

HIMATSINGKA SEIDE LTD.

ANNUAL REPORT

1998 - 1999



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 Fourteenth Annual Report together with the Audited Accounts of the Company, for the Year ended 31st March, 1999.

Year in Retrospect

During the year 1998-99, the Spun Silk/blended yarn unit as well as the Blended Fabrics Weaving unit commenced commercial production. The new divisions contributed substantially to the growth of exports. Substantial part of export orders during the year under review has come for blended fabrics that the company has developed using yarn produced in its own spinning division. The market has received the new products with enthusiasm and the company foresees an increased demand for these items in the future.

The turnover of the Company for the year was Rs 84.80 crores, showing an increase of 42% over the previous year. The Net Profit after tax is higher at Rs 28.95 crores as compared to Rs 24.63 crores of the previous year. The provision for taxation is lower at Rs 0.02 crores due to availing of MAT credit.

Financial Results

	1998-99	(Rs. Crores) 1997-98
Turnover	84.80	59.49
Other Income	2.17	3.63
Profit before Interest and Depreciation	41.11	31.36
Interest	3.52	1.54
Profit before Depreciation	37.59	29.82
Depreciation	8.62	4.77
Profit before tax	28.97	25.05
Provision for taxation	0.02	0.42
Profit after tax	28.95	24.63
Excess Income Tax provision written back	0.02	NIL
Profit brought forward from Previous Year	6.55	9.27
Profit available for appropriation	35.52	33.90
Transfer to General Reserve	20.00	20.00
Proposed Dividend	7.64	6.69
Corporate Dividend Tax	0.81	0.66
Profit carried to Balance Sheet	7.07	6.55

Dividend

An Interim Dividend of 35% was distributed in December, 1998. Your Directors are pleased to recommend a Final Dividend at the rate of 45%, making in all the total dividend of 80%, for the year 1998-99 (Previous Year - 70%). The total amount of dividend and tax on dividends for the current year is Rs 8.45 crores as compared to Rs 7.35 crores for the previous year.

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

Bonus Issue of Share

Your Directors recommend a Bonus issue of shares in the ratio of 1:1. The necessary resolutions are being placed before the shareholders in the ensuing Annual General Meeting.

Prospects for the current year

Production and exports are expected to show steady growth during the current year due to the launching of new range of blended fabrics and improved market conditions. The capacity utilisation of yarn division is expected to improve substantially.

After a slow start due to the economic slowdown in major markets like Japan and Korea, the Spun Silk/Blended Yarn unit has stepped up its operations. The unit has started receiving major orders from Korea, Japan and Italy. Consumption of these yarns in our weaving division is also increasing in a meaningful manner.

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.

Himatsingka Seide Limited

Directors' Report

Finance

The Company has repaid the entire short term loan of Rs 12.02 crores during the year. The Company has also prepaid External Commercial Borrowing (ECB) loans of Rs 5.12 crores during the same period. We will regain our status of a Debt Free Company once the balance ECB loan of Rs 25.00 crores is repaid on schedule during February 2000 to May 2000.

While your Company enjoys P1+ rating for commercial paper programme of Rs 6.00 crores from CRISIL, no commercial paper programme was conducted. Surplus funds of the Company were invested prudently.

Depository facility

Your Company has an agreement with National Securities Depository Limited (NSDL) with effect from 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.

As on date, over 32% of the shares are held in dematerialised form.

Subsidiary Company

The Company had initiated steps to dispose off the investment in Credit Himatsingka Limited (CHL). M/s. S.B. Billimoria & Co., were given the mandate to find suitable buyers for CHL. Despite their efforts, M/s. S.B. Billimoria & Co., have concluded that there are no viable buyers for CHL.

CHL requested the Company to increase its equity investment by additional Rupees Five Crores, with a purpose to shore up its networth. Your Board discussed and decided that further investments in CHL would not be in the interest of the Company. Hence, CHL was allowed to raise the additional capital by way of private placement.

Accordingly, CHL has raised further equity of Rs. 5 crores through private placement, which has been taken up by a group of Calcutta based Companies, Himatsingka family and their associates. The fund raised by issue of equity shares has been utilised by CHL to repay Inter Corporate Deposits to your Company.

Your Company's shareholding in Credit Himatsingka Ltd. (CHL) has fallen to 28% as a result of further issue of 50,00,000 equity shares by CHL, which was not taken up by your Company. Accordingly, CHL ceased to be the subsidiary of your Company w.e.f 30th March, 1999.

The present exposure of your Company in CHL stands reduced to Rs. 11.50 crores, out of which Rs. 8.50 crores is expected to be realised within the current financial year. It is anticipated that the Company will not incur any loss on account of its investments in its subsidiary and it is expected to realise its investments in full.

