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**SCHLAFHORST ENGINEERING (INDIA) LIMITED**

**39TH ANNUAL REPORT & ACCOUNTS - 1ST JANUARY 2000 TO 31ST DECEMBER 2000**

### **IMPORTANT NOTICE**

- (1) Members /Shareholders/ CCPS holders are requested to lodge their Equity / CCP Share certificates for transfer with the Company at its Registered Office at Vishwamitri Road, Near Lalbaug, Vadodara - 390 001, Gujarat, Telephone No. (0265) 646 040, 646 347, Fax No. 646 471, as Mafatlal Consultancy Services (India) Limited, ceased to be the Company's Registrar & Share Transfer Agents.
- (2) With effect from 9th October, 2000, the Company had admitted its Equity Shares to be dealt in dematerialized format and a tripartite agreement was signed between the Company, the Central Depository Services (India) Ltd., and Sharepro Services for providing electronic connectivity.

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**BOARD OF DIRECTORS**

Mr. J. Steiger	- Chairman
Mr. AK Bhagwati	- Up to 11.12.2000
Mr. F. Hiltmann	- Up to 26.07.2000
Mr. Martin Börger	- w.e.f. 26.07.2000
Mr. HF Kroll	- Up to 09.12.2000
Mr. CBK Pillai	- Jt. Managing Director

**COMPANY SECRETARY**

Mr. CBK Pillai

**BANKERS**

State Bank of India  
Dena Bank

**AUDITORS**

Price Waterhouse

**REGISTERED OFFICE**

Vishwamitri Road  
Near Lalbaug  
Vadodara - 390 001, Gujarat State  
Telephone No. (0265) 646040  
Fax No. (0265) 646471  
Internet : [www.schlafhorstengg.com](http://www.schlafhorstengg.com)  
E-mail : [seil@satyam.net.in](mailto:seil@satyam.net.in)

**WORKS**

Chandrapura Village, Tal. Halol - 389 350  
Dist. Panchmahal, Gujarat State  
Telephone No. (02676) 21870  
Fax No. (02676) 20887  
Internet : [www.schlafhorstengg.com](http://www.schlafhorstengg.com)  
E-mail : [spd@gnahd-schlafhorst.globalnet.ems.vsnl.net.in](mailto:spd@gnahd-schlafhorst.globalnet.ems.vsnl.net.in)  
[seilhalol@satyam.net.in](mailto:seilhalol@satyam.net.in)

## **NOTICE**

Notice is hereby given that the NINETEENTH ANNUAL GENERAL MEETING of the members\* of SCHLAFHORST ENGINEERING (INDIA) LIMITED will be held at the Registered Office of the Company, Vishwamitri Road, Near Lalbaug, Vadodara - 390 001, Gujarat, on Thursday, the 28th June 2001 at 2.00 p.m. to transact the following business :

### **ORDINARY BUSINESS**

1. To consider and adopt the audited Profit & Loss Account of the Company for the year ended 31st December 2000 and the Balance Sheet as at that date together with the reports of the Directors and Auditors.
2. To appoint a Director in place of Mr CBK Pillai, who retires by rotation and being eligible offers himself for re-appointment.
3. To appoint the Auditors to hold office from the conclusion of this meeting until the conclusion of the next Annual General Meeting and to fix their remuneration.

The tenure of Price Waterhouse expires at the conclusion of 19th Annual General Meeting of the Company. Price Waterhouse has expressed its unwillingness to continue as Auditors of the Company. Shah & Shah Associates, firm of Chartered Accountants based in Ahmedabad with a Branch in Vadodara have expressed their willingness to be appointed as Auditors of the Company. You are requested to appoint the Auditors of the Company and fix their remuneration.

### **SPECIAL BUSINESS**

4. To consider and if thought fit, to pass with or without modification, the following resolution as a Special resolution:

"RESOLVED THAT, pursuant to Section 31 and other applicable provisions of the Companies Act, 1956, and the provisions of the other statutes as applicable and subject to such approvals, consent, permission and sanctions as may be necessary from appropriate authorities or bodies, the Articles of Association of the Company, be and is hereby altered in the following manner :

\* 64,65,065 - 9% CUMULATIVE CONVERTIBLE PREFERENCE SHAREHOLDERS ARE ENTITLED TO ATTEND THE MEETING AND VOTE IN PERSON OR BY PROXY.

