

GARG FURNACE LIMITED

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33rd *Annual Report* *2005-06*

GARG FURNACE LIMITED

MANAGEMENT
BOARD OF DIRECTORS**CHAIRMAN**

Sh. J.C. Garg

MANAGING DIRECTOR

Sh. Sanjiv Garg

DIRECTORS

Sh. Davinder Garg
 Sh. Rajiv Garg
 Sh. Ashwani Kumar
 Sh. Arun Kumar Singh
 Sh. Vivek Kaushal
 Sh. Ashwani Kumar Aggarwal

AUDITORS

M/s. Dass Khanna & Co.
 B-XXX, 711, 1st Floor,
 Gurdev Nagar, Pakhowal Road,
 Ludhiana - 141 001

COST AUDITORS

M/s. Verma Verma & Associates
 Cost Accountants
 E-255, Panj Peer,
 Bagh Karam Baksh, Jalandhar

BANKERS

Punjab & Sind Bank
 Sabun Bazar Ludhiana

REGISTERED OFFICE & WORKS

Kanganwal Road,
 Near Old Octroi Post Ambala Side
 V.P.O Jugiana. G.T. Road,
 Ludhiana - 141 120.

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GARG FURNACE LIMITED

NOTICE

Notice is hereby given that the 33rd Annual General Meeting of the members of the Company would be held on Saturday, the 30th day of September, 2006 at 9:30 A.M. at the Registered Office at Kanganwal Road, V.P.O. Jugiana, G. T. Road, Ludhiana to transact the following business: -

ORDINARY BUSINESS

1. To receive, consider and adopt the Audited Balance Sheet as at 31st March, 2006 and the Profit & Loss Account for the year ended on that date together-with reports of Director's and Auditors thereon.
2. To appoint a director in place of Sh. Jagdish Chand Garg who retires by rotation and being eligible offers himself for reappointment.
3. To appoint a director in place of Sh. Sanjiv Garg who retires by rotation and being eligible offers himself for reappointment.
4. To appoint a director in place of Sh. Ashwani Kumar who retires by rotation and being eligible offers himself for reappointment.
5. To appoint auditors and to fix their remunerations, M/s Dass Khanna & Company, Chartered Accountants Ludhiana, who retires on the conclusion of this meeting being eligible offer themselves for reappointment.

For and on behalf of the Board

Place : LUDHIANA.

Dated : 28.08.2006

**JAGDISH CHAND GARG
CHAIRMAN**

NOTES:

1. A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING, IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF/HERSELF AND SUCH PROXY NEED NOT BE A MEMBER OF THE COMPANY. IN ORDER THE PROXIES ARE EFFECTIVE IT SHOULD BE DEPOSITED WITH REGISTERED OFFICE OF THE COMPANY NOT LESS THAN FORTY EIGHT HOURS BEFORE THE TIME OF THE MEETING.
2. The Register of Members and Share Transfer Register of the Company will remain closed from 29th September, 2006 to 30th September, 2006 (both days inclusive)
3. Members Seeking any information with regard to Annual accounts at the time of meeting are requested to send their queries to the Company at least 10 days before the date of Meeting so as to enable the management to keep the relevant information ready.
4. Members are requested to bring the copy of Annual Report alongwith them at the time of meeting.
5. Members are requested to notify immediately any change in their address to the Company/R.T.A.

Information Pursuant to Corporate Governance clause of Listing Agreement (s) Regarding the Directors new appointment, seeking re-appointment in the A.G.M.

Name of the Director	Sh. Jagdish Chand Garg	Sh. Sanjiv Garg	Sh. Ashwani Kumar
Date of Birth	14.07.1935	10.11.1960	14.07.1955
Date of Appointment	Since Inception	19.01.1988	02.09.1996
Qualification	Matric	B.Com	B.Com. F.C.A.
Expertise in Specific Area	Industrialist & Business experience of about 32 yrs. in Iron & Steel Industry.	Industrialist & Business experience of about 22 yrs. in Iron & Steel Industry.	Income Tax & Company law Matters having 23 years of experience.
Directorship in other Companies	Garg Acrylics Ltd., Gargsons Investments Pvt. Ltd.	Raja Devi Investments Pvt. Ltd. Gargsons Investments Pvt. Ltd. Om Yam Plus Pvt. Ltd.	Bhushan Ltd., Globe Trotters P. Ltd., D&M Components Ltd.
Chairman/Member of Committees of other Companies	Member of Shareholders/ Investors Grievances Committee & Remuneration Committee of Garg Acrylics Ltd.	-	Member Audit Committee Bhushan Ltd.

