FORBES GOKAK LTD.

80th ANNUAL REPORT 1998 - 99

IN YOUR OWN INTEREST

1. **Multiple Accounts:**
   Please advise us all folio numbers for combining into one. Please also forward your respective Share Certificates to enable us to change folio number.
2. **Change of Address:**
   Please intimate us change in address, as soon as possible.
3. **Unclaimed Dividend:**
   Please claim your previous dividends, if any, not encashed. If the dividend warrants have been lost, please apply for duplicate warrants.
4. **Ledger Folio Number:**
   Please quote your ledger folio number in all your communications with the Company or our Registrars and Share Transfer Agents.
5. **Transmission of Shares:**
   In case of deceased Shareholders, their relatives are requested to file death certificates, probate and other relevant documents for transmission of shares. Kindly contact our Registrars and Share Transfer Agents for necessary formalities.
6. **Permanent Details of your Account:**
   All communications to the Company or its Registrars and Share Transfer Agents which would have the effect of amending the permanent details of your ledger Account viz. change of address, advising details of bank account etc. should be signed by all the Shareholders.

FORBES GOKAK LTD.

DIRECTORS:	Dr. F. A. MEHTA	*Chairman*
	K. C. MEHRA	*Deputy Chairman & Managing Director*
	N. A. SOONAWALA	*Vice-Chairman*
	G. V. KAPADIA	
	M. R. PAI	
	D. B. ENGINEER	
	D. S. SOMAN	
	J. K. SETNA	
	C. G. SHAH	*Executive Director (Finance) & Secretary*
	P. K. KAKARADDI	*Executive Director (Textiles)*
	R. N. JHA	
SECRETARY:	C. G. SHAH	*Executive Director (Finance) & Secretary*
MANAGEMENT:	K. C. MEHRA	*Deputy Chairman & Managing Director*
	C. G. SHAH	*Executive Director (Finance) & Secretary*
	P. K. KAKARADDI	*Executive Director (Textiles)*
	C. A. KARNIK	*Director (HRD)*
	G. MUKHERJI	*Director (Engineering)*
	K. C. RAMAN	*Regional Director (Shipping-South & East)*
	H. S. BHASKAR	*Director-Operations (Textiles)*
	T. R. CHANDRAN	*Regional Director (Shipping-North & West)*
	V. CHANDRASEKHARAN	*Director-Marketing (Textiles)*
	R. T. DOSHI	*Vice-President (Finance & Accounts)*
AUDITORS:	Messrs. A. F. FERGUSON & CO.	
	Messrs. S. B. BILLIMORIA & CO.	
SOLICITORS AND ADVOCATES:	Messrs. CRAWFORD BAYLEY & CO.	
	Messrs. MANEKSHA & SETHNA	
	Messrs. UDWADIA, UDESHI, DESAI, BERJIS & CHINOY (REGD.)	
LEGAL ADVISOR:	S. R. VAKIL	
BANKERS:	PUNJAB NATIONAL BANK	
	STANDARD CHARTERED BANK	
	THE HONGKONG AND SHANGHAI BANKING CORPORATION LTD.	
	UNION BANK OF INDIA	
	STATE BANK OF INDIA	

REGISTRARS AND SHARE TRANSFER AGENTS:	TATA CONSULTANCY SERVICES, UNIT: FORBES GOKAK LIMITED, 6, LOTUS HOUSE, SIR VITHALDAS THACKERSEY MARG, MUMBAI 400 020
MILLS:	GOKAK FALLS (District Belgaum - Karnataka) - 591 308 VADODARA (Gujarat) 390 005
FACTORIES:	
AURANGABAD	1. A-7, M.I.D.C. AREA, CHIKALTHANA, AURANGABAD 431 210 2. PLOT B-13, WALUJ INDUSTRIAL AREA, AURANGABAD 431 133
MUMBAI	CHANDIVALI ESTATE, KURLA-POWAI ROAD, MUMBAI 400 072
REGISTERED OFFICE:	FORBES BUILDING, CHARANJIT RAI MARG, FORT, MUMBAI 400 001

FORBES GOKAK LTD.

