16th Annual Report 2010-2011

EASTERN GASES LIMITED

BOARD OF DIRECTORS

Mr. Sushil Kr. Bhansali – Chairman cum Managing Director
Mr. Suresh Baid
Mr. Pawan Kr. Bhansali
Mr. B.S.Baid

AUDITORS

M/S Sarkar Gurumurthy & Associates,
Chartered Accountants,

BANKER

IDBI Bank Limited

REGISTERED OFFICE

43 Palace Court, 1 kyd Street
Kolkata
Ph: 033-22299897 / 8606
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Email : info@eastgas.co.in

REGISTRAR & SHARE TRANSFER AGENT

Name of Registrar: S.K. Computers,
Address: 34/1A, Sudhir Chatterjee Street,
Kolkata 700006
Phone: +91-33-22196797 / 4819
Fax: +91-33-22194815
Email: agarwalskc@rediffmail.com

PLANT

Plant : De-Gaul Avenue,
Vill. : Khairasole, Durgapur,
Dist. : Burdwan (W.B.)

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DIRECTORS' REPORT TO THE MEMBERS

Dear Members,
Your Directors have great pleasure in presenting the Thirteenth Annual Report and the Audited Statement of Accounts of the Company for the year ended 31st March, 2011.

(Rs. In Lakhs)

	2010-11	2009-10
Net Sales	**8972.53**	6290.46
Profit before Interest, depreciation and taxation	348.28	224.21
Interest	168.31	115.78
Depreciation	47.40	29.92
Profit Before Tax	**132.57**	78.51
Less: Provision for Taxation including FBT	34.07	15.23
Net Profit	**98.50**	63.28
Add: Balance Brought Forward	133.92	70.64
Surplus carried to Balance Sheet	232.42	133.92
Net Worth	**1030.19**	883.59

1. REVIEW OF OPERATION

The Company has been gradually gearing up its performance level to consolidate its position in the face of stiff competition in the market with firm commitment & sustained efforts. The company expects to maintain persistent growth in the years to come.
Net Sales increased by 43% to Rs. 8973 lakhs
PBDIT increased by 55% to Rs. 348 lakhs
Profit before tax increased by 69% to Rs. 133 lakhs
Net Profit increased by 56% to Rs. 98.50 lakhs

2. FUTURE OUTLOOK

However during the course of current financial year, the Board has witnessed an impressive rise in demand mainly due to public awareness for usage of commercial cylinders in commercial applications in the place of domestic cylinders and accordingly the Company expects to perform better. The Management has taken adequate steps to cater the future demand for consolidating its position in the market. LPG being more economical in comparison with others fuels and the industry will gain significance not only in the Eastern Region, but also throughout India. The company has also decided for setting up more Bottling plant/Auto LPG Retail Outlets (Dispensing stations) which will require substantial investment in future. The company is evaluating all the options to propel its expansion plans.

A. BOTTLING SEGMENT

The company caters the commercial cylinder market of West Bengal, Bihar and Orrisa from its own bottling plant situated at Durgapur. Now the company is planning to set up few new LPG bottling plant at strategically potential locations to cover Central and Southern India as well for marketing its "EAST GAS" brand commercial LPG cylinders. This will add to company's presence in Commercial and Industrial segment.

B. BULK LPG

The Company expects good growth in this segment due to the conversion of major industries from Coal/ other alternate fuels to LPG/Propane due to Environment concerns. LPG being a cleaner and cheaper fuel is preferred choice of the Industrial customers. The company is also exploring opportunities throughout India as usage of LPG in Industrial heating processes is growing.

C. AUTO LPG

The company would be the 1st private sector parallel marketer to enter in AutoLPG segment in Eastern India in the year, 2011-12 along with IPPL. Companies' first station is under final stage of completion and is expected to start its operation very soon. The company is ambitious to make the chain of 100 Auto LPG filling stations throughout India in coming years.

D. READY MIX CONCRETE

Ready Mix Concrete or RMC is the widely known concept of easing out the operations for a big concreting job. Since the demand for such mixed concrete is increasing at the rate of more than 75% per year; the business of putting up RMC plants are upcoming very rapidly. Due to the announcement of New Township adjoining Kolkata i.e. Rajarhat (Newtown) there is a huge scope of supplies of RMC materials to Real Estate and infrastructure development players.

