

GEM Spinners India Limited.

9th Annual Report

1998 - 1999



**Board of Directors**

Mr. R. Veeramani
 Mr. S.R. Asaithambi
 Mr. S.R. Kumar
 Mr. Vinod K. Goenka
 Mr. P.P. Doddanavar
 Mr. S.T. Ganapathy Mudaliar
 Mr. S. Srinivasan
 Mr. N.D. Pinge

Chairman & Managing Director
 Wholetime Director

IDBI Nominee
 ICICI Nominee

Executive Director

Mr. A.M. Durairaj

Company Secretary

Mr. S.V. Raghavan

Auditors

M/s. Vijai Sarathy & Co.
 Chartered Accountants
 18-A, Rajamannar Street
 Chennai - 600 017.

Bankers

Indian Overseas Bank
 State Bank of India

Registered Office & Mills

14, Mangalam Village
 Maduranthagam Taluk
 Kancheepuram District
 Tamil Nadu - 603 107.

Corporate Office

58, Cathedral Road
 Chennai - 600 086.

Registrars & Transfer Agents

Hi-Tech Share Registry Private Limited
 II Floor, No.66, Cathedral Road
 Chennai - 600 086.

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NOTICE TO SHAREHOLDERS

Notice is hereby given that the Ninth Annual General Meeting of the shareholders of **GEM SPINNERS INDIA LIMITED**, Chennai will be held on Wednesday, the 15th December 1999 at 10.00 a.m. at 14 Mangalam Village, Maduranthagam Taluk, Kancheepuram District, Tamilnadu to transact the following business.

Ordinary Business

1. To receive, consider and adopt the Audited Balance Sheet as at 31st March 1999 and the Profit & Loss Account for the year ended on that date, the Auditors' report and Directors' report thereon.
2. To appoint a Director in the place of Sri S.R.Kumar who retires from office of Directorship by rotation and being eligible, offers himself for re-appointment.
3. To appoint a Director in the place of Sri S.T.Ganapathy Mudaliar who retires from office of Directorship by rotation and being eligible, offers himself for re-appointment.
4. To appoint Auditors and fix their remuneration. M/s. Vijai Sarathy & Co., Chartered Accountants, Chennai who retire at this meeting, being eligible, offer themselves for re-appointment.

By Order of the Board
for GEM SPINNERS INDIA LIMITED

Place : Chennai
Date : 23.10.1999

R.Veeramani
Chairman & Managing Director

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 AND THE PROXY NEED NOT BE A MEMBER OF THE COMPANY. PROXY FORMS, IN ORDER TO BE EFFECTIVE, MUST BE RECEIVED BY THE COMPANY NOT LESS THAN 48 HOURS BEFORE THE ANNUAL GENERAL MEETING. A PROXY SO APPOINTED SHALL NOT HAVE ANY RIGHT TO SPEAK AT THIS MEETING. THE PROXY FORM IS ENCLOSED.
2. Members are requested to bring their copies of the Annual Report to the meeting.
3. Members are requested to notify immediately any change in their address to the Company's Registered Office.
4. The Register of Members of the Company shall remain closed from 08.12.1999 to 15.12.1999 (both days inclusive).

DIRECTORS' REPORT FOR THE YEAR 1998-99

Your Directors have pleasure in presenting the 9th Annual Report on the affairs of your Company along with the Audited Balance Sheet and Profit and Loss Account for the year ended 31.3.1999.

Financial Results	1998-99 (Rs.in lacs)	1997-98 (Rs.in lacs)
Profit/(Loss) before Interest and Depreciation	286.08	559.74
Less : Interest & finance charges	1,584.45	1,342.94
Loss before Depreciation	1,298.37	783.20
Less : Depreciation	430.22	420.64
Loss for the year	1,728.60	1,203.84
Loss carried to Balance Sheet	1,728.60	1,203.84

