

ELGI
FINANCE

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15th Annual Report
1996 - 97



ELGI FINANCE LIMITED

Board of Directors

Sri. L.G. VARADARAJULU
(Chairman)
Sri. L.G. RAMAMURTHI
Dr. T.V. GOPALAKRISHNAN
Sri. T.M. GOPALASWAMY
Sri. K. SUBRAMANIAM
Sri. MAHENDRAN RAMDAS
Sri. N.C. RAMACHANDRAN
Sri. D. SELVARAJ
Sri. SUDARSAN VARADARAJ
Dr. JAIRAM VARADARAJ
(Managing Director)

Chief Executive & Secretary

Sri. V.K. Kumar

Corporate Office

32, Palani Centre
Ground Floor, Rear Wing
Venkatanarayana Road
T.Nagar, Chennai - 600 018

Members are requested to bring their
copy of the Annual Report to the
Annual General Meeting

Bankers

STATE BANK OF INDIA
THE DHANALAKSHMI BANK LTD
THE CATHOLIC SYRIAN BANK LTD
THE LAKSHMI VILAS BANK LTD
THE SANGLI BANK LTD
STATE BANK OF MYSORE
KARUR VYSYA BANK LTD
THE FEDERAL BANK LTD
STATE BANK OF TRAVANCORE
BANK OF BARODA
GLOBAL TRUST BANK LTD

Auditors

M/s. Suri & Co
Chartered Accountants
Coimbatore

Internal Auditors

M/s S R Batliboi & Co
A member of ERNST & YOUNG International
7 & 8, II nd Floor, Sindur Plaza
42, Montieth Road, Chennai - 600 008

Registered Office

Elgi House
Trichy Road, Ramanathapuram
Coimbatore - 641 045



NOTICE OF THE ANNUAL GENERAL MEETING

Notice is hereby given that the Fifteenth Annual General Meeting of the Members of Elgi Finance Limited will be held on Wednesday, the 24th day of December 1997 at 4.00 P.M. at Nani Palkhivala Auditorium, Mani Higher Secondary School, Colmbatore-37, to transact the following business.

ORDINARY BUSINESS:

1. To consider and adopt the Balance Sheet and Profit & Loss Account for the period ended 30th September 1997 together with the Reports of the Directors and Auditors thereon.
2. To declare a Dividend.
3. To appoint a Director in place of Sri. L.G. Ramamurthi who retires by rotation and being eligible, offers himself for re-appointment.
4. To appoint a Director in place of Sri. N.C. Ramachandran who retires by rotation and being eligible, offers himself for re-appointment.
5. To appoint a Director in place of Sri.T.M. Gopalaswamy who retires by rotation and being eligible, offers himself for re-appointment.
6. To appoint a Director in place of Sri. K. Subramaniam who retires by rotation and being eligible, offers himself for re-appointment.
7. To appoint Auditors to hold office from the conclusion of this Meeting until the conclusion of next Annual General meeting and to fix their remuneration.

SPECIAL BUSINESS :

8. To consider and if thought fit to pass with or without modifications the following resolution as an ordinary resolution.

Resolved that consequent upon change in the accounting year of the company and the resultant additional audit work undertaken for a total period of 18 months, the remuneration payable to M/s. Suri & Co. Chartered Accountants, fixed at the last Annual General Meeting held on 27/09/96 at Rs. 60,000/- be and is hereby increased to Rs.90,000/- (payable in one or more instalments) plus reimbursement of all out of pocket expenses.

Explanatory statement under section 173(2) of the Companies Act, 1956 to be annexed to the notice of Annual General Meeting.

Item No.8

The financial year of the company was extended to 30.09.97 for which approval of the Registrar of Companies has been obtained under the provision to Section 210(4) of the Companies Act, 1956. This has resulted in auditing of the account of the company for a total period of 18 months i.e. 01.04.1996 to 30.09.1997. At the last Annual General Meeting held on 27.09.1996 members had appointed M/s. Suri & Co as Auditors of the Company on a remuneration of Rs. 60,000/- on the basis of audit of accounts for a period of 12 months ended 31.03.1997. Since there is an extended period of six months involving additional audit work, it is felt that pro-rata additional remuneration of Rs.30,000/- plus reimbursement of all out of pocket expenses be paid to them. The Directors recommend the increase and accordingly the resolution in this regard is put forth for your approval.

None of the Directors are interested in this resolution.

