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*Board of Directors*

Dr. G.V.K. Rao  
*Chairman*

Sri A.K. Himatsingka  
*Vice Chairman*

Sri. R.K. Talwar

Sri. N.M. Himatsingka

Sri. B.K. Garodia

Sri. Rajiv Khaitan

Sri. Basant Poddar

Sri. Aditya Himatsingka  
*Executive Director*

Sri. Dinesh Himatsingka  
*Managing Director*

*Senior Executives*

Sri. Mohan Rao  
*President (Operations)*

Sri. P. Chinnaraj  
*Vice President (Finance) & Secretary*

Ms. Jayashree Poddar  
*Design Director*

Sri. S. Nagendra  
*General Manager (Personnel & Administration)*

*Auditors*

M/s. G. Bagrodia & Co.

*Bankers*

Canara Bank  
Hongkong & Shanghai Banking Corporation Ltd.  
Deutsche Bank A.G.

*Registered Office*

2/1, Midford Gardens, M. G. Road  
Bangalore - 560 001  
Tel : 5584038/5584307

*Mills*

23A, KIADB Industrial Area  
Veerapura Village, Doddaballapur Taluk  
Bangalore District.

# Himatsingka Seide Limited

## Directors' Report

Your Directors have pleasure in presenting their Thirteenth Annual Report together with the Audited Accounts of the Company, for the year ended 31st March, 1998.

### Year in Retrospect

During the year 1997-98, the export market turned sluggish due to recessionary conditions in Europe and the currency turmoil in South East Asia. India's export growth rate declined to 2.6% p.a. during the year from 20% p.a. in the recent past. The strong Rupee against Deutsche Mark during most part of the year also resulted in lower realisation. However, in the second half, there had been a marked improvement in demand for our products. Depreciation of the Rupee during this period has also contributed towards higher realisation. The Company was able to achieve a turnover of Rs. 59.49 crores which is marginally higher than Rs. 58.74 crores in the previous year. The Net Profit after tax is higher at Rs. 24.63 crores as compared to Rs. 22.55 crores of the previous year. The provision for taxation is relatively lower at Rs. 0.42 crores as compared to Rs. 3.37 crores in the previous year, due to exemption from Minimum Alternative Tax on export profits with effect from 01.04.97.

It may be noted that the Company has disposed off the entire investment in shares/securities except investments in Subsidiary Company.

### Financial Results

	1997-98	(Rs. Crores) 1996-97
Turnover	59.49	58.74
Other Income	3.63	3.21
Profit before Interest and Depreciation	31.36	31.48
Interest	1.54	0.82
Profit before Depreciation	29.82	30.66
Depreciation	4.77	4.74
Profit before tax	25.05	25.92
Provision for taxation	0.42	3.37
Profit after tax	24.63	22.55
Profit brought forward from Previous Year	9.27	7.31
Profit available for appropriation	33.90	29.86
Transfer to General Reserve	20.00	15.00
Proposed Dividend	6.69	5.25
Corporate Dividend Tax	0.66	0.33
Profit carried to Balance Sheet	6.55	9.27

### Dividend

An Interim Dividend of 25% was distributed in November, 1997. Your Directors are pleased to recommend a Final Dividend at the rate of 45%, making in all the total dividend of 70%, for the year 1997-98 (Previous year - 55%). The total amount of dividend and tax on dividends for the current year is Rs. 7.35 crores as compared to Rs. 5.58 crores for the previous year.

The entire dividend is tax free in the hands of shareholders.

### New Projects

#### A. SPUN SILK/BLENDED YARN PROJECT :

We are pleased to inform you that the new 100% Export Oriented Unit for the manufacture of spun silk and blended yarns, with technical know how from Italy, has commenced commercial production from 1st April, 1998. The final project cost stands at Rs. 49.07 crores. The cost overrun of Rs. 2.87 crores, which was funded out of internal accruals, is due to Rupee devaluation and delay in commercial production.

The spun silk yarn produced by this new division has been found to be excellent and matches the quality standards of the top class international silk yarn manufacturers. We have received initial trial order for these speciality silk yarn from Italy and Japan for approximately Rs. 2 crores. It may be noted that Italy and Japan are the two most important markets for these products. A sale to these countries confirms the high quality standards which has been achieved at the Company's new and modern plant.