GARG FURNACE LIMITED

DIRECTORS' REPORT

The Members of

Garg Furnace Limited

The Directors of your company have pleasure in presenting the 33rd Annual Report on the affair of the company together with the Audited Accounts for the year ending 31st March, 2006.

FINANCIAL RESULTS

	(Rupees in lacs)	
	<u>2005-06</u>	<u>2004-05</u>
Operating Income	15219.08	14488.79
Profit before depreciation, Interest & tax	324.53	237.21
Interest & Financial Expenses	41.60	46.25
Profit before depreciation & tax	282.93	190.96
Depreciation	54.70	60.80
Profit before tax	228.23	130.16
Provision for tax -Current	83.25	40.00
-Deferred Tax Asset	2.82	10.11
Profit after Tax	147.80	100.27
Prior year Tax adjustments	8.96	(0.64)
Balance brought forward	<u>301.19</u>	<u>251.56</u>
	<u>457.95</u>	<u>351.19</u>
APPROPRIATIONS		
Transfer to General Reserve	50.00	50.00
Balance carried over to Balance Sheet	<u>407.95</u>	<u>301.19</u>
	<u>457.95</u>	<u>351.19</u>

MANAGEMENT DISCUSSION AND ANALYSIS REPORT

A) STEEL INDUSTRY - PERSPECTIVE

The global economy experienced robust growth in 2005, despite significant concerns about the impact of higher world oil prices. In 2005 world crude Steel output at 1129.4 millions metric tonnes was 5.9% more than the previous year (source: IISI) China reminded the world's largest crude steel producer in 2005 (349.4 MMT) followed by Japan (112.47 MMT) and USA (93.89 MMT.) India occupied 8th position (38.08 MMT.)

During the year under review, domestic Steel production and apparent Steel consumption increased by 5.1% and 7.1% respectively over the previous year. Demand in the domestic market was strong with double digit growth in automobiles, capital goods and consumer durable segments. Exports volume increased by 18.1% as compared to the previous year. Domestic Steel prices moved in tandem with the international prices showing a downward trend as compared to previous year. Most agree that the Chinese role has been prominent in decline in Steel prices.

B) PRODUCTION AND SALES REVIEW

During the year under review, the company has produced 62293 Metric tonnes of Steel products. The turnover of the company has increased to Rs. 152 Crores from Rs. 145 Crores in the previous year.

C) INTERNAL CONTROL SYSTEMS

The company has adequate internal control procedures commensurate with its size and nature of its business. These internal policies ensure efficient use and Protection of assets and resources. Compliance with policies, ensure reliability of financial and operational reports.

D) RISK AND CONCERNS

The Steel Industry witnesses Cyclical price movements. The fortunes of the industry move up and down in time with the market trend of prices. This phenomenon has become more uncertain and unpredictable with the increased integration of domestic and global markets. The company has taken the cost cutting initiatives, enriching the product mix and strengthened its marketing to cope with the business trend.

E) HUMAN RESOURCE DEVELOPMENT/INDUSTRIAL RELATION

During the year, the company has employed 150 persons. The Industrial Relations remain cordial during the year. The company is continuing its efforts for improvement in the work culture wherein employees can contribute to their fullest potential. The management acknowledges the contribution of all employees in achieving better performance.

GARG FURNACE LIMITED

DIVIDEND

The Board of Directors do not recommend payment of dividend for the year under review.

LISTING

The company's equity shares are listed at Ludhiana Stock Exchange Association Limited, Feroze Gandhi Market, Ludhiana, The Delhi Stock Exchange Association Limited, DSE House, 3/1, Asaf Ali Road, New Delhi & The Stock Exchange Mumbai, Dalal Street, Mumbai. The listing fee dues of the Stock Exchange Mumbai has been paid up to financial year 2006-07 and of Delhi Stock Exchange & Ludhiana Stock Exchange have been paid upto financial year 2002-03.