NOTE:

A Member entitled to attend and vote at a Meeting is entitled to appoint a Proxy to attend and vote instead of himself and the proxy need not be a Member.

The Instrument appointing the Proxy should be deposited at the Registered office of the Company not less than 48 hours before the commencement of the Meeting.

The Register of Members and Share Transfer Register of the Company will remain closed from 16/12/1997 to 23/12/1997 (both days inclusive) for the purpose of payment of dividend.

Particulars of unclaimed dividend already transferred to the General Revenue of the Central Government under Sec.205 (A) of the Companies Act, 1956 and the rules made there under as amended upto date are given hereunder for the information of the shareholders.

Financial year of the company to which the dividend relates	Date of declaration of dividend	Total amount transferred	Total No. of equity share holders who have not claimed the dividend
1989-1990	15.11.90	Rs. 9,900	46
1990-1991	30.09.91	Rs. 15,190	58
1991-1992	28.11.92	Rs. 34,683	111
1992-1993	20.09.93	Rs. 66,101	148
1993-1994	07.09.94	Rs. 55,472	140

Colmbatore
20.11.1997

By Order of the Board
V.K. Kumar
Chief Executive & Secretary



DIRECTOR'S REPORT

Your Directors are pleased to present the Fifteenth Annual Report together with the audited accounts for the Eighteen months ended 30th September, 1997. The accounting year of the Company was extended by six months for capital restructuring that will benefit the company in the long term.

FINANCIAL RESULTS

	Period ended 30.09.97 (Rs. in lacs)	year ended 31.03.96 (Rs. in lacs)
GROSS INCOME	5404.82	3283.29
Profit before interest depreciation and tax	4374.32	2835.58
Less:		
(a) Interest	3382.44	2021.63
(b) Depreciation/Lease Equalisation	658.48	391.48
(c) Provision for tax	59.00	—
BALANCE PROFIT	274.40	422.47
Add :		
Previous year surplus c/f	21.18	20.27
Profit available for appropriation	295.58	442.74
APPROPRIATIONS		
(a) Proposed Equity Dividend (Inclusive of Dividend Tax)	111.14	151.56
(b) Transfer to Statutory Reserve	54.88	—
(c) Transfer to General Reserve	20.58	270.00
(d) Surplus carried over	108.98	21.18

DIVIDEND

Considering the need to conserve and plough back resources in a tight financial market, your Directors recommend a lower dividend of 20% (Rs.2.00 per equity share) free of tax.

OPERATIONS

The gradual withdrawal of liquidity in the financial system resulted in even good customers finding it difficult to meet their commitments on time because of which their expansion plans were also shelved. Balancing recoveries and disbursements in such a market was indeed a trying time. Lending was therefore curtailed and funds management was directed towards considerably reducing high cost corporate borrowings and a slash in the interest rate on fixed deposits resulting in lower renewals. These factors have largely affected the performance of your Company for the period under review. All Merchant Banking operations were put on hold waiting for the capital market to revive.

SUBSIDIARY

There was no activity in the subsidiary Elgi Ultra Appliances Ltd as the market situation required focus to be maintained on the operations of ELGI FINANCE LTD alone.

RIGHTS ISSUE - PROJECTIONS vs PERFORMANCE

The comparison of projections vs performance for 1996-97 in relation to the Rights Issue Letter of Offer is as follows :

	Projections (12 months) (Rs. in lacs)	Performance (18 months) (Rs. in lacs)
Total Income	4120.52	5404.82
Profit before tax	760.11	333.40
Profit after tax	750.52	274.40
Earnings per share	5.51	5.43



DIRECTORS REPORT (Contd.)

Projections could not be achieved largely because of high interest costs for most part of the period and reduced business volumes owing to tight market liquidity. Profit after tax is also affected on account of MAT introduced subsequent to the Rights Issue.

OUTLOOK FOR THE CURRENT YEAR

Liquidity across all industries remain strained and signs of a definite revival are not yet apparent, although economic projections foresee a turnaround sooner or later. Until then, performance and growth could remain stagnant as other business options now being pursued will only at best maintain the current Performance.

Approval of the Members has been obtained for raising funds, through private placement of redeemable Preference Shares at par for an aggregate value of Rs.1200 lacs, to be placed at a lower cost to support the operations.