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.

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.

During the year, the new spinning division was also awarded the ISO 9001 certification by RWTUV, Germany.

Y2K Compliance

To manage the Y2K problem effectively, your Company is working to a well designed plan to ensure the Y2K compliance well before the critical date arrives. All LAN Servers, Data centre equipments and telecom/network hardware in the various divisions of the Company are fully Y2K compliant. All Personal computers/workstations have been identified for Y2K compliance and necessary steps have been initiated for replacement, where necessary by 30th September, 1999. The costs of remediation and other efforts relating to the Y2K problem is estimated at Rs.16.00 lakhs.

All financial accounting and the major Software Programs are operating on Y2K compliant systems. The Company continues to track and manage Y2K risks relating to third party service providers. We have confirmation from our critical business partners that they will continue to supply goods and provide services in year 2000 and beyond.

In view of adequate steps taken by the Company well in time, no problems are foreseen which can disrupt the smooth functioning of the Company's regular operations.

Himatsingka Seide Limited

Directors' Report

Environment, Safety, Energy Conservation and Technology Absorption

Safety & environmental protection continue to be the prime concern of the Company. Investments are continuously made in projects for reducing/treating wastes and increase energy efficiencies.

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. Performance is monitored through regular safety and environment audits. Safety training is imparted to employees at all levels.

Information under section 217(1)(e) read with Companies (Disclosure of particulars in the report of Directors) Rules, 1988 are given in the annexure, forming part of this report.

Foreign Exchange Earnings and Outgo

			(Rs. Crores)
Earnings	-	Export (FOB Value)	83.04
Outgo	-	Import of Raw material and other inputs	35.59
		Other Expenditure	<u>4.60</u>
		Net Foreign Exchange Earnings from operations	<u>42.85</u>
		Import of Capital Goods	<u>5.49</u>

Directors

Sri D.K.Himatsingka, Managing Director has completed his term of appointment on 31.3.99 and Sri Aditya Himatsingka, Executive Director is due to complete his term of appointment on 2.6.99. Sri D.K.Himatsingka and Sri Aditya Himatsingka have been re-appointed by the Board of Directors for a further term of five years. Necessary shareholders approval is being sought in the ensuing Annual General Meeting.

In view of the increased time devoted by Sri A.K.Himatsingka to the affairs of the Company, it is proposed that Sri A.K.Himatsingka be appointed as a Whole Time Director with effect from April 1, 1999. Necessary resolution in this regard is included in the notice of Annual General Meeting.

4

In terms of the provisions of the Companies Act, 1956 and Articles of Association of the Company, Dr. G.V.K.Rao and Sri R.K.Talwar 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

The Members are requested to appoint M/s S.B.Billimoria & Co., Chartered Accountants, as Auditors in place of the retiring Auditors, M/s G.Bagrodia & Co., (who have expressed their inability to be re-appointed as the Statutory Auditors) and to fix their remuneration.

M/s G.Bagrodia & Co. are proposed to be appointed as Internal Auditors of the Company.

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
22nd May, 1999.

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:

(A)	Power & Fuel Consumption:			Current Year	Previous Year
1.	a)	Electricity Purchased	Units	14,36,736	17,52,284
		Total Amount	Rs.	66,24,922	72,68,574
		Rate/Unit	Rs.	4.61	4.15
	b)	Own Generation			
	i)	Through Diesel Generator	Units	75,74,560	40,32,779
		Units/Ltr. of Diesel oil	Units	3.64	3.07
		Cost/Unit	Rs.	3.68	4.75
	ii)	Through Steam Turbine/Generator		NIL	NIL
2.		Coal		NIL	NIL
3.		Furnace Oil			
		Quantity	KL	614.79	574.43
		Total Amount	Rs.	35,02,471	32,58,226
		Average Rate per KL	Rs.	5,697	5,672
		Other/Internal Generation		NIL	NIL

(B) Consumption

Product (a) Natural Silk/Blended Fabrics (per Square Metre:)

Electricity	Unit	3.33	4.64
Furnace Oil	Litre	0.41	0.46
Coal/Others		NIL	NIL

(b) Spun Silk/ Blended Yarns (per Kg)

Electricity	46.92	N.A.
Furnace Oil	NIL	N.A.
Coal/Others	NIL	N.A.