DEMATERIALISATION

All activities relating to Company's listed securities (Physical & in Demat form) are being undertaken by Skyline Financial Services Private Limited w.e.f 01.04.2003. The Address & Contact Nos. are :-

Skyline Financial Services Pvt Ltd,
123, Vinoba Puri, Lajpat Nagar-II, NEW DELHI- 110 024.
TEL: 29833777, 29847136 FAX: 29918352

The members are advised to send their shares to R.T.A.

DIRECTORS

Sh. Jagdish Chand Garg, Sh. Sanjiv Garg and Sh. Ashwani Kumar retire by rotation and being eligible have offered themselves for re-appointment.

DIRECTOR'S RESPONSIBILITY STATEMENT

Pursuant to Section 217(2AA) of the Companies Act, 1956, the Directors confirm:-

- i) That in the preparation of annual accounts, the applicable accounting standard have been followed and wherever required proper explanations relating to material departures have been given.
- ii) That appropriate accounting policies have been selected and applied consistently and the judgements and estimates made 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 as at 31.03.2006 and of the profits of the company for the year ended 31.03.2006.
- iii). That proper and sufficient care has been taken 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.
- iv). That annual accounts have been prepared on a going concern basis.

CORPORATE GOVERNANCE

The company has put in place a system of Corporate Governance. A Separate report on Corporate Governance forming part of the Annual Report is annexed hereto. A Certificate from the Auditors of the company regarding compliance of conditions of Corporate Governance as stipulated under the Corporate Governance clause of the Listing Agreement is annexed to the report on Corporate Governance.

AUDITORS

M/s Dass Khanna & Co. Chartered Accountants, Ludhiana retires at the conclusion of ensuing Annual General Meeting. They have indicated their willingness to accept reappointment and have further confirmed their eligibility u/s 224(1B) of the Companies Act, 1956.

The Auditor's Report is self explanatory and therefore do not call for any further comments. Further, the company is in search of a suitable candidate for appointment as Company Secretary.

COST AUDITORS

The Board of Directors have appointed M/s Verma, Verma & Associates, Cost Accountants, Jalandhar as the Cost Auditors of the Company for the year 2005-06. The approval of the Central Government in this regard has also been received. The Cost Auditors Report will be sent to the Central Government as required under law.

FIXED DEPOSITS

The fixed deposits outstanding as on 31st March, 2006 was Rs. 18.50 lacs. During the year under review there was no deposit which were overdue or unclaimed. The company has complied with the provisions of section 58-A of the Companies Act, 1956 and rules made thereunder.

INDUSTRIAL RELATIONS

The Industrial relations remained cordial through out the year and have resulted in sustained growth of the company.

PARTICULARS OF EMPLOYEES

Information pertaining to employees pursuant to section 217 (2A) of the Companies Act, 1956 is nil.

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

The information relating to Conservation of Energy, Technology Absorption and Foreign Exchange Earning and Outgo as required under Section 217 (1)(e) of The Companies Act, 1956 read with Companies (Disclosure of Particulars in the report of Directors) Rules 1988 is annexed and forms part of this report.

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ACKNOWLEDGEMENT

The Directors wish to extend their sincere thanks to the Punjab & Sind Bank, Punjab State Electricity Board, Container Corporation of India, other State & Central Government Agencies, Suppliers and Customers for their continued support and co-operation.

The Directors also wish to place on record their deep appreciation for the services rendered by the workers & staff at all levels.

For and on behalf of Board of Directors

Place: Ludhiana.

JAGDISH CHAND GARG

Dated: 28.08.2006

CHAIRMAN

Information pursuant to section 217(1)(e) of The Companies Act, 1956 read with Companies (Disclosure of particulars in the report of Board of Directors) Rules 1988 and forming part of the Director's Report for the year ended 31st March, 2006.