EIGHTIETH ANNUAL REPORT 1998-99

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The Annual General Meeting will be held on Tuesday, *the 3rd August, 1999 at 4.00 P.M. at Bombay House* Auditorium, 24, Homi Mody Street, Mumbai 400 001.

NOTICE

NOTICE is hereby given that the EIGHTIETH ANNUAL GENERAL MEETING of the Shareholders of FORBES GOKAK LIMITED, will be held at the Bombay House Auditorium, 24, Homi Mody Street, Mumbai 400 001 on Tuesday, the 3rd August, 1999 at 4.00 P.M. to transact the following business :

1. To receive, consider and adopt the Audited Balance Sheet as at 31st March, 1999 and the Profit and Loss Account for the year ended on that date and the Reports of the Directors and Auditors.
2. To declare a dividend.
3. To appoint a Director in place of Mr. N. A. Soonawala who retires by rotation and is eligible for re-appointment.
4. To appoint a Director in place of Mr. D. B. Engineer who retires by rotation and is eligible for re-appointment.
5. To appoint a Director in place of Mr. D. S. Soman who retires by rotation and is eligible for re-appointment.
6. To consider and, if thought fit, to pass, with or without modification, the following resolution, as a Special Resolution :

   "RESOLVED that Messrs. A. F. Ferguson & Co. and Messrs. S. B. Billimoria & Co., Chartered Accountants, be and they are hereby appointed Auditors of the Company to hold office from the conclusion of this Annual General Meeting until the conclusion of the next Annual General Meeting at the remuneration to be determined by the Board of Directors, plus their actual travelling and other expenses in connection with the Company's audit."

For and on behalf of
the Board of Directors

F. A. MEHTA
Chairman.

Mumbai, 25th June, 1999
Registered Office:
Forbes Building,
Charanjit Rai Marg, Fort,
Mumbai 400 001

NOTES :

1. A SHAREHOLDER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT ONE OR MORE PROXIES TO ATTEND AND VOTE INSTEAD OF HIMSELF AND A PROXY NEED NOT BE A SHAREHOLDER.
2. An Explanatory Statement pursuant to Section 173 of the Companies Act, 1956, is annexed hereto.
3. As advised through Newspapers, the Register of Members and the Share Transfer Books of the Company, will remain closed for the purpose of payment of Dividend from 21st July, 1999 to 3rd August, 1999 (both days inclusive).
4. The Dividend, when declared, will be payable on and after Monday, the 16th August, 1999 to those Shareholders whose names appear on the Register of Members on 3rd August, 1999.
5. Shareholders are requested to notify the REGISTRARS AND SHARE TRANSFER AGENTS immediately any change in their address and bank account details to ensure correct and prompt receipt of the Dividend Warrants.
6. SHAREHOLDERS ARE ADVISED, IN THEIR OWN INTEREST THAT ALL THE COMMUNICATIONS TO THE COMPANY OR ITS REGISTRARS AND SHARE TRANSFER AGENTS WHICH WOULD HAVE THE EFFECT OF AMENDING THE PERMANENT DETAILS OF THE LEDGER FOLIO, SHOULD BE SIGNED BY ALL THE SHAREHOLDERS.

7. Please check whether you have encashed Dividend Warrants for earlier years. If the Dividend Warrants are lost or have become time-barred, please apply to the Company or its Registrars and Share Transfer Agents for duplicate/revalidated Dividend Warrants.

Dividend for the year ended	Rate of Dividend	Dividend declared on
31st March, 1996	25%	26-09-1996
31st March, 1997	30%	26-09-1997
31st March, 1998	30%	21-08-1998

Advices are also being sent in this behalf, to the concerned members individually.

8. Please address all communications including lodging of Transfer Deeds to -

REGISTRARS AND SHARE TRANSFER AGENTS
Tata Consultancy Services,
UNIT: Forbes Gokak Ltd.
6, Lotus House,
Sir Vithaldas Thackersey Marg,
Mumbai 400 020.