Operations and Outlook for the Current Year

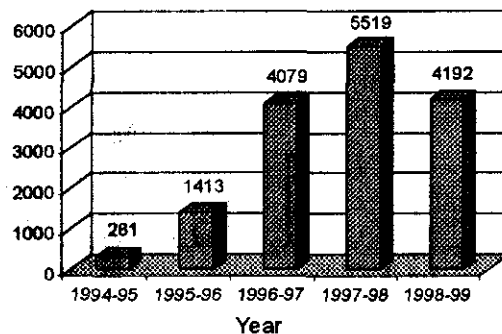
The Company has achieved a turnover of Rs. 41.92 crores in the year under review as against Rs.55.20 crores in the previous year. Lower sales realisation, higher raw material costs have eroded the operating profit from Rs. 559.74 lacs in the previous year to Rs.286.08 lacs in the current year. The quality of yarn produced in our mills is regarded as one of the best yarns in the world. However, the prices of yarn have not improved in world markets. For example, the following will show the reduction in yarn prices over the years.

Prices of Cotton Yarn in US Dollars (made of Indian Cotton)

Counts	Prices Ruling in		% Decrease
	1994-95	1998-99	
41CH	4.50	3.20	29%
41/2C	4.85	3.60	26%
50/1C	5.25	4.05	23%
50/2C	5.60	4.70	16%
56/2C	5.90	4.90	17%
60/1C	5.85	4.65	14%
60/2C	6.60	5.30	21%

SALES TURNOVER COMPARISON

(Rs. in lacs)





Exports were done to Far Eastern Countries like Japan, Korea, Taiwan, China and Hong Kong and also to Israel, Egypt, Western Europe like Germany, Italy, Spain, Austria, Portugal and Switzerland during this year. We are also receiving repeat orders from our buyers. Countries with stringent quality standards like Japan, Israel, Italy and U.K. have approved our yarn.

Global Scenario

The textile industry and particularly the predominantly cotton based textile mills in Southern India is facing the worst crisis ever. The average profitability has been sliding down during the past three years with the majority of mills incurring losses. Factors responsible for this situation are :

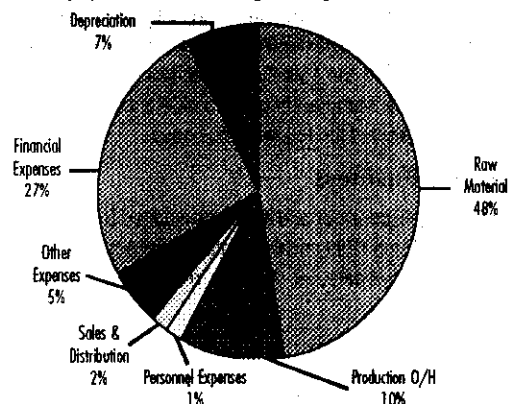
- (i) Sluggishness in the movement of yarn due to mismatch between supply of yarn and its demand.
- (ii) No parity between Cotton and Yarn prices.
- (iii) Increase in input costs viz. power tariffs, particularly in Tamil Nadu.
- (iv) Impact of South Asian economy turmoil on cotton yarn exports.

The cotton crop during the year under review continued to be adversely affected and even though it is estimated to be 16.25 million bales as against 14.80 million bales in 1997-98, it is still lower than 17.65 million bales in the year 1996-97.

The textile industry has not shown any signs of improvement and continues to be affected by the recession. The year 1998-99 also happens to be the worst period, as the South East Asian economy has not shown any remarkable recovery. Demand from countries like Japan, Korea, Taiwan, and Hong Kong has not picked up to their usual levels. The prices offered by them are also very low. European countries like Switzerland, Germany, Israel and Italy continue to be stringent in quality requirements and offer only low prices.

The demand for finer counts of yarn is reducing as this occupies

COST BREAK-UP FOR 1998-99



only 10-15% of the overall exports of yarn from our country. Among the stiff competition, only the old mills which are having less depreciation and nil borrowed funds are able to make profit. The Government of India is also trying to take some suitable measures to revive the Indian Textile Industry by sanctioning loans through Textile Upgradation Fund Scheme for the modernisation of textile mills. We have to wait and see the effect of the same.