E. OTHER AREAS

The Company is keeping close watch over the recent developments in the Oil and Gas industries and is constantly trying to venture into the City Gas Distribution, Coal Bed Methane (CBM) and Compressed Natural Gas (CNG) business.

3. DIVIDEND

The Board believes that it will be prudent for the company to conserve resources in view of future expansion programs inline for the coming year, which will enhance the profitability to a great extent. Hence, your directors are not recommending any dividend for the Financial Year 2010-11.

4. ISSUE OF SHARE CAPITAL

There is no further issue of share capital during the year.

5. MANAGEMENT DISCUSSION AND ANALYSIS

Pursuant to clause 49 of the Listing agreement a separate report on Management Discussion and Analysis, forming part of this Annual Report, is annexed.

6. CORPORATE GOVERNANCE
A report on Corporate Governance is annexed as part of Annual Report along with the Auditors' Certificate on its compliance.

7. VOLUNTARY DELISTING OF EQUITY SHARES
Consequent upon the approval of members at the Sixth Annual General Meeting of the Company held on 27th September, 2001 and in pursuance of the delisting guidelines issued by SEBI, the Company has applied for delisting of shares from Ahmedabad Stock Exchange Ltd.(ASE) and Jaipur Stock Exchange Ltd.(JSE), there is almost no trading of company's share on the ASE and JSE. The delisting will not adversely affect the members of the Company as the equity shares continue to be listed on Calcutta Stock Exchange Ltd. The Company hereby unconditionally and irrevocably undertakes to keep indemnified and harmless ASE and The JSE, its officials against any action, claim, causes, proceedings, demands, whatsoever which may arise on account of voluntary delisting.

8. PUBLIC DEPOSITS
The Company has not accepted any deposits from the public within the meaning of section 58A of the Companies Act, 1956 and the rules made thereof.

9. CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE EARNINGS AND OUTGO:

A. CONSERVATION OF ENERGY
Information required to be provided under Section 217(1)(e) of the Companies Act, 1956, read with the Companies (Disclosure of Particulars in the Report of the Board of Directors) Rules, 1988 in relation to the Conservation of Energy and Technological Absorption are currently not applicable to the Company. However, the company requires energy for its operations and every effort is made to ensure the optimal use of energy, avoid misuse and conserve energy.

B. TECHNOLOGY ABSORPTION
The Company always keeps a check on global innovation and techniques to avail the latest technology trends and practices. The Company has not imported any technology or process in the financial year.

C. FOREIGN EXCHANGE EARNINGS & OUTGO
The Company has neither had any Foreign Exchange earnings nor any Outgo during the year under review.

10. SUBSIDIARY
It is reported that the Company has no Subsidiary within the meaning of Section 4 of the Companies Act, 1956.

11. INFORMATION TECHNOLOGY
In today's digital networked economy, every company is increasing dependability on IT to deliver their strategic business objectives for increasing sales, enhancing operational efficiency, reducing operational risks and improve productivity. The Company believes that Information Technology is a source of competitive advantage and has therefore continued to invest in the same. The company has successfully implemented the ERP system and is planning to install SAP system in the coming year for better control and management.

12. SOCIAL COMMITMENT
The Company is fully aware of responsibilities towards its own employees, their dependent and local community within which the works are situated and to the people of Durgapur and West Bengal in general. Our driving objective has been to improve living and working condition of our workforce and their dependents and society as well.
There has been a constant endeavor to interact with the workers on a day to day basis and promptly resolve the issues that surface.

13. ENVIRONMENTAL EFFORTS
The Company is quite alert in providing clean environment on a continuous basis.
a) Industrial Relations
Industrial relations were cordial during the year under review. The Directors express appreciation of the efficient services rendered by the employees at all levels.
b) Particulars of Employees
None of the employees of the Company is drawing remuneration exceeding prescribed limit specified under section 217(2A) of the Companies Act,1956, read with the Companies (Particulars of Employees) Rules, 1975.

14. SAFETY
The Company has adequate system for Industrial safety. The year under review continued to be NIL accident year.