Kindly quote your Ledger Folio No.

ANNEXURE TO NOTICE

Explanatory Statement under Section 173 of the Companies Act, 1956

Item 6 :

This item relates to the appointment of Auditors and the fixation of their remuneration. The Directors recommend the re-appointment of Messrs. A. F. Ferguson & Co. and Messrs. S. B. Billimoria & Co. as the Company's Auditors.

Section 224A of the Companies Act, 1956, provides that if not less than 25 per cent of the subscribed share capital of a company is held, whether singly or in any combination by a public financial institution or a Government Company or Central Government or any State Government, or any financial or other institution established by any Provincial or State Act in which a State Government holds not less than 51 per cent of the subscribed share capital, or a nationalised bank or an insurance company carrying on general insurance business, the appointment or re-appointment of an auditor would require to be made by a Special Resolution at the Annual General Meeting.

The aforesaid institutions or authorities, singly or in any combination, may hold more than 25 per cent of the subscribed share capital of the Company. Hence the Special Resolution at Item 6 of the Notice.

For and on behalf of
the Board of Directors

F. A. MEHTA
Chairman.

Mumbai, 25th June, 1999
Registered Office :
Forbes Building,
Charanjit Rai Marg, Fort,
Mumbai 400 001.

DIRECTORS' REPORT

To,
The Shareholders,
Ladies and Gentlemen,

Your Directors submit their Report and the Audited Accounts of the Company for the year ended 31st March, 1999.

1. FINANCIAL RESULTS:

The results for the current year and those for the previous year are set out in this paragraph.

(Rs. in Crores)

	Current year ended 31st March, 1999	*Previous year ended 31st March, 1998*
Sales, Services and other Income	395.55	*393.00*
Profit:		
(a) Profit before Interest and Depreciation	33.65	*51.73*
(b) *Less:* Interest	12.67	*14.05*
(c) Profit before Depreciation	20.98	*37.68*
(d) *Less:* Depreciation	15.61	*15.60*
(e) Balance	5.37	*22.08*
(f) *Less*: Provision for diminution in value of investments	0.33	*0.78*
(g) Profit before Taxation	5.04	*21.30*
(h) *Less:* Provision for Taxation	0.04	*6.50*
(i) Profit for the year	5.00	*14.80*
(j) *Add:* Balance brought forward from previous year	10.94	*6.73*
(k) Balance available for appropriations	15.94	*21.53*
Appropriations:		
(l) Dividend	1.87	*3.74*
(m) Tax on Dividend	0.21	*0.37*
(n) General Reserve	0.25	*1.48*
(o) Debenture Redemption Reserve	—	*5.00*
(p) Balance retained in Profit and Loss Account	13.61	*10.94*
TOTAL	15.94	*21.53*

The simultaneous recession in 1998-99 in all the three principal industries in which our Company is engaged — spinning, shipping and engineering — inevitably took its toll on the profit-margins of the Company during this year. Mercifully, thanks to vigorous efforts to protect the market share in the area of its operations, the gross income was retained at almost the same level as the previous year. This was achieved through a combination of, a change of product mix, outsourcing of traded goods, a geographical shift in the customer base and a planned reduction in costs. However, despite these measures, profit-margin, due to a joint effect of recession and competition, shrank appreciably, reducing absolute profits substantially.

2. LIQUIDITY:

In the evaluation of the financial performance of a Company, two measures are broadly used, namely profitability and liquidity. Whereas the profitability of our Company for the year under review has been severely affected, you will be glad to know that on the measure of performance by liquidity we have fared significantly better. The steps taken by the Company to improve liquidity during the year included conscious and selective reduction in the level of the inventory, a rigorous campaign to restrict receivables at a lower level and restricting outlay on capital investments to a bare minimum. This strategy was supplemented by encashment of some of the long term investments which had been made earlier. As a result of all these measures, the aggregate borrowing of the Company which was Rs. 86.21 Crores as at 31st March, 1998 has decreased by Rs. 10.42 Crores to Rs. 75.79 Crores as at 31st March, 1999 and interest cost which was Rs. 14.05 Crores for the year ended 31st March, 1998 has decreased to Rs. 12.67 Crores for the year ended 31st March, 1999.