I. CONSERVATION OF ENERGY

- a) **Energy conservation measures taken :** The company has always been conscious of the need to conserve energy and has always attempted various measures for the same wherever possible to achieve reduction in cost of production. The company has taken various measures on suggestions of experts in the areas where energy reduction and fuel & oil conservation is possible.
- b) **Additional Investment and proposals : if any, being implemented for reduction of energy consumption.** No.
- c) **Impact of Measures taken at (a) above for reduction of energy consumption and consequent impact on the cost of production of goods.** 5% Saving in Energy consumption.
- d) **Total energy consumption per unit of production as per form A of the annexure to the rules in respect of industries specified in schedule thereto.**

A. POWER & FUEL CONSUMPTION

1. Electricity		Current Year	Previous Year
a) Purchased			
Units (KWH)		36132166	38176482
Total amount	Rs.	149723699.00	Rs. 142498892.00
Rate per unit	Rs.	4.14	Rs. 3.73
b) Own Generation			
i) Through Diesel Generator			
Units (KWH)		20780	21409
Units per litre of diesel		3.60	3.90
Oil Cost/unit	Rs.	8.97	Rs. 7.09
ii) Through steam Turbine		Nil	Nil
2. Furnace Oil/Diesel Oil			
Quantity (Ltrs)		2069845	3265945
Total Amount	Rs.	34311381.00	Rs. 34191204.00
Average Rate per Ltr.	Rs.	16.57	Rs. 10.47

B. CONSUMPTION PER UNIT OF PRODUCTION

	Products		
Electricity (KWH)	Steel Ingots, Rounds, Castings/Wire Rod	578 Units(*)	574 Units(*)
Furnace Oil & Diesel	Rounds, Castings/Wire Rod	68 Ltrs.	93 Ltrs.

(*) Consumption for separate products is not feasible.

II. TECHNOLOGY ABSORPTION

Efforts made in technology absorption are as under:

A. Research and Development (R&D)

Nil

B. Technology absorption, adoption and innovation

Nil

The manufacturing process is based on the indigenous know-how. We are adopting water cooling system with heat exchanger and colloid-A-Tran equipment for improvement in the working of the plant.

III. FOREIGN EXCHANGE EARNING AND OUT GO

2005-2006

Total Foreign Exchange earned	Nil	
Used (CIF Value of Imports)	Rs. 31,75,32,417.00	Rs. 26,50,41,962.00

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CORPORATE GOVERNANCE REPORT

1. COMPANY'S PHILOSOPHY

The company believes in and practices good corporate Governance. The company's essential character is shaped by the very values of transparency, professionalism and accountability. The company continuously endeavours to improve on these aspects on an ongoing basis.

2. BOARD OF DIRECTORS

The Board of Directors consists of 8 directors. The composition and category of Directors are as follows:

Category	Name of Directors
Promoter/Executive Directors	Jagdish Chand Garg - Chairman Sanjiv Garg - M.D Davinder Garg - Executive Director Rajiv Garg - Executive Director
Independent/Non Executive Directors	Ashwani Kumar Arun Kumar Singh Vivek Kaushal Ashwani Kumar Aggarwal
Nominee/Institutional Directors	Nil

Attendance of each director at the Board Meeting, last Annual General Meeting and number of other directorship and chairmanship/ Membership of Committee of each Director in various companies.

Name of Director	Attendance Particulars		No. of other directorships and Committee membership/Chairmanship		
	Board Meeting	Last AGM	Other Directorship	Committee Membership	Committee Chairmanship
Jagdish Chand Garg	6	Present	2	2	None
Sanjiv Garg	6	Present	2	None	None
Davinder Garg	6	Present	1	None	None
Rajiv Garg	6	Present	3	2	1
Ashwani Kumar	4	Present	3	1	None
Arun Kumar Singh	6	Present	None	None	None
Vivek Kaushal	6	Present	None	None	None
Ashwani Kumar Aggarwal	5	Present	None	None	None

During the year, 6 Board Meetings were held as against the minimum requirement of 4 meetings. The dates on which the meetings were held are: 29.04.2005, 30.07.2005, 01.09.2005 14.10.2005 31.10.2005 & 31.01.2006

3. AUDIT COMMITTEE

The Audit Committee comprises of three independent, Non Executive Directors viz Sh. Ashwani Kumar Chairman, Sh Arun Kumar Singh & Sh Vivek Kaushal. The terms of reference of the Audit Committee are as contained in Corporate Governance Clause of the listing agreement. The Audit Committee met five times during the year. The dates on which meeting were held are 29.04.2005, 30.07.2005, 01.09.2005, 31.10.2005 & 31.01.2006. All the members have attended all the meetings.