15. DIRECTORS
Shri Suresh Baid, Director of the company retires by rotation at the forthcoming Annual General Meeting and being eligible, offer himself for re-appointment.

16. STATUTORY AUDITORS & AUDITORS REPORT
M/s. Sarkar Gurumurthy & Associates, the auditor of the Company will retire at the conclusion of this Annual General Meeting and being eligible as per Section 224 (1B) of the Companies Act, 1956, they have expressed their willingness for re-appointment. It is proposed to re-appoint them as auditors for the financial year 2011-2012 and fix their remuneration.

Your Directors have no comments on the Auditor's Report since the Report itself is self explanatory.

17. DIRECTORS' RESPONSIBILITY STATEMENT

The Directors confirm that:

A. in the preparation of the annual accounts all applicable accounting standards had been followed along with proper explanation relating to material departures, if any;

B. the Directors had selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit of the Company for that period;

C. the Directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956, for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;

D. the Directors have prepared the annual accounts on a 'going concern' basis.

18. ACKNOWLEDGEMENTS

The Board records its sincere appreciation for the valuable support extended by the Company's Bankers, Financial Institutions and the Government Agencies. The Board also wishes to thank all its suppliers / customers / dealers / sub-dealers and all those associated with the Company. The Board further conveys cordial thanks to all the employees for their sincere works and takes this opportunity to thank Shareholders for their continued confidence reposed in the Management of the Company.

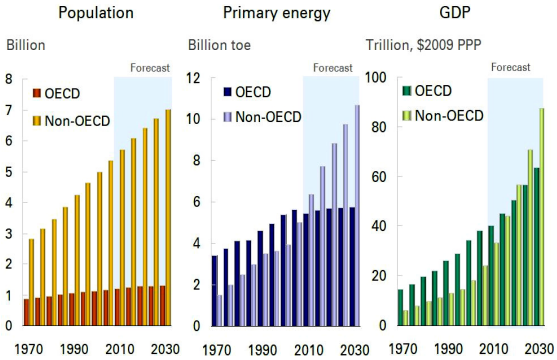
For and on behalf of the Board

Place: Kolkata S.K. Bhansali

Dated: 30th June ,2011 Chairman

MANAGEMENT DISCUSSION AND ANALYSIS INDUSTRY STRUCTURE AND DEVELOPMENTS

Gas is source of energy and energy is lifeline of any country. There is high annual growth in gas demand world over.



(Source: internet)

Population and income growth are the two most powerful driving forces behind the demand of energy. The next twenty years are likely to see continued global integration, and rapid growth of low and medium income economics. Population growth is trending down, but income growth is trending up. At global levels, the most fundamental relationship in energy economics remains robust – more people with more income means that the production and consumption of energy will rise.

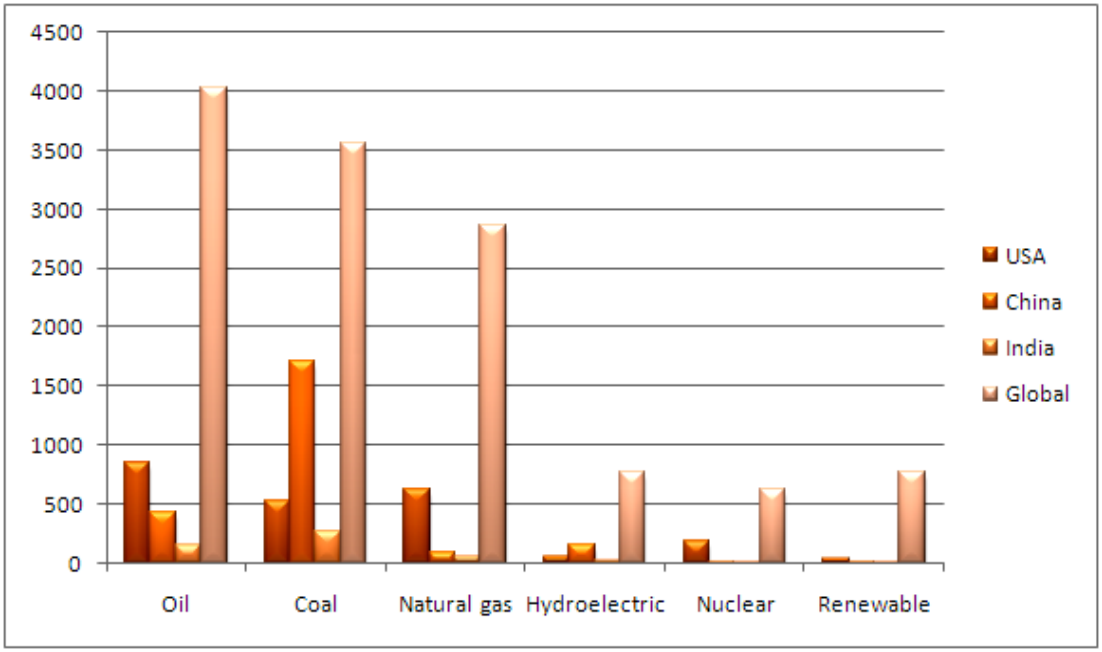
Global primary energy consumption including commercial renewable energy rose, by 5.6% in 2010, the highest since 1973. China alone consumed 20.3% of the total global energy followed closely by the US at 19%. India consumed a mere 4.4% of the total with the global average consumption (excluding China and USA) at just 0.87%.