This year, we have produced consistently finer counts of cotton yarn. We have also manufactured and exported knitted fabrics. Profitability has not improved because of the continued low unit prices of yarn prevailing in the international markets. The market continues to be sluggish for finer counts. Despite all these negative factors, the Company was able to achieve a reasonable turnover due to its high quality and better marketing. The Japanese technician employed in our mill has trained our technical team to improve our quality further and to reduce the overall production cost. We hope this will also help us to realise better prices.

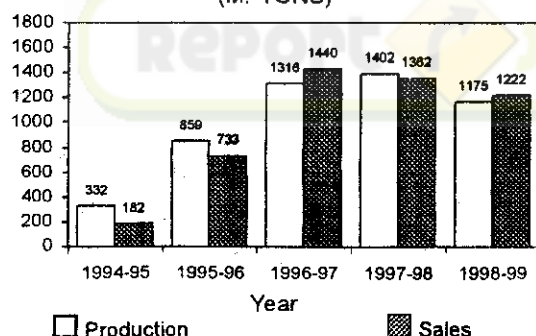
Your management has consulted various experts in the field who suggested that the Company can reach its viable position only when it produces coarser counts and increase its sales volume. This will give greater flexibility for marketing and increase our turnover and margins. To achieve this target, we need some investment for adding preparatory machines.

We have already established certain facilities like humidification, electricity, buildings, etc. which is sufficient for converting the existing 25000 spindles into coarser counts. Of course, we have to add certain preparatory equipments like Cards, Lap Former, Combers, etc. In this regard, we have started discussions with financial institutions and banks.

Market for Yarn

The prices offered by overseas buyers were very low for cotton yarn even in this year. This was not experienced by the Textile Industry's history in the past. On account of the bad market

COTTON YARN PRODUCTION/ SALES VOLUME (M. TONS)





conditions, we could not get higher margins even after increasing the capacity utilisation of the machinery.

Your Company has exported to the tune of Rs.24.50 crores during the first six months of the current financial year as against Rs.22.75 crores in the corresponding period of the previous year. We hope to complete the year with Rs.50 crores to Rs.55 crores of turnover, if not more.

Marketing is being strengthened by employing qualified and experienced personnel to explore the untapped opportunities. With improved performance, better market conditions and restructuring of long term loans, your Company hopes to make profit in the coming years.

BIFR Reference

Your Company had to make a reference to the BIFR Board, New Delhi as per the statutory requirements and due to erosion of net worth. Two hearings were held on 12.7.1999 and on 1.9.1999. The Company was declared as a Sick Company and requested to submit the viability proposals. Accordingly, the management has submitted viability proposals requesting for waiver of interest, penal interest and liquidated damages and converting the principal partly as Equity Shares/ Zero Interest Bonds. It was clearly explained to the operating agency, IDBI, that the Company can see viability and repay its loans only when the above proposal is accepted and by fresh infusion of funds for converting the mill to produce coarser counts. Here we wish to declare that the Government of India has accepted our request to alter our licence and permit us to produce cotton yarn without count restrictions.

Compliance of Y2K Problem

The Company has taken / initiated steps to make all the computer hardware, system software and computer aided machines Y2K compliant. This process is likely to be completed by November 1999. The Company has already obtained confirmations from suppliers and service providers on their Y2K preparedness. The future cost for replacements / modifications will not be material. The

Company does not foresee any disruption in its activities and consequently, the assumption of going concern also will not get vitiated due to Y2K issues. However, contingency plans are being put in place, wherever relevant.

Particulars of Employees, Conservation of Energy, Technology Absorption, Foreign Exchange Earnings and Outgo

A statement containing the above details is annexed to this report. Statement required to be furnished u/s. 217(2A) of the Companies Act is not applicable to the Company as no employee was in receipt of a remuneration in excess of Rs.50,000/- per month.

Deposits

Your Company has not accepted any deposit from the public during the year under review.

Directors

Sri S.R.Kumar and Sri S.T. Ganapathy Mudaliar are due to retire during this Annual General Meeting and being eligible, offer themselves for reappointment.

