

ANNUAL REPORT 2005-2006



IFB INDUSTRIES LIMITED

BOARD OF DIRECTORS

Executive Chairman
 Mr. Bijon Nag

Directors

Mr. B. P. Muktieh (*Nominee of IDBI*)
 Mr. Somen Bal
 Dr. Rathindra Nath Mitra
 Mr. Radharaman Bhattacharya
 Mr. R. Muralidhar
 Mr. K. M. Unnikrishnan

AUDIT COMMITTEE

Chairman

Mr. B. P. Muktieh

Members

Mr. Somen Bal
 Mr. Radharaman Bhattacharya
 Mr. R. Muralidhar

REGISTERED OFFICE

14, Taratolla Road
 Kolkata – 700 088
 Tel : (091) (33) 2401 4917 – 23
 Fax : (091) (33) 2401 4182, 2401 4579
 E-mail : ifbi_legal@ifbglobal.com

CORPORATE OFFICE

Plot No. IND-5, Sector – I
 East Kolkata Township
 Kolkata – 700 107
 Tel : (091) (33) 2442 8286/87/89/90/91
 Fax : (091) (33) 2442 7779/1003
 E-mail : ifbi_legal@ifbglobal.com

COMPANY SECRETARY

Mr. G. Ray Chowdhury

AUDITORS

Deloitte Haskins & Sells
Chartered Accountants

**REGISTRAR AND
 SHARE TRANSFER AGENTS**

CB Management Services (P) Ltd.
 P 22, Bondel Road, Kolkata - 700 019

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IFB INDUSTRIES LTD.

Regd. Office : 14, Taratolla Road
Kolkata – 700 088

NOTICE

NOTICE is hereby given that the 30th Annual General Meeting of the members of IFB Industries Limited will be held at Eastern Zonal Cultural Center, IA – 290, Sector III, Bidhannagar, Calcutta – 700 091 on 30th August, 2006 at 11.00 a.m to transact the following :

ORDINARY BUSINESS

1. To receive, consider and adopt the Audited Balance Sheet and Profit & Loss Account for the financial year ended 31st March, 2006 and reports of the Directors and Auditors thereon.
2. To appoint a Director in place of Mr. R. Muralidhar who retires by rotation and being eligible offers himself for reappointment.
3. To appoint a Director in place of Mr. K. M. Unnikrishnan who retires by rotation and being eligible offers himself for reappointment.
4. To consider and if thought fit, to pass, with or without modification the following resolution as a special resolution :
“RESOLVED THAT M/s. Deloitte Haskins & Sells, Chartered Accountants be and are hereby appointed Auditors of the Company from the conclusion of this Annual General Meeting upto the conclusion of the next Annual General Meeting and the Board of Directors be and is hereby authorised to fix their remuneration and out of pocket expenses payable to them.”

Registered. Office :
14, Taratolla Road
Kolkata - 700 088
Dated : 30th June, 2006

By Order of the Board

Goutam Ray Chowdhury
Company Secretary

NOTES :

- i) A member entitled to attend and vote at the meeting is entitled to appoint a proxy, to attend and vote on a poll on his behalf and such a proxy need not be a member of the Company. Proxies in order to be effective must be deposited at the Registered Office or with the Registrars and Share Transfer Agent of the Company, M/s CB Management Services (P) Ltd., not less than 48 hours before the meeting.
- ii) The Register of Members of the Company and the Share Transfer Registers shall remain closed from 28th August, 2006 to 30th August, 2006 (both days inclusive).
- iii) The members are requested to
 - a) notify immediately any change in their address to the Company;

- b) bring their copy of the Annual Report to the meeting;
- c) write to the Company's Registrars & Share Transfer Agents, M/s CB Management Services (P) Ltd enclosing their share certificates for consolidation into one folio for better investor service, if they have more than one folio in identical order of name(s).
- iv) Members who holds shares in dematerialized form are requested to write their client ID and DP ID Nos. and those who hold shares in physical form are requested to write their Folio No. in the attendance slip for attending the meeting to facilitate identification of membership at the meeting.
- v) Explanatory Statements under Section 173(2) of the Companies Act, 1956 for resolution nos. 4 is given hereunder.
- vi) Additional information, pursuant to clause 49 of the Listing Agreement with Stock Exchanges, on Directors recommended by the Board of Directors for re-appointment at the Annual General Meeting is appearing in the Report and Accounts.