It is interesting to note that while the overall consumption of fossil fuel grew at a considerable rate, the consumption of oil grew the least. Oil consumption increased by 3.1% with the US consuming 21.1% of the global production. Oil, Coal and natural gas remain to be the highest consumed energy sources globally. Coal consumption grew by 29.6%, the highest since 1970 with China alone consuming 48.2%. This is followed by the US at 14.8% and India at 7.8%.

There is also a healthy trend in the renewable sector. Global policies towards climate change and sustainability appears to have yielded results. 2011 saw a notable 1.8% growth of the overall global renewable energy consumption.

The consumption pattern of different energy sources for the year 2011 is given in the table below.

Graph showing energy consumption pattern (in million tonnes oil equivalent)



(Source: *BP statistical review of world energy 2011*)

The World is looking at cleaner fuel. The market of LPG is wide and growing. The LPG caters to large section of Industry for their fuel requirement, Auto sector as substitute to costly Petrol/Diesel, Household sector as efficient fuel, and then there is growing rural sector which is gradually shifting from traditional fuel (Wood, Coal etc.) to LPG.

Gas in unexploited sector in India yet which has high potential of development in years to come. The Gas Industry is one of the core industries in India in recent times. It has a very significant role to play in the growth of the Indian economy. Gas Industry is principally dependent on Government's initiative for expanding necessary infrastructure facilities. With the development of Modern Technology coupled with Industrial Growth, the requirement of LPG / Butane /Propane etc. has been multiplied and become indispensable. India's total primary energy consumption was above 400 million tones of oil equivalent during 2010-11. Coal has continued to be the cheapest energy/fuel source for big industrial houses however increasing environmental concern and competitiveness of LPG/Natural Gas has been basic factor of demand growth for the sector. With the coming of KG basin gas the dynamics of the Indian gas industry is changing from being largely government controlled to market driven. Gas demand is growing faster than any other fuel. This has led to the belief that the Industry is heading for a bright future.

BUSINESS OVERVIEW

Indian Gas Industry has seen rapid growth in past few years. The year was driven by overwhelm demand and response. Price decontrol downstream and enlightened policy upstream could accelerate the speed at which the energy industry matures.

Indian oil and gas industry is of Rs. 4500 billion. Indian Economy is 12th largest in the world with a GDP of Rs.63 Trillian (China –Rs.163 Trillion & USA 690 Trillion, and its also 3rd largest economy in the world in terms of purchasing power. India is 5th largest energy consumer in world and is growing at CARG of 3.8%.

The natural gas market in India is expected to be one of the fastest growing in the world during the next two decades. Among its segments, LPG has made a substantial progress to become the most convenient, cost effective, and pollution free means of fuel, especially among the Indian middle class segment. It is expected that, LPG consumption in the country will grow at a CAGR of around 9% during FY 2011–FY 2013.The main reason for the growth of this segment is fast urbanization and rising income levels in the country that has fueled up the LPG demand. Moreover, in the villages LPG is fast becoming the most favorable source of cooking and vehicle fuels.