DEPOSITS

Deposits stood at Rs.8150.96 lacs registering a growth of 54% over that of the previous year contributed by a net accretion of Rs.2851.60 lacs during the period. Two new branches were opened during the year at Ahmedabad and Rajmundry thus taking the branch network to sixteen. ICRA will soon be reviewing the upgraded "MAA- (high safety)" rating assigned to the Company's fixed deposit schemes last year.

As on 30th September, 1997, 1402 deposits aggregating to Rs.193.98 lacs were unclaimed, out of which 387 deposits aggregating to Rs.58.49 lacs were since repaid or renewed. Efforts are being made to contact the other depositors to repay/renew their deposits.

PERSONNEL

Sri. L.G. Ramamurthi desired to relinquish his position as chairman of the Company, while continuing as a member on the Board. At the Board Meeting held on 29.09.1997, Sri. L.G. Varadarajulu was elected as the new Chairman.

Sri. L.G. Ramamurthi, Sri. N.C. Ramachandran, Sri.T.M. Gopalaswamy and Sri.K. Subramaniam will retire by rotation at the ensuing Annual General Meeting and are eligible for re-appointment.

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

The Company has no activity in these areas.

AUDITORS

M/s. Suri & Co will retire at the ensuing Annual General Meeting and being eligible offer themselves for re-appointment. Proportionate increase in their remuneration for the eighteen months ended 30th September, 1997 has been proposed at the ensuing Annual General Meeting for consideration.

GENERAL

In respect of attention drawn by the Auditors in their Report regarding lease equalisation, additional finance/ factoring charges, income-tax provision and audit fees, your Directors offer the following explanation :

The book value of leased assets after providing lease equalisation upto 31.03.96, is equal to or less than the market value. Since further provision of lease equalisation would erode its true value, no provision has been made on 30.09.97. The provision is also not mandatory under Companies Act, 1956 (Accounting Policy I(7)).

In order to fall in the line with the Income Tax Act for mandatory accounting of income on accrual basis, additional finance and factoring charges in respect of performing assets have been rightly recognised on accrual basis as per the terms of the contract (Note II (13))

Note II (8) and II (11) to Notes on Accounts regarding income-tax provision and audit fees are self explanatory.

PERSONNEL

There are no employees covered by the particulars required to be disclosed under section 217(2A) of the Companies Act, 1956.

ACKNOWLEDGEMENTS

Your Directors wish to place on record their appreciation for the support extend by the Company's Bankers', ICICI and IFCL. Your Directors are also pleased to record their appreciation for the co-operation and contribution of the employees at all levels.

Colombatore
20.11.1997

By Order of the Board
L.G. Varadarajulu
Chairman


ANNEXURE TO DIRECTOR'S REPORT FOR THE PERIOD ENDED 30TH SEPTEMBER 1997
STATEMENT PURSUANT TO SECTION 212 OF THE COMPANIES ACT, 1956 RELATING TO SUBSIDIARY COMPANY

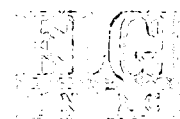
1. Name of the Subsidiary	: Elgi Ultra Appliances Ltd.	5. Net aggregate amount of Profit/(Losses) for the previous financial year of the Subsidiary since it became Subsidiary so far as they concerned members of the Elgi Finance Limited	
2. Financial Year of the Subsidiary	: 31st March, 1997	(a) dealt within the accounts of Elgi Finance Limited for the period ended 30th Sep. 1997	: Nil
3. Shares of Subsidiary held by Elgi Finance Limited on the above date		(b) not dealt within the accounts of Elgi Finance Limited for the period ended 30th Sep. 1997	: Rs. 3,22,165
(a) Number and face value	: 4,50,500 fully paid-up equity shares of Rs.10/- each	6. Change of interest of Elgi Finance Limited in the Subsidiary between the end of financial year of Subsidiary and that of Elgi Finance Limited	: Not applicable
(b) Extent of holding	: 100%	7. Material changes between the end on the financial year of the Subsidiary and the end of the financial year of Subsidiary and that of Elgi Finance Limited in respect of Subsidiary's fixed assets, investments, lending and borrowing for the purpose other than meeting their current liabilities	: Not applicable
4. Net aggregate amount of Profit/(Losses) of the subsidiary of the above financial year of the subsidiary so far as they concerned members of Elgi Finance Limited.			
(a) dealt within the accounts of Elgi Finance Limited for the period ended 30th Sep. 1997	: Nil		
(b) not dealt within the accounts of Elgi Finance Limited for the period ended 30th Sep. 1997	: Rs. (5,000)		