The nature of these speciality yarn requires extensive sampling through product development. This exercise has been taken up in right earnest and we are getting ready to promote and to present our product line to the international market by way of participating in the trade fairs in USA, Europe, Japan and Hongkong. The Company has also adopted an aggressive plan for direct marketing in these countries. It takes normally upto 12/18 months to popularise such products in international markets. Regular orders are always a result of initial trial orders and we are glad to inform that requests

## Himatsingka Seide Limited

for such trial orders from all the important markets are very encouraging indeed. We are hopeful that this may result in a sale of 100/150 tonnes of silk/blended yarn during the year 1998-99. This represents a capacity utilisation of about 30/35%.

In addition, our own weaving department is likely to consume 50/60 tonnes of our yarn production. The value addition likely to be achieved through this process will be very high, as has always been the case in our weaving division.

The combined sale and internal consumption is likely to give us an overall capacity utilisation of 40/50 % during the year 1998-99, and should in all likelihood rise to 80/90% a year later.

### B. BLENDED FABRIC WEAVING PROJECT :

The project with weaving capacity of 600,000 Square metres has been successfully implemented at a cost of Rs 29.20 crores. The cost overrun of Rs. 0.70 crores, which was funded out of internal accruals, is due to rupee devaluation and delay in commercial production.

We have received very good response from our customers on the initial samples shown to them. It may be noted that in the furnishing trade, it usually takes about six months for finalisation of orders after the samples are approved. The unit commenced commercial production from 15th May, 1998. We expect a capacity utilisation of 50/60% during 1998-99.

### C. CAPTIVE POWER PLANT :

The Company has set up a captive power plant of 4.4 MW capacity (2 units of 2.2 MW each) at a cost of Rs 6.61 crores. With this, the Company has become self sufficient in its power requirements. The cost of the power plants is included in the project costs of new units.

### Prospects for the Current Year

Production and exports are expected to show better growth during the current year due to the improved market conditions. The Company's export realisation should improve due to increase in sale of value added products as well as depreciation of the Rupee. The new divisions will contribute substantially to the growth of exports.

The supply of raw silk yarn, our basic raw material continues to be normal. The price of raw silk yarn is steady.

Your Company is confident of maintaining its market leadership and is hopeful of achieving steady growth, in the years to come.

### Finance

The Company has availed External Commercial Borrowing of DM 11.84 million to part finance the new projects. The Company has also availed a short term loan of US Dollars 2.98 million. A sum of USD 0.89 million (Rs. 3.80 crores) has already been repaid in May '98. The balance amount of short term loan, Rs 8.40 crores (approx.) will be repaid by August 1998.

The project cost overruns were funded out of internal accruals and Company did not avail any additional loan.

Your Company enjoys P1+ rating for its commercial paper programme of Rs 6.00 crores from CRISIL.

### Depository Facility

Your Company joined National Securities Depository Limited (NSDL) effective June 1997. We are pleased to inform you that your Company has also paid one time fee to NSDL on the entire share capital which will substantially bring down the costs for the shareholders.

### Subsidiary Company

Credit Himatsingka Limited (CHL), the subsidiary Company, has obtained Registration from Reserve Bank of India under the new NBFC guidelines.

CHL has invested part of its funds in a real estate project, which is nearing completion. The profits from this project is expected to be realised during the current year which will be sufficient to wipe out the accumulated losses. CHL is also liquidating its investments in shares and securities.

In line with the Company's policy of concentrating in its core business, it is our intention to dispose off the investment in subsidiary Company.

The subsidiary Company will be valued by independent Chartered Accountants and the investments in subsidiary will be disposed off based on the valuation report. We shall keep the shareholders informed as soon as the details are finalised.

Particulars, as required to be disclosed with regard to CHL, the subsidiary of the Company, under Section 212 of the Companies Act, 1956 have been annexed to the accounts of the Company.

## Himatsingka Seide Limited

### Personnel

The Board wishes to express its appreciation to all employees for their valuable contribution to the growth of the Company.

The Industrial Relations were cordial and an atmosphere of understanding prevailed throughout the year. As already informed, the Company has entered into a new wage agreement which will be valid till 31.3.2000.

### Research and Development

Research and Development continue to provide valuable support to our exports and also to keep pace with changing customer requirements. High priority is being given to in-house research and innovation. The Design department continues to support the Company's exports by providing improved and new product designs to establish market leadership.

The R & D facilities were further enhanced on installation of an additional colour matching computer system at a cost of Rs. 24.07 lakhs during the year. Keeping in view the requirement of Blended yarn dyeing, the laboratory has been upgraded with the latest equipments. The Design Studio was expanded by building an additional wing.