Energy Majors like Exxon Mobil, Chevron, British Petroleum, Reliance Industries Ltd, ONGC, OIL, Cairn, Aegis, Shell, etc have announced plans of setting up new exploration units and import terminating facilities in India, which shows that there is great potential for gas industry in this country.

Eastern Gases remained to be prominent player in the Eastern region and strengthen its grip in market by getting continuous support of its customers and increasing its customer base substantially. Despite of the global slowdown and production cuts by the industrial customers the company remained committed to its long term strategy of capturing major market share in eastern region and also expanding its base pan India.

FINANCIAL PERFORMANCE REVIEW OF THE COMPANY

The company has outperformed in the year 2010-11 compared to the year 2009-10. Total income has gone up from 6291.00 lakhs to 8973.00 lakhs, operating profit from 224.21 lakhs to 348.28 lakhs and net profit after tax from 63 lakhs to 99 lakhs.

1. Share Capital – The company has authorised share capital of Rs. 1000 lakhs comprising of equity shares of face value Rs.10/- The paid up share capital is Rs.857 lakhs . During the year there was no change in share capital except receipt of unpaid calls from shareholders.
2. Reserve and Surplus – Total accumulated profit as on 31/03/2011 is Rs. 232 lakhs.
3. Loan Profile – The Company has taken fund based secured loan of Rs. 1142 lakhs and non-fund based secured loan of Rs. 400 lakhs. The unsecured loan only stands to Rs. 14 lakhs.
4. Fixed Assets – During the year under review, the total additions to the gross block of assets was to Rs. 80 lakhs. Full additional investment in fixed assets was funded out of internal accruals.
5. Investments – The Company has not made any fresh investment in capital market during the year.
6. Cash and Bank Balance – The Company had adequate liquidity in hand. Rs. 83 lakhs were in the Fixed Deposit of various banks.

OPPORTUNITIES AND THREAT:

There has been a radical change in global economies particularly in the developing countries like India which has raised hope for excellent business opportunities as a whole.

The Company has added advantage of LPG sourcing from Indian Oil Petronas Pvt. Ltd. (IPPL) who is the only supplier of Propane in India after Gail which allows us to gain extra edge from competitors.

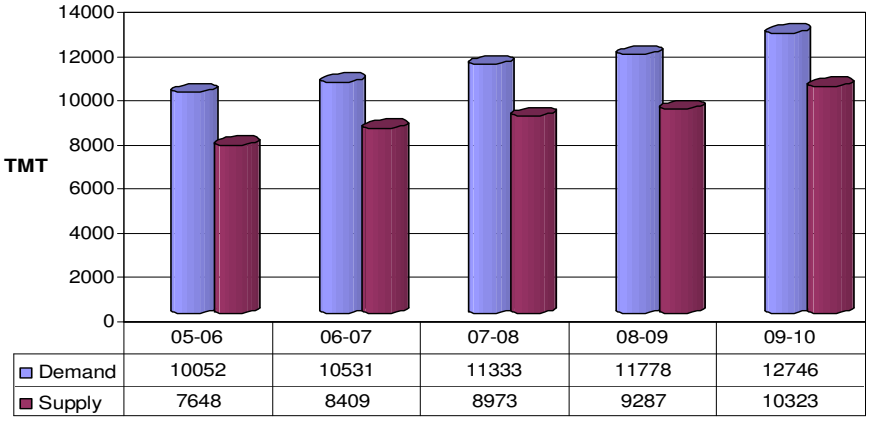
The Government of India failed to honor its commitments given to the Private Sector LPG Industry which led to the instability and havoc affecting all the Private Sector LPG Companies. However with your support, the Company could not only survive the above turbulence but also geared to pursue its market revival plans as a part of its growth strategy. Since the Government of India is not removing the subsidy on domestic LPG as committed earlier, the company decided to focus on the non-subsidized markets such as commercial, industrial and auto LPG. The demand for LPG has been increasing due to cost and environmental advantage over other fuels.