3. DIVIDEND:

For the year ended 31st March, 1998 the Company had declared a dividend of 30% which together with the dividend tax of 10% had meant an aggregate outgo of Rs. 4.11 Crores. Having regard to the results of the Company for the year ended 31st March, 1999 the Directors recommend a Dividend of 15% which will mean an outgo of Rs. 2.09 Crores including dividend tax.

4. DEBENTURES:

The particulars of Debentures issued by the Company and currently outstanding are set out in Schedule 3 to the Accounts. Out of Debentures outstanding as on 31st March, 1998, 16.50% Secured Non-convertible Debentures matured for repayment on 28th October, 1998 and the Company has redeemed the same on due date. In compliance with the conditions of the issue of Debentures, the Directors hereby certify that the funds raised through the outstanding Debentures have been utilised for the purpose for which they were raised. As the Company has transferred adequate amounts to the Debenture Redemption Reserve in the earlier years, the Company is not required to transfer any further amount to the credit of Debenture Redemption Reserve during the current year.

5. TEXTILES DIVISION:

Textile Industry is passing through one of the worst periods in the recent history. Spinning industry has suffered the most with unremunerative prices hardly adequate to meet variable costs. The cotton yarn prices, during the year witnessed drop of approximately 10% in export market while the local market prices ruled at a level lower to exports. Polyester cotton yarn prices received severe beating with a 25% drop in price. The only saving grace was the movement of yarns in the export market.

The raw material prices during the first half of the financial year ruled very firm, but declined in the second half of the new season, by approximately 13%. Mills could not derive much benefit of the weak cotton prices as yarn prices continued to be unremunerative.

The Textiles Division concentrated on value added products to minimise impact of recession by registering an increase in dyed yarn production by 21% and optimising the quantum of other value added products. These measures ensured relatively better average selling prices which declined only by approximately 3%, which otherwise would have been much lower.

The production activity in a portion of the main plant at Gokak Falls had to be curtailed for a short period as the prices were unremunerative. However, the production at the full scale of 7 days 3 shifts was resumed as soon as the cost/price equation improved.

The performance of the new 15000 Spindle EOU was at an optimum level and the quality of yarn has been well received in the export market.

The Company is continuously exploring ways and means to conduct its activities in an improved and cost effective manner. As you are aware, the main Spinning Unit of the Textiles Division is located at Gokak Falls and another Spinning Unit at Vadodara. The Unit at Vadodara, despite substantial investment in its modernisation, has been incurring heavy losses and with the current market conditions, a stage had been reached whereby the unit realisation did not even cover full direct costs. In the circumstances a substantial portion of the production facilities at Vadodara has now been relocated at Gokak Falls. It is expected that this process of rationalisation would give a significant cost advantage to the Company.

Exports of the Textiles Division during the financial year were Rs. 139.06 Crores *(previous year Rs. 152.66 Crores)*. The export turnover is approximately 48% of the total turnover of the Textiles Division.

During the year, the 2.8 MW mini hydel plant at Dhupdal generated 11.26 Million units to augment the captive power. This is an improvement of 25% over the previous year. The generation could have been even higher but for the heavy rains in the downstream areas rendering closure of canals, which were feeding water to the plant. Simultaneously, the State electricity boards of Karnataka and Gujarat increased the power tariff by approximately 8.50% and 12% respectively, impacting adversely on the costs and performance of the Textiles Division.

Globally the Textile Industry is passing through recession. In particular, spinners are under tremendous pressure and we are not an exception. Despite our efforts to improve the performance by changing the product mix and by adopting cost cutting measures, the impact of the efforts is not visible because of the continuous decline in the prices of the finished products.