**DETAILS REQUIRED UNDER PART IV OF SCHEDULE VI
BALANCE SHEET ABSTRACT AND COMPANY'S GENERAL BUSINESS PROFILE**

I. Registration Details			
Registration No.	: 9281	State Code	: 18
Balance Sheet Date	: 30	09	: 1997
	Date	Month	Year
II. Capital Raised during the Year (Amount in Rs. Thousands)			
Public Issue	: Nil	Rights	: Nil
Bonus Issue	: Nil	Private Placement	: Nil
III. Position of Mobilisation and Deployment of Funds (Amount Rs. Thousands)			
Total Liabilities	: 1504487	Total Assets	: 1504487
Sources of Funds			
Paid-up Capital	: 50520	Reserves & Surplus:	: 148795
Secured Loans	: 490077	Unsecured Loans	: 815096
Application of Funds			
Net Fixed Assets	: 246793	Investments	: 150317
Net Current Assets	: 1099863	Misc. Expenditure:	: 7514
Accumulated Losses	: Nil		
IV. Performance of Company (Amount in Rs. Thousands)			
Turnover	: 540477	Total Expenditure	: 507137
Profit Before Tax	: 33340	Profit After Tax	: 27440
Earning Per Share in	: Rs. 5.43	Dividend Rate (%)	: 20
V. Generic Names of Three Principal Products/Services of the Company (as per monetary terms)			
Item Code No.	: N.A.		
Product Description	: Financial Services		
Item Code No.	: N.A.		
Product Description	: Merchant Banking		

Coimbatore
20.11.1997

By Order of the Board
L G Varadarajulu
Chairman



AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the accounts for ELGI FINANCE LIMITED, Coimbatore for the period ended 30th September, 1997 and the attached Balance Sheet as at 30th September, 1997 and the Profit and Loss Account ended that date annexed thereto and report that :

In our opinion and to the best of our information and according to the explanations given to us, the said accounts along with the Notes give the information required by the Companies Act, 1956, in the manner so required and give a true and fair view :

- i. In the case of Balance Sheet, of the Company's affairs as at the end of the financial year;

AND

- ii. In the case of the Profit and Loss Account, of the Profit for the year ;

We have obtained all the informations and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit.

In our opinion, proper books of accounts, as required by Law, have been kept by the Company so far as appears from our examination of those books.

The Company's Balance Sheet and Profit and loss Account dealt with by this report are in agreement with the books of accounts.

Subject to

- I. Changes in method of accounting :
 - a. In respect of consideration of additional finance charges and additional factoring charges as accrued on time basis on account of which the profit for the year is more by Rs.1,92,95,513/-
 - b. In respect of Non provision of lease equalisation fund, on account of which the profit for the year is more by Rs.3,06,87,997/-
- II. Provision of additional audit fees of Rs.30,000/- wherein subject to the approval of the General Body.
- III. Non provision of Income Tax for the period 1.4.1997 to 30.9.1997 which has not been quantified.
- IV. Non provision of lease equalisation fund, the method of which is not in accordance with the guidelines issued by the Institute of Chartered Accountants of India. The quantum of such non provision is Rs.3,06,87,997/-

As required by the Manufacturing and Other Companies (Auditor's Report) Order, 1988, issued by the Company Law Board under Section 227(4A) of the Companies Act, 1956, in so far as they are applicable to this company, we have to report further as under :

1. The Company has maintained proper records showing full particulars including quantitative details and situation of fixed assets. The fixed assets of the company other than assets leased have been physically verified by the management and no material discrepancies have been noticed on such verification.