### Environment, Safety, Energy Conservation and Technology Absorption

Safety & environmental protection continue to be the prime concern of the Company. The Company has upgraded its Effluent Treatment facilities. A new effluent treatment plant has been imported from Germany at a cost of Rs. 52.50 lakhs. It is energy efficient, compact and one of the first of its kind in the country.

Your Company's endeavour has been to maximise efficient use of energy and safe and responsible disposal of residual wastes, while minimising adverse environmental impact and waste generation.

### Foreign Exchange Earnings and Outgo

			(Rs. Crores)
Earnings	-	Export (FOB Value)	58.63
Outgo	-	Import of Raw material and other inputs	20.26
		Other Expenditure	5.45
		Net Foreign Exchange Earnings from operations	32.92
		Import of Capital Goods	20.28

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### Directors

In terms of the provisions of the Companies Act, 1956 and Articles of Association of the Company, Sri N.M.Himatsingka and Sri B.K. Garodia retire by rotation and, being eligible, offer themselves for re-appointment.

### Particulars of Employees

Information as per Section 217 (2A) of the Companies Act, 1956 read with Companies (Particulars of Employees) Rules, 1975, is given as an annexure, forming part of this report.

### Public Deposits

The Company has not accepted any deposits from the public during the year, within the meaning of Section 58A of the Companies Act, 1956.

### Auditors

M/s. G. Bagrodia & Co., Chartered Accountants, your Company's Auditors, retire at the ensuing Annual General Meeting and are eligible for re-appointment. Members are requested to appoint Auditors and fix their remuneration for the current year.

### Cost Auditors

Pursuant to the directives of the Central Government under the provision of Section 233B of the Companies Act, 1956, Mr. G.I. Srinivas Murthy, Cost Accountant, has been appointed as the Cost Auditor.

### Acknowledgement

Your Directors would like to express their grateful appreciation to our Bankers, Central Government and Government of Karnataka for their continued co-operation and assistance. Our whole-hearted thanks to our shareholders, customers and suppliers who have extended their valuable support.

For and on Behalf of the Board

Bangalore  
29th May, 1998.

Dr. G.V.K. Rao  
Chairman

## Himatsingka Seide Limited

## Annexure to the Directors' Report

Additional Information 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 :

## Conservation of Energy :

Conservation of Energy			Current Year	Previous Year	
(A)	Power & Fuel Consumption				
1.	a)	Electricity Purchased	Units	17,52,284	15,19,560
		Total Amount	Rs.	72,68,574	56,88,629
		Rate/Unit	Rs.	4.15	3.74
	b)	Own Generation			
	i)	Through Diesel Generator	Units	40,32,779	38,78,583
		Units/Ltr. of Diesel oil	Units	3.07	3.80
		Cost/Unit	Rs.	4.75	2.69
	ii)	Through Steam Turbine/Generator		Nil	Nil
2.		Coal		Nil	Nil
3.		Furnace Oil			
		Quantity	KL	574.43	495.95
		Total Amount	Rs.	32,58,226	32,52,965
		Average Rate per KL	Rs.	5.672	6.559
		Other/Internal Generation		Nil	Nil
(B)	Consumption Per Square Metre :				
	Products	Natural Silk Fabrics			
	Electricity	Unit	4.64	4.07	
	Furnace Oil	Litre	0.46	0.37	
	Coal/Others		Nil	Nil	

Increased electricity consumption is due to change in product mix and higher utilisation of R.F. dryer and humidification plant.

Increased Furnace oil consumption is due to change in product mix.

Own generation electricity cost per unit has increased due to increase in fuel cost and depreciation cost on new captive power plant.

C.	1)	Energy conservation measures taken	(i)	Energy Audit has been conducted.
			(ii)	Regular preventive maintenance of electric motors.
			(iii)	Installation of additional power capacitors and solar distilled water plant.
	2)	Impact of the measures taken for reduction of energy consumption and consequent impact on the cost of production.	(i)	Improvement in productivity / power factor.
			(ii)	Improvement in the life of electrical equipments.
			(iii)	Improved efficiency and product quality.