As if this constellation of adverse factors were not enough, the Central Government Budget for the year

1999-2000 has inflicted another blow. There was an expectation, before the presentation of the Budget, that the textile industry and more particularly the cotton yarn industry which has suffered heavily in recent years, should rightly look forward to some concessions and measures for relief to the industry. However, when the budget was presented, it came as a rude shock to us that the excise duty on cotton yarn has been increased from 5.75% to 9.20%. The industry did take up this matter with the appropriate authorities, but despite all the efforts, the incidence of excise duty has remained at 9.20%. This has put an additional burden on the industry which has already been under heavy pressure. To complicate the matter further, small scale industries in the spinning sector have been given the exemption which was not available to them earlier, putting the organised cotton yarn industry to a further disadvantage. This development is going to make the task of the cotton spinning mills more difficult.

All segments of the textile industry have welcomed the Budget proposal of the Rs. 25,000 Crore Technology Upgradation Fund, which is being extended to the spinning industry also. The scheme has been inaugurated recently. The scheme would enable the textile industry to avail of loans carrying interest incentive of 5% for 5 years. However, the ability of an unit to avail of this scheme would depend upon as to whether the inherent economics of the outlay are such as to sustain repayment capabilities. The economics of the industry as demonstrated by many units in the recent years indicate this to be otherwise. Whereas the introduction of the Fund and its extension to the spinning sector are welcome measures, what the industry requires desperately and immediately are measures which would stimulate demand by lowering prices through a drastic reduction in the excise duty.

6. FORBES PATVOLK SHIPPING DIVISION:

For the shipping industry as a whole, the year has been a challenging one—a year of rough seas, with some hurricanes in the form of a few leading Lines disappearing from the scene. Nedlloyd Lines–one of the world's leading shipping lines merged with P & O Line and as a result, Forbes Patvolk Shipping Division lost the Nedlloyd agency as well as the substantial revenues arising from the agency. Despite this setback, we have been able to maintain the momentum for shipping activities and maintain our earnings without any significant reduction.

The period under review covers the performance of the synergised Forbes Patvolk Shipping Division which included within its ambit not only the Shipping Agency business but also Freight Forwarding, Multimodal Transport and Logistics activities.

Freight Forwarding is facing a critical future. On the one hand, volumes have been steadily diminishing while the profit margins are becoming thinner and thinner. Cost control has become of paramount importance. A new marketing thrust is being planned to rejuvenate this business. MTO activities on the other, offer substantial scope for expansion. We have already established a net work with Associates in Singapore, Europe and the United States. Further expansion is in the offing which will extend to Africa, CIS destinations and South America. We are in the process of doing everything that will give us competitive edge and one of the important feature of our strategy is to be a 'total solution' Company by offering comprehensive logistics.

7. ENGINEERING UNITS:

The severe recession in the automobile and heavy engineering sectors affected the Division's business substantially. In export market, while the business in South East Asia recovered a little, one of the main buyers of Division's products had a bad offtake as their business was heavily dependant on the Far East & South East Asia. However, the Division managed to restrict the decline in sales by about 10% of the previous year.

During the later part of the year, the Division launched its high technology taps, developed through technical inputs provided by its joint operation partner. This product, which caters to the modern machining environment in the country, is expected to add value to the Division's manufacturing and marketing set up.

The Solid Carbide Tools manufacturing project is nearing completion and is expected to go on stream from early part of the next financial year. This activity will support the Division's existing efforts to market the solid carbide tools which have an exciting future potential.

8. INSTRUMENTS AND SYSTEMS EQUIPMENT AGENCIES (COMMUNICATION DEPARTMENT):

The Division has undergone major restructuring in terms of management inputs and organisation structure during current financial year. The operating results though not fully satisfactory, have improved substantially over the previous year.

Negotiations are on with three leading overseas manufacturers to represent them in India. The application areas and market segments of these systems are quite synergetic with our existing line.

These projects and further consolidation in existing line is expected to improve bottom line in the coming year.

9. AGENCIES DIVISION:

This Division is engaged in marketing of power and allied equipment manufactured by various Principals from U.S.A. and Germany. In spite of the economic