The Industrial advantage:

Fuels	Selling Unit	Selling Price	Gross Calorific Value (Kcal)
HSD	Rs./litre	43.74	12929
Auto LPG	Rs./litre	40.96	11232
LPG	Rs./Kg	65.62	10800
LSHS	Rs./Kg	35.22	9700
Bulk LPG	Rs./Kg	59.96	10800

The company has also witnessed growth of demand in cylinder segment due to customer awareness for use of commercial cylinders in commercial application and government initiatives to check black marketing of subsidised cylinders.

India - LPG Demand Supply Scenerio



Presently, India imports 2.5 million tonnes of LPG. Demand will soar in the coming years with the implementation of the Rajiv Gandhi LPG Vitrak Yojana, which envisages covering 75 per cent of the population by 2015. Total LPG Consumption in India during 2009-10 was 13121 ('000 tons) among which 21% of LPG was imported i.e. 2718 ('000 tons). There is a steady growth of LPG Consumption in India @ 8% p.a.

20-25% of the LPG is imported every year and still the shortage is noticeable. Demand and supply of gas is improving every day but prices remained by and large restrained putting pressure on profit margins. Demand of gas is bound to increase due to strong emphasis of Government on development of infrastructure in the country which leads to opening of new industrial houses and expansion of current houses as well. The is always a noticeable demand supply gap which is estimated about 7%-10%

The Industrial LPG distribution business shows good long term potential as demand for gas increases from Indian Industry. There is scope for competition from natural gas, as this will be cheaper than LPG. However, the infrastructure to carry natural gas is enormously expensive to build and we are confident that LPG will remain a very important fuel for industry due to the ease of transportation and logistics.

Auto-LPG business has high growth potential as India becomes richer, the use of this clean fuel will also increase. The Auto-LPG has emerged as great substitute to petrol leading in great demand for the fuel. It is a segment of higher margin than industrial sales. Auto LPG sells at 30-40% cheaper then petrol prices and is eco-friendly too. The market penetration of Auto LPG, currently at less than 3% of cars, is likely to increase over time. With high oil prices here to stay, a cheaper alternative in the form of Auto LPG's appears to be catching the imagination of car owners.

The above factors have opened a new vista in automobile sector, added to it, many of the automobile giants like Maruti, HM , Hyundai, Ford, GM, Bajaj, Tata Motors, Leyland, etc., have started manufacturing gas operated vehicles as OEM. India produces about 65 lakhs of vehicles and with the entering of new international players from Japan, Italy, Germany, France etc., market will be flood with more varieties of vehicles in petrol. This will lead to an increase in conversion to Auto LPG, which will create more demand for Auto LPG stations. Some industry analysts say that new 10% of new cars will be fitted with Auto LPG kits.

SEGMENTWISE OR PRODUCTWISE PERFORMANCE

The company is engaged primarily in the business of Manufacturing & trading (LPG & RMC). Hence Segment wise operational performance is not applicable.

OUTLOOK

The company has achieved its highest sales turnover during the year. In view of the undergoing economic reforms the prospect of the Industry seems certain. The Management of the Company has been keeping close watch to take this opportunity even at the risk of more investment in the sector. LPG will see growing consumption in India despite the availability of more natural gas from KG basin, Gail, etc. This is due to the ease of transportation unlike natural gas which requires huge investment in infrastructure such as pipelines and a gas grid. All segments of the LPG business, including Industrial supplies, Commercial LPG and Auto LPG dispensing stations are expected to see high growth.

RISK & CONCERNS

The Companies fate is linked to the fate of its user industries. The Management has taken steps to keep its position intact in the market which is predominated with stiff competition. Close and constant touch is being maintained with all the customers while trying to develop new customer base. The Company has also been in touch with its Suppliers so as to ensure un-interrupted regular supply of the product. Corporate Governance Policy clearly laying down roles, duties and responsibilities of various entities in relation to risk management is in place. Macro economics factors including economics and political developments, natural calamities which affect the industrial sector generally would affect the business of The Company. Legislative changes resulting in changes in the taxes, duties and levies, whether local or central, also impact business performance and relative competitiveness of the business. Given below is a brief of the underlying risks:

1. Interest Rate Risk – Few fixed and current assets are financed by Bank and Financial Institutions (FI) at different floating rates linked to prime lending rates of respective bank/FI. Company has also taken term unsecured loan from bank at fixed rate. Accordingly, the company is exposed to cash flow interest rate risk on its secured loans. The company analyses its interest rate exposure regularly. Various scenarios are analyses taking into consideration refinancing, alternative financing etc. Based on these scenarios, the Company calculates the impact on profit and loss of a defined interest rate shift. The sensitivity analysis is based on a reasonably possible change in the market interest rates computed from historical data and is representative of the interest rate risk inherent in financial assets and financial liabilities reported at the balance sheet date.