## Research &amp; Development (R&amp;D)

a)	Specific areas in which R&D carried by the Company	(i)	Quality enhancement of existing products.
		(ii)	Development and evaluation of alternate raw materials.
		(iii)	New product/process development.
		(iv)	Import Substitution.
b)	Benefits derived as a result of the above R&D	:	Consistent product quality and development of intricate fabric designs and weaves.
c)	Future plan of action	:	Continuation of R&D efforts towards Quality Improvement, development of new designs and cost reduction.
d)	Expenditure on R&D		Rs. in Lakhs
	Capital		24.22
	Recurring		38.87
	Total		63.09
	Total R&D Expenditure as a percentage of turnover		1.06%



## Himatsingka Seide Limited

## Technology Absorption

- |    |   |      |  |
|----|---|------|--|
| a) | Efforts in brief made towards Technology absorption, adoption and innovations | (i)  | Continuous information with R&D divisions of Overseas designers/ buyers.         |
|    |   | (ii) | Adaptation of sophisticated technologies in development of new products/designs. |
| b) | Benefits derived as a result of the above efforts.                            | (i)  | Quality improvement.   |
|    |   | (ii) | Reduced costs and increased productivity.  |
| c) | Information regarding imported technology:                                    |      |  |
|    | Technology Imported   |      | Manufacturing of Spun Silk/blended yarn  |
|    | Year of Import  |      | 1996 and 1997  |
|    | Status of absorption  |      | Absorbed   |

Statement of particulars of Employees pursuant to the provisions of Section 217 (2A) of the Companies Act, 1956.

Name	Age	Designation/ Nature of duties	Remuneration received (Rs.)	Qualification (Experience)	Date of Com- mencement of employment	Previous employment
a. Employed for the full year :						
Sri. Dinesh Himatsingka	48	Managing Director	44,75,756	B.A.(Hons) (23 years)	01.08.85	Managing Director, Bihar Mercantile Union Ltd.
Sri. Aditya Himatsingka	34	Executive Director	17,21,279	B.Com.(Hons) Diploma in Textiles (12 Years)	01.01.88	—
Sri. Mohan Rao	45	President (Operations)	12,32,916	B.Tech (20 Years)	04.07.88	General Manager Gherzi Eastern Ltd.
Ms. Jayshree Peddar	40	Design Director	11,81,421	B.Sc., Diploma in Textile Designing (21 years)	03.08.87	Chief Designer, Bihar Mercantile Union Ltd.
Sri. P. Chinnaraj	42	Vice President (Finance) & Secretary	7,54,707	B.Com, ACA, ACS (17 Years)	15.02.86	Assistant Manager (F) Steel Authority of India Ltd.
Sri. S. Nagendra	40	General Manager Personnel & Admn.	3,66,659	B.A, LLB, MBA (16 Years)	05.04.95	Deputy General Manager (P & A) Mysore Lamps Ltd.
Sri. V. Satish	40	Assistant General Manager	3,07,882	B. Tech (17 Years)	01.10.86	Senior Weaving Assistant, Gogte Textiles Ltd.
Sri. S.A. Viswanath	41	Assistant General Manager	3,07,927	B. Tech (17 Years)	01.10.86	Senior Weaving Assistant, Gogte Textiles Ltd.
Sri. B.H.S. Murthy	51	Assistant General Manager	3,03,740	B.E. (Elec.) (29 Years)	01.04.93	Chief Engineer, Rale Electronics

- Note : 1. The remuneration includes Salaries, Commission, Allowances, Contribution to Provident/Pension Fund, Reimbursement of Medical Expenses and Perquisites as per I.T.Rules.
2. The appointment of the Managing Director and Executive Director is on contractual basis. Other appointments are on regular basis.
3. Sri.Dinesh Himatsingka and Sri. Aditya Himatsingka are related to S/Sri.A.K.Himatsingka and N.M.Himatsingka, Directors of the Company.



## Himatsingka Seide Limited

## Report of the Auditors to the Members

We have audited the attached Balance Sheet of M/s. Himatsingka Seide Limited as at 31st March, 1998 and the Profit and Loss Account for the year ended on that date annexed thereto and report that:

1. As required by the Manufacturing and other Companies (Auditor's Report) Order, 1988 and on the basis of such checks of the books and records of the Company as we considered appropriate and the informations and explanations given to us in the course of our audit, we enclose in the annexure a statement on the matters specified in paragraph '4' and '5' of the said Order so far as it applies to the Company.
2. Further to our comments in the annexure referred to in paragraph '1' above we state that:
  - (a) We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit.
  - (b) In our opinion proper books of account as required by law have been kept by the Company so far as appears from our examination of such books.
  - (c) The Balance Sheet and Profit and Loss Account referred to in this report are in Agreement with the books of account.
  - (d) In our opinion and to the best of our information and according to the explanations given to us, the said Balance Sheet and Profit and Loss Account read together with the notes thereon give the information required by the Companies Act, 1956 in the manner so required and give a true and fair view:
    - (i) in so far as it relates to the Balance Sheet, of the State of Affairs of the Company as at 31st March, 1998; and
    - (ii) in so far as it relates to the Profit and Loss Account, of the Profit of the Company for the year ended on that date.
3. We have also examined the attached Cash Flow Statement of the Company for the year ended 31st March, 1998. The statement has been prepared by the Company in accordance with the requirements of Clause 32 of the listing agreements with the Stock Exchange.