- (1) Insert the following heading and Article along with the marginal notes as Article -77A after Article 77.

### **DEMATERIALIZATION OF SECURITIES**

- 77A. (1) For the purpose of this Article :-

#### **Definitions**

"Beneficial owner" means a person whose name is recorded as such with a Depository.

"SEBI" means the Securities and Exchange Board of India established under Section 3 of the Securities and Exchange Board of India Act, 1992.

"Depositories Act" means the Depositories Act, 1996, including any statutory modifications or re-enactment thereof for the time being in force.

"By-Laws" means by-laws made by a Depository under Section 26 of the Depositories Act.

"Depository" means a company formed and registered under the Companies Act, 1956 and which has been granted a certificate of registration under sub-section (1A) of Section 12 of the Securities and Exchange Board of India Act, 1992.

"Member" means the duly registered holder from time to time of the shares of the Company and includes every person whose name is entered as a Beneficial Owner in the record of the Depository.

"Debenture holder" means the duly registered holder from time to time, of the debenture of the company.

"Participant" means a person registered as such under Section 12 (1A) of the Securities and Exchange Board of India Act, 1992.

"Record" includes the records maintained in the form of books or stored in computer or in such other forms as may be determined by regulations made by SEBI in relation to the Depositories Act.

"Regulations" mean the regulations made by SEBI.

"Security" means such security as may be specified by SEBI.

Words imparting the singular number only include the plural number and vice versa.

Words imparting persons may also include corporations.

Words and expressions used and not defined in the Act but defined in the Depositories Act shall have the same meanings respectively assigned to them in that Act.

(2) Company to recognize interest in dematerialized Securities under the Depositories Act, 1996

Either the Company or the investor may exercise an option to issue, deal in, hold the securities (including shares) with a Depository in electronic form and the certificates in respect thereof shall be dematerialized, in which event the rights and obligations of the parties concerned and matters concerned therewith or incidental thereof, shall be governed by the provisions of the Depositories Act, as amended from time to time or any statutory modification thereto or re-enactment thereof.

(3) Dematerialization of Securities

Notwithstanding anything contained in these Articles, the Company shall be entitled to dematerialize its existing securities, rematerialize its securities held in the Depositories and/or offer its fresh securities in a dematerialized form pursuant to the Depositories Act, and the rules framed thereunder, if any.

(4) Option to receive security certificates or hold Securities with Depository

Every person subscribing to or holding securities of the Company shall have the option to receive security certificates or to hold the securities with a Depository.

If a person opts to hold his security with a Depository, the Company shall intimate such Depository the details of allotment of the security, and on receipt of the information, the Depository shall enter in its records the name of the allottee as the Beneficial Owner of the security.

(5) Securities in Depositories to be in fungible form

All securities held by a Depository shall be dematerialized and be in fungible form. Nothing contained in Section 153, 159A, 153B, 187B, 187C and 372A of the Act shall apply to a Depository in respect of the securities held by it on behalf of the Beneficial Owners.

(6) Rights of Depositories and Beneficial Owners

(a) Notwithstanding anything to the contrary contained in the Act or these Articles, a Depository shall be deemed to be a registered owner for the purpose of effecting transfer of ownership of security on behalf of the Beneficial owner.

(b) Save as otherwise provided in (a) above, the Depository as the registered owner of the securities shall not have any voting rights or any other rights in respect of the security held by it.

(c) Every person holding securities of the Company and whose name is entered as the Beneficial Owner in the records of the Depository shall be deemed to be a member of the Company. The Beneficial owner of the securities shall be entitled to all the rights and benefits and be subject to all the liabilities in respect of his securities which are held by the Depository.