EXPLANATORY STATEMENT PURSUANT TO SECTION 173(2) OF THE COMPANIES ACT, 1956.

Resolution No. 4

As the Company is a widely held Company and its shares are traded on the Stock Exchanges regularly, a part of its share capital is sometimes held by the financial institutions who now routinely invest in the stock market. As this may sometime attract the provisions of Section 224A of the Companies Act, 1956, the Company proposes to appoint the Auditors by Special Resolution as abundant precaution.

The Board recommends the passing of this Special Resolution.

None of the Directors is interested/concerned in the resolution.

Registered. Office :
14, Taratolla Road
Kolkata - 700 088
Dated : 30th June, 2006

By Order of the Board

Goutam Ray Chowdhury
Company Secretary

DIRECTORS' REPORT to the Shareholders

Dear Shareholders,

Your Directors present the 30th Annual Report and Accounts for the Financial Year ended 31st March, 2006.

1. FINANCIAL RESULTS :

	(Rs. '000)	
Year ended 31st March, 2006	Year ended 31st March, 2005	
Total Income	2652387	2405070
Expenditure	2890843	3229824
Loss before Extra-ordinary items and prior Period adjustments	(238456)	(824754)
Prior period items	(772)	(5434)
Gain on interest waiver	108076	486201
Net Loss	(131152)	(343987)
Provn for FBT	(6836)	-
Balance Brought forward	(5327299)	(4983312)
Balance carried to Balance Sheet	<u>(5465287)</u>	<u>(5327299)</u>

2. DIVIDEND :

In view of the Company having made losses for the above period the Board regrets its inability to recommend any dividend for the year.

3. REVIEW OF OPERATION :

The positive impact of strategies initiated during the last couple of years along with revival of Indian economy has helped the Home Appliances and Engineering Divisions to achieve growth in sales. Market penetration, increased focus on manufacturing efficiency and productivity supported by signs of industrial revival played a key role in the growth. Further, the product range was extended in home appliance and engineering business.

Despite the fact that the washing machine segment has under performed compared to the other durable segments mainly due to its declining position in the consumers' list of aspirations, the Company maintained strong presence and leadership in the fully automatic front loading segment. While a growth in production

and sales in washing machines and dryers were recorded, the sale of microwave oven had increased substantially. During the year the new economy model washing machine "DIVA" and high end model DIGITAL 7 kg were launched. However, the margin in washing machine sale reduced due to raw material price increase and increased sale of economy segment washing machines. Due to financial constraints the Company could not make adequate advertisement and marketing expenses leading to lower sales in higher end washing machines.

Due to growth in the automobile sector the Company could improve the business of fine blanking segment as compared to last year. Despite an overall 15% growth in the automobile sector there has been a severe price war among the competitors leading to a lower margin on fine blanking components supplied by the company to its customers. The Company has already ventured in other areas and has become regular vendor to customers like BSNL, Defence Factories, etc.

During the year, the Company has suffered a loss of Rs. 13.11 crores as against previous year's reported figure of Rs. 34.4 crores. Loss for the year under review reduced due to substantial reduction in interest cost and booking of gain on interest waiver consequent to debt settlement.

4. MANAGEMENT DISCUSSION AND ANALYSIS :

A) Industry Structure & Developments :

The year 2005-06 shows encouraging results for all segments of automobile industry and it is expected to grow if the favourable conditions prevail. Exports have also been showing the buoyancy. The exports will be potential source of revenue growth in the future. Due to increase in the price of steel, plastic and other input materials all the washing machine manufacturers are facing the heat and the industry pricing has been coming down. Demand growth has been slow because of low penetration of washing machines in India. Being an appliance that has substitute, the utility perception of the product is low and washing machine rank low in the priority list of consumers. The product is still to find acceptance in the rural market where a majority of the population resides, as a result demand remains restricted to the bigger

towns and cities. With the increasing urbanization and marginal price difference between front loading fully automatic (lower end) and top loading automatic washing machine, front loading fully automatic washing machines are being preferred by a larger section of consumer. The low growth in demand vis-à-vis, the large idle capacities and price led competition are the key reasons for the industry's weak financial performance.