2. Credit Risk - Credit risk refers to the risk of default on its obligation by the counterparty

resulting in a financial loss. The Company makes advances to suppliers and vendors in the normal course of its business. The Company also makes advances to employees and places security deposits with related parties and restricted margin money deposits with banks. The majority of the Company's sales to its customers are on credit. These transactions expose the Company to credit risk on account of default by any of the counterparties. Credit risk is managed through credit approvals and continuously monitoring the creditworthiness of counterparties. The Company classifies all of its financial assets as 'loans and advances' and 'sundry debtors'.

3. Liquidity Risk - Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities. The company ensures flexibility in funding by maintaining availability under committed credit lines. The unused amounts pertain to the credit facility availed from the consortium of banks. The company's liquidity management policy involves considering the level of liquid assets necessary to meet the funding requirement; monitoring the liquidity of fund and creating a quarterly budgetary plan.

4. Industrial Sales Dependency – The largest contribution to the company's turnover is from supplies made to Reputed Industrial Houses. This scenario is due to the low developed Commercial cylinder market and non start of Auto LPG Retail Outlets (ALRO). Company is currently venturing into expending its commercial cylinder business as well as initiatives has been taken to set up ALRO at various locations in India. Thus, moving forward it's expected to be a major growth driver for the company de-risking its business model suitably.

5. Competitive Scenario – The LPG is highly competitive industry with major stake of PSU's and MNC's in the industry. The company is proud to reiterate that its services cater to various segments of the market. The Company keeps close touch with customers and keeps close watch on new industrial developments to keep track of changing demand and supply trends.

6. Government Subsidy - The major threat to our industry is again the subsidies provided by the Central Government to the PSU's only. The entire private sector faces competitive pressures from the PSUs, which enjoys access to lower costing due to the subsidies available to them. The company is thus basically focusing on commercial segment where there is no subsidy allowance even by the government and company is also targeting the high class domestic consumer who prefers to pay then waiting for long for subsidised cylinders.

7. Market Risk - Fluctuations in the demand supply gap in the future can have significant impact on the realizations and on the competitive scenario. The Company's objective therefore is to understand measure and monitor these risks regularly, and take appropriate measures to minimize their impact. The Company has taken several initiatives to mitigate the market risks associated with its operations. The company, over the years, has continuously invested in creating strong bond of relationship and brand image which have led to significant increase in market share in relevant markets. This has also helped the Company to command a premium on its products, even in relatively adverse market conditions. The company has further initiated a detailed micro-market analysis to foresee the demand supply situation in different markets.

8. Regulatory Risk - There is a fair amount of regulatory control exercised by the Government on the LPG business.

9. Alternate Fuel - Natural Gas is slowly emerging as an alternative to LPG. Coal to liquid conversion based on coal gasification (CBM) is also a potential alternative, considering the abundance of coal in India in comparison to oil and gas. Other alternatives include Wind Power, Hydropower, Biomass, Solar thermal power, Ethanol and Bio-Diesel. The company is keeping close watch on the same and would be adding more product base in its basket in future.

10. Other Risks - The other threats were higher cost of various inputs, higher transportation cost including increase in fixed cost from time to time. The strategies are constantly re-worked to minimize adverse implications, if any.

INTERNAL CONTROL SYSTEMS & ADEQUACY

The company has an adequate internal control system commensurate with the size and nature of its business.
Internal audit programme covers various areas of activities and periodical reports are submitted to the management. The Audit Committee reviews financial statements and internal Audit reports along with internal control systems. The Company has a well-defined organizational structure, authority levels and internal rules and guidelines for conducting business transactions.

FINANCIAL & OPERATIONAL PERFORMANCES

A critical appraisal is made by the Audit Committee before drawing Quarterly Statement of Accounts and the Board also reviewed the same on each occasion.