2. There was no revaluation of fixed assets during the year.
3. In our opinion, the rate of interest and the terms and conditions of unsecured loans taken by the company during the year from companies listed in the register maintained under Section 301 of the Companies Act, 1956 are not prima facie, prejudicial to the interest of the company. According to the informations and explanations given to us, there are no Companies under the same management as defined under Section 370(1B) of the Companies Act, 1956.
4. In our opinion, conditions and rate of interest on loans secured or unsecured to Companies, firms or other parties listed in the register maintained under Sec. 301 of the Companies Act, 1956, are not prima facie, prejudicial to the interest of the Company.
5. The parties to whom loans and advances in the nature of loans, have been given by the Company are generally regular in repaying the principal amounts as stipulated and are also generally regular in payment of interest.
6. In our opinion, and according to the informations and explanations given to us, there are adequate internal control procedures commensurate with the size of the Company and its business for the purchase of plant and machinery, equipment and other assets and for the sale of assets.
7. The Company has accepted Fixed Deposits from the Public and has complied with the directives issued by the Reserve Bank of India and the Provisions under Section 58A of the Companies Act, 1956 and the Rules framed thereunder, wherever applicable.
8. The Company has an internal Audit System commensurate with the size and nature of its business.
9. The Company is regular in depositing the Provident Fund dues and Employees' State Insurance dues with the respective authorities.
10. In our opinion, there was no amount outstanding on 30.9.97 in respect of un-disputed Income-tax, Sales-tax, Customs duty and Excise duty which were due for more than six months from the date they became payable.
11. According to the informations and explanations given to us and the records of the Company examined by us, no personal expenses have been charged to Revenue Account.
12. The Company is not a Sick Industrial Company within the meaning of Section 3(1) (O) of the Sick Industrial Companies (Special Provisions) Act, 1985.
13. The Company has not granted any loans and advances on the basis of security, by way of pledge of shares, debentures and other securities.
14. The other provisions of the "Manufacturing and Other Companies (Auditor's Report) Order, 1988" are not applicable to the company.

Place : Coimbatore
Date : 20.11.1997

for Suri & Co.
S. SWAMINATHAN
PARTNER
Chartered Accountant


CASH FLOW STATEMENT FOR THE PERIOD 1-4-1996 TO 30-9-1997

	30.09.1997 (Rs. In lacs)	31.03.1996 (Rs. In lacs)
A. CASH FLOW FROM OPERATING ACTIVITIES:		
Net Profit before Tax and extraordinary items	506.70	422.47
Adjustment for Depreciation	658.48	391.48
Investment Income	(184.54)	(76.67)
Profit on Sale of Assets	(7.00)	(5.57)
Profit on Sale of Investments	(25.26)	—
Interest	3382.44	2,021.63
Dividend	(24.69)	(15.11)
	<u>3799.43</u>	<u>2,315.76</u>
Operating Profit before working capital changes	4306.13	2,738.23
Adjustment for Trade and Other receivables	(2967.32)	(972.73)
Stock on Hire	2079.59	(2,957.58)
Inventories	—	0.44
Trade Payables and Provisions	(2488.67)	1,412.71
	<u>(3376.40)</u>	<u>(2,517.16)</u>
Cash generated from operations	929.73	221.07
Interest paid	(3382.44)	(2,021.63)
Direct Taxes paid	(134.00)	0.00
	<u>(3516.44)</u>	<u>(2,021.63)</u>
Cash flow before extraordinary items	(2586.71)	(1,800.56)
Extraordinary items from operating activities	206.28	(25.96)
Net Cash from operating activities	<u>(2380.43)</u>	<u>(1,826.52)</u>
B CASH FLOW FROM INVESTING ACTIVITIES:		
Purchase of Fixed assets	(428.50)	(1,335.60)
Sale of Fixed Assets	319.89	46.26
Purchase of Investments	(1804.72)	(449.81)
Sale of Investments	1510.35	0.00
Interest Received	184.54	76.67
Dividend Received	24.69	15.11
Net Cash used in Investing Activities	<u>(193.75)</u>	<u>(1,647.37)</u>
C CASH FLOW FROM FINANCING ACTIVITIES :		
Proceeds from long Term Borrowings	(111.67)	2,232.47
Proceeds from unsecured Loans	2796.60	1,242.27
Dividend Paid	(151.56)	(151.56)
Net Cash used in Financing Activities	<u>2533.37</u>	<u>3,323.18</u>
	<u>2339.62</u>	<u>1675.81</u>
Net increase in Cash and Cash equivalents	(40.81)	(150.71)
Cash and Cash equivalents as at 01/04/96	480.31	631.01
Cash and Cash equivalents as at 30/09/97	439.50	480.30

Coimbatore
20.11.1997

JAIRAM VARADARAJ
Managing Director

Auditors Certificate

We have verified the above cash flow statement of Elgi Finance Limited derived from the audited annual accounts for the period ended 30.9.97 and found the same to be drawn in accordance therewith and also with the requirements clause 32 of the listing agreement with Coimbatore Stock Exchange Limited.

For M/s. SURI & CO.,
Chartered Accountants

Coimbatore
20.11.1997

S. SWAMINATHAN
Partner