B) Opportunities & Threats :

The Indian GDP continues to grow at a robust rate of 7 to 8 percent. The economic growth presents several attractive opportunities. The greatest opportunity of the Company is its brand equity, product quality, latest technical know how and last but not the least is the trust in Company's products by the valued customers. The Company has built up brand image through close liaison with its valued customers during the past years of its operation. The two main threats are:

- ☐ Significant rise in material cost will drastically impact on contribution unless operating cost can be reduced at unprecedented magnitude and speed.
- ☐ The growth of the Indian economy together with the reduction of import duties makes India increasingly a target market for many MNCs and therefore, competitive pressure on the domestic market will continue to grow fast. In particular, imports from low labour cost countries will increase and will lead to increased price pressure. Over the last couple of years the MNCs have eaten up the share of other brand owners and consolidating their presence in the market. Today consumers are increasingly looking for products that not only offer varied features but also competitively priced. The tardy growth in demand has adversely affected capacity utilization of industry. Idle capacity have been high at 60-75% as many players had set up large capacities in anticipation of high demand growth.

IFB's well crafted business strategies have enabled it to retain its lead market share and has been successful in improving its operating efficiencies consistently.

C) Segment wise performance. :

Though Fine Blanking Division has improved its turnover but operating profit as compared to last year reduced due to increase in material cost, freight and other overhead cost. The Home Appliance division has achieved better result compared to previous year by increasing its turnover and adopting various cost control measures but a lot more need to be done in the areas of cost control and the Company is aggressively pursuing the same. All our product categories have performed above industry average. To give more focus for Micro wave ovens, dishwasher and dryers independent managers have been given the responsibility of these product categories.

D) Outlook :

The pick up in the global economy, the revival of the Indian economy, industrial revival and reforms programmes being implemented at various stages are factors that augur well for the Company. Efforts towards higher operational efficiencies and focus on cost reduction shall continue. In addition to increasing market penetration and higher volumes the Company is also expanding its product range.

Modest demand growth of washing machines in the region of 3-5% over the medium term is expected to be driven by increasing urbanization, the rising population of working woman, declining price and soft rates on consumers credit and higher disposable income increasing the affordability of the product.

A significant share of demand for fully automatic washing machines accrues from the replacement segment. Replacement market to be aggressively targeted.

Our product in every category are significantly better than competitors. We strongly believe that these products require education and demonstration. We have come up with large scale demonstration for our home appliances. We don't want to discount our brand and we want to charge for the high quality and performance that we are delivering to our customers. We want to improve our distribution network, reduce our inventories and realize our old outstandings / claims.

We want to establish IFB as a specialist in appliances rather than a generalist. We wish to go beyond our existing product range. We have to look at air-conditioning and other opportunities in future. We are also looking for top loader washing machine and filling all our portfolio gaps and driving sales very aggressively.

The Indian auto-ancillaries sector is poised for growth. Companies which have made their mark, now wait to scale up to meet global orders. IFB has also given proper thrust to explore the possibility of acquiring export orders.

E) Concerns :

Market stress on product pricing vis-à-vis impact of record high prices of aluminium, copper, brass, steel etc on input cost and weakening of rupee to Euro & USD is a major area of concern. Dumping of goods from China and Korea is a major concern for Home Appliance Division. Availability of quality manpower has been an area of concern due to increasing job opportunities all around.

Appropriate measures have already been taken through value engineering and alternate sourcing for restricting input cost to current level. We have upgraded our norms of quality to meet new challenges. Small groups are energized for addressing product and process quality issues. Life cycle and reliability testing lab is now fully operational for evaluating performance of appliances and critical components. Stringent tests related to extreme conditions of environment, transportation, power, water, etc. are carried out both in-house as well as external labs. Activities of vendor development are strengthened for continuously evaluating vendor performance and capability to deliver quality components.

F) Internal Control Systems and their adequacy :

The Company has adequate system of internal controls and checks and balances to ensure that its assets are safeguarded and protected against loss from unauthorized use. The strength of these systems is continuously being monitored by the internal auditors and the findings of these audits are reported to the Audit Committee of the Board and also to the Board of Directors. The adequacy of the internal control system has also been examined by the statutory auditors and the

Company has not received any adverse comments from them on the adequacy of internal control system.

G) Human Resources :

IFB is a knowledge-driven organization and its greatest asset is the experience and skills of its employees. Recognizing that the workforce will provide the critical competitive edge in its growth endeavor, IFB has laid major emphasis on acquiring, maintaining and developing its human asset base.