For G. Bagrodia and Company,  
Chartered Accountants.

(G.B. Bagrodia)  
Partner

Bangalore : 29th May, 1998.

## ANNEXURES TO THE AUDITORS' REPORT

Annexure referred to in paragraph '1' of our Auditors' Report of even date on the accounts for the year ended 31st March, 1998 of M/s. Himatsingka Seide Limited, Bangalore:

1. The Company has maintained proper records showing full particulars including quantitative details and situation of fixed assets. All the assets have been physically verified by the management during the year. No material discrepancies were noticed on verification.
2. None of the fixed assets have been revalued during the year.
3. The stock of finished goods, spare parts and raw materials have been physically verified by the management. In our opinion the frequency of verification is reasonable.
4. The procedure of physical verification of stocks followed by the management are reasonable and adequate in relation to the size of the Company and the nature of its business.
5. The discrepancies noticed on verification between the physical stocks and the book records were not material.

## Himatsingka Seide Limited

6. The valuation of stock is fair and proper in accordance with the normally accepted accounting principles and is on the same basis as in the preceding year.
7. The Company has not taken any loan from Companies, Firms or other Parties listed in the register maintained under Section 301 of the Companies Act, 1956. We are informed that there is no Company under the same management as defined under Sub Section (1-B) of Section 370 of the Companies Act, 1956.
8. The rate of interest, terms and conditions on which loans have been granted to the Companies, Firms or other Parties listed in the register maintained under Section 301 of the Companies Act, 1956 are not prima facie prejudicial to the interests of the Company. We are informed that there is no Company under the same management as defined under Sub Section (1-B) of Section 370 of the Companies Act, 1956.
9. The parties to whom loans and advances in the nature of loan have been given by the Company are repaying the principal amounts as stipulated and are also regular in payment of interest.
10. There are adequate internal control procedures commensurate with the size of the Company and the nature of its business with regard to purchase of stores, raw materials including components, plant and machinery, equipment and other assets and with regard to the sale of goods.
11. There are no transactions for purchase/sale of any goods and materials made in pursuance of contracts or arrangements entered in the register maintained under Section 301 of the Companies Act, 1956 aggregating during the year to Rs. 50,000/- or more in respect of each party. Transactions made in pursuance of such contracts for supply of services are reasonable having regard to prevailing market practices for such services.
12. The Company has a regular procedure for the determination of unserviceable or damaged stores, raw materials and finished goods. Adequate provision has been made in the accounts for the loss arising on the items so determined.
13. The Company has not accepted any deposit within the meaning of provision of Section 58A of the Companies Act, 1956, and the Companies (Acceptance of Deposits) Rules, 1975.
14. The Company has no by-products. The Company has proper records for scrap generated.
15. The Company has an internal audit system commensurate with the size and nature of its business.
16. According to the certificate of the Cost Auditor, the Company has maintained cost records as prescribed under Section 209 (1)(d) of the Companies Act, 1956 for the year under review.
17. No undisputed amounts payable in respect of Income Tax, Sales Tax, Wealth Tax, Customs Duty and Excise Duty were outstanding as at 31st March, 1998 for a period of more than six months from the date they became payable.
18. No personal expenses of the Employees or Directors have been charged to revenue account, other than those payable under contractual obligations or in accordance with generally accepted business practice.
19. The Company has been regular in depositing Provident Fund and Employees State Insurance dues with appropriate authorities during the year.
20. The Company is not a Sick Industrial Company within the meaning of Clause (O) of Sub-Section (1) of Section 3 of the Sick Industrial Companies (Special Provisions) Act, 1985.
21. The Company has maintained proper records of transactions and contracts in respect of its trading in shares and timely entries have been made in such records. The Company's Investments are held in its own name except the shares which are lodged for transfer.

For G. Bagrodia and Company,  
Chartered Accountants.

(G.B. Bagrodia)  
Partner

Bangalore : 29th May, 1998.