besides, globalisation has increased cross-continental travel resulting in major hotel chains expanding their presence and driving the demand for the aristocratic fabric.

## DIVIDEND

Your Directors recommend payment of the following dividends for the year:

8% on 8,00,000 Cumulative Redeemable Preference Shares

Rs. 64,00,000/-

10% on 1,34,90,524 Equity Shares in addition to the Interim Dividend of 15% paid in November, 2004.

Rs. 1,34,90,524/-

## SHARE CAPITAL

The paid-up share capital of the Company was increased from Rs. 7,18,27,350/- to Rs. 13,49,05,240/- consequent upon allotment of 63,39,289 equity Shares of Rs. 10/- each to the shareholders of erstwhile Eastern Jingying Ltd. and Sstella Silks Ltd.