As a result of focused attention the employees at all levels have actively participated in the effort to sustain and improve the performance of the Company even in the most difficult times. The Company had 686 nos. employees at the end of March 2006. As in the past, industrial relations continued to remain cordial at all locations in the Company.

H) Risk Management :

IFB seeks to make risk management frame work simplistic to facilitate a quick identification of potential risk events/risks and actual risks, its communication and thereafter escalation of the risk events identified to the appropriate persons to enable a timely and satisfactory risk response to be initiated. Response to risk and potential risk events are to be within the guidelines set for response. The risk strategy is determined by the Board and given shape and communicated by the risk committee at operation level annually or more often as required. Risk compliance will address the need to comply with regulation as well as with internal policies, procedures and guidelines. Certain designated business support units will bear the responsibility of ensuring regulatory compliances by the Corporation.

On a periodic basis, risks due to external and internal factors are assessed by responsible managers across the organization. These risks are reported through operations review and disclosures in meetings. Internal controls are exercised through policies, processes and systems that have been established to ensure timely availability of information and facilitate proactive risk management within the respective areas of

operations. We have also insured ourselves against various types of business risks. A few key risk areas and mitigation measures are given below –

Area

Retail marketing – With the entry of large format retail stores in India the retail market is likely to undergo a change and dealer driven market of today may be replaced by the retail chains in the years to come.

Mitigation measures

We have formulated our strategy to market our products to the retail chains and shall act accordingly.

Manpower

Recruitment and retention of professional manpower in today's competitive environment is the biggest challenge being faced by us.

Mitigation measures

With a view to retaining manpower, performance incentive plan has been worked out besides ensuring ctc correction in line with Companies of our size.

Range of products

Our limited range of products against the wide range of competition brands put us at a disadvantage with dealers.

Mitigation measures

We have increased our ground level activities and are opting for more direct to customer activities to increase our product reach. Introduction of other products such as toploaders, airconditioners etc. is being planned for financial year 2006-2007.

CAUTIONARY STATEMENT

Statement in this Management discussion and Analysis describing the Company's objectives, projection, estimates and expectations are 'forward looking statement' within the meaning of applicable laws and regulations. Actual results might differ substantially or materially from those expressed or implied. Important developments that could affect the company's operations include market competition, significant change in political & economic environment in India, tax law, exchange rate fluctuation, interest and other cost.

5. STATUS OF REFERENCE TO THE BOARD FOR INDUSTRIAL AND FINANCIAL RESTRUCTURING (BIFR) :

In terms of order of Hon'ble BIFR, IDBI Ltd., the Operating Agency(OA), appointed M/s Tata Economic consultancy Services (TECS) to carry out techno economic viability study of the Company, who after studying different operating units of the Company submitted its report.

The Company prepared its draft rehabilitation scheme (DRS) in line with the recommendations of TECS, its paying capacity and the settlement already entered into with different secured creditors and submitted the same to O.A with a copy to all secured creditors and Hon'ble BIFR. A joint meeting of secured creditors was organized by the O.A to take the views of secured lenders on the DRS submitted by the Company to enable OA to submit its report with DRS. Though most of the secured creditors intimated their acceptance of the compromise amounts offered by the Company, it was not agreed by a few secured creditors. It was finally agreed that OA should forward fully-tied up scheme to Hon'ble Bench on finalization of compromise settlement with all lenders which is likely to resolved shortly.

6. DIRECTORS' RESPONSIBILITY STATEMENT IN TERMS OF SECTION 217 (2AA) OF THE COMPANIES ACT, 1956 :

To the best of the knowledge and belief and according to the confirmations and explanations obtained by them, your directors make the following statements in terms of Section 217(2AA) of the Companies Act, 1956:

- a) In the preparation of the annual accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures;
- b) The Directors have selected such accounting policies and applied them consistently and made judgments and estimates that 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 and of the loss of the Company for that period;
- c) The Directors have taken proper and sufficient care 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;

- d) These accounts are prepared on a going concern basis.

7. CORPORATE GOVERNANCE :

As stipulated by Clause 49 of the Listing Agreement, a Report on Corporate Governance along with a Certificate from the Auditors is given separately in this Annual Report.