Auditors

M/s.Vijai Sarathy & Co., Auditors of the Company retire at this Annual General Meeting and being eligible, offer themselves for reappointment.

Acknowledgement

The Directors wish to place on record their appreciation for the assistance received from IDBI, ICICI, SBI, IOB, MEPZ, TNEB, State and Central Government Authorities. The Directors also wish to acknowledge the active co-operation extended by workers and staff at all levels.

On behalf of the Board

Place : Chennai

Date : 23.10.1999

R.Veeramani

Chairman & Managing Director

ANNEXURE TO THE DIRECTORS' REPORT

Additional information as required under the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988

1. A. Conservation of Energy

a. Energy conservation measures taken :

The measures taken by the Company include the following :

- i). Using electronic timers for street lights.
- ii). Arranging lighting of different lux levels in various departments.
- iii). Provided energy saving devices in lighting circuits.
- iv). Fan motors for various machinery is being operated at intervals instead of continuous running.

b. Additional investments and proposals, if any, being implemented for reduction of consumption of energy : NIL



		1998-99	1997-98
c. Impact of measures at A and B for reduction of energy consumption and consequent impact on cost of production of goods : The measures taken go to reduce the power consumption.			
d. Total energy consumption and consumption per unit of production in the prescribed Form "A" : Attached.			
B. Technology Absorption			
a. Efforts made in technology absorption : Details furnished in Form "B" - Annexed.			
2. Foreign Exchange Earnings and Outgo			
a. i) Activity relating to exports : Cotton Yarn and Knitted Fabric exports.			
ii) Initiative taken to increase exports :			
* Being in constant touch with foreign buyers and their agents.			
* Arranging for the visits of the buyers to the mills to convince them about the most modern machines installed.			
3. Development of new export markets for products and services :			
i) The Company is corresponding with Indian embassies and trade bodies abroad to get the addresses of prospective buyers.			
ii) Visits by Directors and executives abroad to build up new contacts.			
4. Total foreign exchange used and earned :			
	1998-99 (Rs.in lacs)	1997-98 (Rs.in lacs)	
i) CIF value of imports (Rawmaterial, Spares & Capital goods)	420.09	93.10	
ii) Expenditure in foreign currency (Travel and Commission)	56.28	55.35	
iii) Foreign exchange earned	3,542.80	4,043.13	
		On behalf of the Board	
Place : Chennai	R.Veeramani		Place : Chennai
Date : 23.10.1999	Chairman & Managing Director		Date : 23.10.1999
FORM A Form for Disclosure of Particulars with respect to Conservation of Energy			
A. Power & Fuel Consumption			
1. Electricity			
a. Purchased			
Units	91,51,470	1,50,19,080	
Total Amount (Rs.)	3,53,81,251	4,07,46,870	
Rate/Unit (Rs.)	3.87	2.71	
b. Own Generation			
i. Through Diesel Generator			
Units	48,87,080	12,36,827	
Units per ltr. of diesel oil	3.64	3.56	
Cost/Unit (Rs.)	2.61	2.27	
ii. Through Steam Turbine/Generator			
Units	—	—	
Units per ltr. of fuel oil/gas	—	—	
Cost/Unit (Rs.)	—	—	
2. Coal			
Quantity (tonnes)	—	—	
Total Cost (Rs.)	—	—	
Average Rate (Rs.)	—	—	
3. Furnace oil/L.S.H.S.			
Quantity (Kl.)	—	—	
Total Cost (Rs.)	—	—	
Average Rate (Rs.)	—	—	
4. Others/Internal Generation			
Quantity (tonnes)	—	—	
Total Cost (Rs.)	—	—	
Average Rate (Rs.)	—	—	
B. Consumption per unit of Production			
1. Electricity (KWH)			
Yarn & Knitted Fabric (per Kg.)	11.16	10.67	
2. Furnace Oil/L.S.H.S.			
Yarn (per Kg.)	—	—	
3. Coal (M.T.)			
Yarn (per Kg.)	—	—	
4. Others per Kg.			
		On behalf of the Board	
		R.Veeramani	
		Chairman & Managing Director	