(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 & Development (R&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
			NIL
			31.39
			31.39
	Total R&D Expenditure as a percentage of turnover		0.37%

Himatsingka Seide Limited

Annexure to the Directors' Report

Technology Absorption

a)	Efforts in brief made towards Technology absorption, adoption and Innovations.	(i)	Continuous interaction 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
Employed for the full year						
Sri Dinesh Himatsingka	49	Managing Director	39,22,941	B.A.(Hons.) (24 years)	01.08.85	Managing Director, Bihar Mercantile Union Ltd.
Sri Aditya Himatsingka	35	Executive Director	15,10,927	B.Com(Hons.) Diploma in Textiles (13 years)	01.01.88	-
Sri Mohan Rao	46	President (Operations)	16,49,017	B.Tech (21 years)	04.07.88	General Manager, Gherzi Eastern Ltd.
Ms. Jayshree Poddar	41	Design Director	14,21,956	B.Sc. Diploma in Textile Designing (22 years)	03.08.87	Chief Designer, Bihar Mercantile Union Ltd.
Sri. P.Chinnaraj	43	Vice President (Finance) & Secretary	8,91,900	B.Com, ACA,ACS (18 years)	15.02.86	Assistant manager(F), Steel Authority of India Ltd.

- 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, 1999 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, the attached Balance Sheet of the Company as at 31st March, 1999 and the Profit and Loss Account for the year ended on that date, comply with the Accounting Standards referred in Sub-Section 3(c) of Section 211 of the Companies Act, 1956
 - (e) 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 as per schedule '14' 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, 1999; 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, 1999. 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

Bangalore
22nd May, 1999.

(G.B. Bagrodia)
Partner

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, 1999 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

Report of the Auditors to the Members

6. The valuation of stock is fair and proper in accordance with the normally accepted accounting principles. The Company has changed the method of valuation from "first-in-first-out" to "Weighted Average" method as specified in Note No.25(b) of Schedule '14'.
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 interest 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. In respect of loans and advances in the nature of loans given by the Company, the parties including employees are repaying the principal amounts as stipulated, where applicable, and are also regular in payment of interest.
10. There are adequate internal control procedure 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, Custom Duty and Excise Duty were outstanding as at 31st March, 1999 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's investments are held in its own name.

For G. Bagrodia and Company,
Chartered Accountants

Bangalore
22nd May, 1999

(G.B. Bagrodia)
Partner

Himatsingka Seide Limited

Balance Sheet

As at March 31,1999

	Sch No.	31.03.1999 Rs.	31.03.1998 Rs.
SOURCES OF FUNDS			
SHAREHOLDERS' FUNDS			
Share Capital	1	9,55,30,750	9,55,30,750
Reserves & Surplus	2	1,31,60,20,705	1,11,08,13,753
		<u>1,41,15,51,455</u>	<u>1,20,63,44,503</u>
LOAN FUNDS			
Secured Loans	3	34,91,40,776	29,02,87,443
Unsecured Loans			
- Short Term Loan from a Bank		—	11,82,73,649
TOTAL		<u>1,76,06,92,231</u>	<u>1,61,49,05,595</u>
APPLICATION OF FUNDS			
FIXED ASSETS			
Gross Block	4	1,47,57,82,421	72,80,00,478
Less : Depreciation		<u>33,84,65,385</u>	<u>25,33,84,701</u>
Net Block		1,13,73,17,036	47,46,15,777
Capital Work-in-Progress		<u>56,84,230</u>	<u>61,72,28,172</u>
		<u>1,14,30,01,266</u>	<u>1,09,18,43,949</u>
INVESTMENTS	5	5,00,00,000	5,00,00,000
CURRENT ASSETS, LOANS & ADVANCES	6		
Current Assets		49,19,24,893	33,44,47,766
Loans and Advances		<u>19,75,02,718</u>	<u>26,71,71,297</u>
		<u>68,94,27,611</u>	<u>60,16,19,063</u>
Less: CURRENT LIABILITIES AND PROVISIONS	7		
Current Liabilities		2,55,41,831	2,90,66,894
Provisions		<u>9,61,94,815</u>	<u>9,94,90,523</u>
NET CURRENT ASSETS		<u>56,76,90,965</u>	<u>47,30,61,646</u>
TOTAL		<u>1,76,06,92,231</u>	<u>1,61,49,05,595</u>
NOTES FORMING PART OF ACCOUNTS	14		
SIGNIFICANT ACCOUNTING POLICIES	15		
BALANCE SHEET ABSTRACT	16		

As per our report attached
for G. Bagrodia & Co.
Chartered Accountants

Dr. G.V.K. Rao
Chairman

A.K. Himatsingka
Vice Chairman

D.K. Himatsingka
Managing Director

B.K. Garodia
Director

N.M. Himatsingka
Director

Aditya Himatsingka
Executive Director

(G.B. Bagrodia)
Partner

Rajiv Khaitan
Director

P. Chinnaraj
Vice President(Finance)
& Secretary

Bangalore: 22nd May,1999.

Bangalore: 22nd May,1999.