8. SUBSIDIARY :

As the net worth of European Fine Blanking Ltd. (EFB) an overseas subsidiary of the Company was substantially eroded by March 2003 and EFB was not in a position to pay its creditors, all the assets of the Company was taken possession of by the Administrative Receivers appointed by the bankers of EFB and were sold in satisfaction of debts. Finally the Company was dissolved on 19th July 2005.

9. DEBENTURES :

The Company has already cleared all its liabilities to debentures issued to public. During the year the Company restructured its debenture debts with Life Insurance Corporation of India and paying regularly in terms of the Memorandum of Settlement entered into with privately placed debenture holders. During the year the Company has cleared its dues to The Army Group Insurance Fund. During the current month the Company has clear its dues to UTI Asset Management Company Pvt. Ltd. by one time settlement in respect of 18% NCDs. The Company is also negotiating and hopeful to settle its balance debenture debt outstanding to UTI.

10. SETTLEMENT OF SECURED LOANS :

With limited resources the Company continued its endeavor to approach various secured creditors including Banks and Financial Institutions for one time settlement of outstanding dues and has been successful to settle with most of its secured lenders. During the year under review the Company accepted the settlement proposal of IDBI Ltd and also entered into Memorandum of Settlement with State Bank of India and are paying regularly the installments as per the settlement schedule.

11. TRANSFER TO INVESTORS EDUCATION AND PROTECTION FUND :

In terms of section 205A & 205C of the Companies Act an amount aggregating to Rs 174599 lying with the Company as unclaimed for a period of seven years on account of public deposits was transferred during the year to the Investors Education and Protection Fund.

12. DELISTING FROM DELHI STOCK EXCHANGE :

The application for delisting to Delhi Stock Exchange is pending.

13. PREFERENTIAL ALLOTMENT :

During the year the Company allotted 13500000 equity shares to IFB Automotive Pvt. Ltd. on preferential basis and the shares have been listed with NSE and BSE. The proceeds of the issued shares have been utilized towards payment to the secured creditors of the Company. The promoters participated in the above issue to bring fund in line with DRS submitted to Operating Agency.

During the year the Company also allotted 5% Cumulative Redeemable Preference Shares (CRPS) for Rs 1600 lakhs at a face value of Rs 10/- per share to IDBI Ltd. as part of the loan settlement.

14. AUDITORS :

M/s Deloitte Haskins & Sells, Chartered Accountants, retire at the conclusion of the ensuing Annual General Meeting. They have signified their willingness to accept reappointment and have further confirmed their eligibility under section 224(1B) of the Companies Act, 1956.

The Auditors' observations in their report dated 30th June, 2006 are dealt with suitably in the notes on accounts in Schedule 15 as annexed to the Balance Sheet and Profit & Loss Account which are self explanatory..

15. DIRECTORS :

The non-redemption of debentures attracted directors disqualification in terms of section 274(1)(g) of the Companies Act. A writ petition was filed before the Hon'ble High Court challenging the applicability of section 274(1)(g) of the Companies Act which is pending for final disposal. An interim order dated 14.05.2004 has been passed by the Hon'ble Calcutta High Court

directing Union of India and its authorized agents, servants or otherwise from giving any effect or further effect to or taking any step in pursuance of the provisions contained in section 274(1)(g) of the Companies Act, 1956. Mr. R. Muralidhar and & Mr. K.M. Unnikrishnan retire as directors by rotation at the ensuing Annual General Meeting and being eligible, offer themselves for reappointment. The particulars of directors seeking appointment / reappointment are given in Corporate Governance section of this Report.

16. **PERSONNEL :**

The Directors would like to place on record their appreciation of the dedication and hard work put in by employees at all levels.

The Company did not have any employee falling within the scope of Section 217 (2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975.

17. **ENVIRONMENT, CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION, FOREIGN EXCHANGE EARNINGS AND OUTGO :**

As required by the Companies (Disclosure of Particulars in the Report of the Board of Directors) Rules, 1988, the relevant data are given in the Annexure to this Report.

18. **ACKNOWLEDGMENTS :**

Your Directors would like to place on record their sincere appreciation to the Shareholders, Debentureholders and also Financial Institutions, Banks, Customers, Central & State Government Offices and all others for their co-operation and support.

Place : Kolkata
Dated : 30th June 2006

On behalf of the Board
BIJON NAG
Chairman