4. REMUNERATION COMMITTEE

The Board of the company has constituted a Remuneration Committee comprising of 3 Independent Non Executive Directors viz. Sh Ashwani Kumar Aggarwal, Chairman, Sh Arun Kumar Singh & Sh Vivek Kaushal.

The remuneration Committee has been constituted to recommend/review the remuneration package of the Managing/Wholetime Directors based on performance.

The remuneration policy is directed towards rewarding performance based on review of achievement on a periodic basis.

Only one meeting was held during the year and all the members of the Committee attended the meeting.

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Detail of Remuneration paid to the Directors during the financial year is as given below:

a) Executive Directors

<u>Name</u>	<u>Designation</u>	<u>Salary</u>	<u>Other</u>	<u>Total</u>
Sh Jagdish Chand Garg	Chairman	Rs. 290,000	Rs. 3,515	Rs. 293,515
Sh Sanjiv Garg	Managing Director	Rs. 290,000	Rs. 3,515	Rs. 293,515
Sh Davinder Garg	Whole Time Director	Rs. 290,000	–	Rs. 290,000
Sh Rajiv Garg	Whole Time Director	Rs. 290,000	Rs. 1,342	Rs. 291,342

b) Non Executive Directors

Non Executive Directors have not been paid any remuneration/fees during the year.

5. SHAREHOLDING OF NON-EXECUTIVE DIRECTORS

No Non-Executive Directors hold any shares in the Equity Capital of the Company except that Shri Ashwani Kumar Aggarwal holds 342 Equity Shares of the Company.

6. SHAREHOLDERS/INVESTORS GRIEVANCE COMMITTEE

The Board of the Company has constituted a Shareholder's/Investor's Grievances Committee comprising of Sh Ashwani Kumar (Chairman), Sh Sanjiv Garg and Sh Davinder Garg. The Committee inter alia approves issue of duplicate certificates and overseas and review all matters connected with Securities transfer. The committee also looks into redressal of Shareholder's complaints like transfer of shares, non receipt of Balance Sheet, Non receipt of declared dividends etc. The Board of Directors have delegated the power of approving transfer of securities to the Managing Director.

The Board has designated Sh Jaspal Singh Executive Secretarial Department as Compliance Officer. The total number of letters/complaints received and replied to the satisfaction of shareholders during the year ended 31st March, 2006 were 16. Outstanding letters/complaints as on 31st March, 2006 were nil. No request for transfer/dematerialisation were pending for approval as on 31st March, 2006.

7. GENERAL BODY MEETINGS

Detail of last three Annual General Meetings

<u>Meeting</u>	<u>Day</u>	<u>Date</u>	<u>Time</u>	<u>Venue</u>	<u>No. of Special Resolutions</u>
30th AGM	Tuesday	30.09.2003	9.30 A.M	Registered Office	-
31st AGM	Thursday	30.09.2004	9.30 A.M	at Kanganwal Road,	-
32nd AGM	Friday	30.09.2005	9.30 A.M	VPO Jugiana, G.T Road, Ludhiana.	4

During the financial year 2005-06, no resolution has been passed through postal ballot. Further, no special resolution on matters requiring Postal Ballot are placed for Shareholders approval at this meeting.

8. DISCLOSURES

During the year, there was no material/significant transaction with the directors or the management, or relatives etc that may have any Potential conflict with the interest of the company at large. Also there has not been any non-compliance by the company in respect of which Penalties or Strictures were imposed by the Stock Exchange or SEBI or any other Statutory Authority during the last three years.

The management has not denied any personnel access to the Audit Committee of the Company (in respect of matters involving alleged misconduct) and that it has provided protection to the "Whistle Blower" from unfair termination and other unfair or prejudicial employment practices.

Further, the Company has complied with all mandatory requirements of clause 49 of the listing agreement. The Company may also take up the non-mandatory requirement of clause 49 in due course of time.

9. MEANS OF COMMUNICATION

The company communicates with the shareholders at large through its Annual Reports, Publication of financial results and by filing of various reports and returns with the Statutory Bodies like Stock Exchange and the Registrar of Companies. The quarterly results are published in the English Daily "Financial Express" & Punjabi daily "Punjabi Tribune".

The management discussion & Analysis forms part of Annual Report, which is mailed to the shareholders of the company.