(7) Beneficial owner deemed as absolute owner

Except as ordered by a Court of competent jurisdiction or as required by law, the Company shall be entitled to treat the person whose name appears on the Register of Members as the holder of any share or where the names appear as the Beneficial Owner of the Shares in the records of the Depository as the absolute owner thereof and accordingly shall not be bound to recognize any benami trust or equitable, contingent, future or partial interest in any share, or (except only as is by these Articles otherwise expressly provided) any right in respect of a share other than an absolute rights thereto in accordance with these Articles, on the part of any other person whether or not it has express or implied notice thereof, but the Board shall be at their discretion to register any share in the joint names of any two or more persons or the survivor or survivors of them.

(8) Depository to furnish information

Every Depository shall furnish to the Company information about the transfer of securities in the name of the Beneficial Owner at such intervals and in such manner as may be specified by the By-laws and the Company in that behalf.

(9) Cancellation of certificates upon surrender by a person

Upon receipt of certificate of securities on surrender by a person who has entered into an agreement with a Depository through a participant, the Company shall cancel such certificate and substitute in its record the name of the Depository as the registered owner in respect of the said securities and shall also inform the Depository accordingly.

**(10) Option to opt out in respect of any security**

If a Beneficial Owner seeks to opt out of a Depository in respect of any security, the Beneficial Owner shall inform the Depository accordingly.

The Depository shall on receipt of the information as above make appropriate entries in the records and shall inform the Company.

The Company shall, within thirty (30) days of the receipt of information from the Depository and on fulfillment of such conditions and on payment of such fees as may be specified by the regulations, issue the certificate of Securities to the Beneficial Owner or the transferee as the case may be.

**(11) Service of Documents**

Notwithstanding anything in the Act or these Articles to the contrary where securities are held in a Depository, the records of the beneficial ownership may be served by such Depository on the Company by means of electronic mode or by delivery of floppies or discs.

**(12) Provision of Articles to apply to shares held in a Depository**

Except as specifically provided in these Articles, the provisions relating to joint holders of shares, calls, lien or shares, forfeiture of shares and transfer and transmission of shares shall be applicable to shares held in a Depository so far as they apply to shares held in physical form subject to the provisions of the Depositories Act.

**(13) Allotment of Securities dealt with in a Depository**

Notwithstanding any thing in the Act or these Articles, where securities are dealt with by a Depository, the Company shall intimate the details thereof to the Depository immediately on allotment of such securities.

**(14) Distinctive number of securities held in a Depository**

The Shares in the capital shall be numbered progressively according to their several denominations, provided, however, that the provision relating to progressive numbering shall not apply to the shares of the company which are dematerialized or may be dematerialized in future or issued in future in dematerialized form. Except in the manner herein before mentioned, no share shall be sub-divided. Every forfeited or surrendered share held in material form shall continue to bear the number by which the same was originally distinguished.

**(15) Register and Index of Beneficial Owners**

The Company shall cause to be kept a Register and Index of Members and a Register and Index of Debenture holders in accordance with Sections 151 and 152 of the Companies Act, 1956 respectively and the Depositories Act, with details of shares and debentures held in material and dematerialized form in any media as may be permitted by law including any form of electronic media. The Register and Index of Beneficial Owners maintained by a Depository under Section 11 of the Depositories Act shall be deemed to be Register and Index of Members and Register and Index of Debenture holders, as the case may be, for the purposes of the Companies Act, 1956. The Company shall have the power to keep in any State or Country outside India a branch Register of Members resident in that State or Country.

**(16) Register of Transfers**

The Company shall keep a register of Transfers and shall have recorded therein fairly and distinctly particulars of every transfer or transmission of any share in material form.

**(ii) Insert the following Article as Article 77B after Article 77A in the Articles of Association of the Company.**

**Article 77B**

Notwithstanding anything contained herein above, a member has a right to nominate one or more persons as his/her nominee(s) to be entitled to the rights and privileges as may be permitted under the law of such a member in the event of



death of the said member(s) subject to the provisions of the Companies Act, 1956 and other applicable law.

By order of the Board of Directors  
SCHLAFHORST ENGINEERING (INDIA) LTD.

CBK PILLAI  
JT.MANAGING DIRECTOR

Registered Office:  
Vishwamitri Road  
Near Lalbaug  
Vadodara - 390 001, Gujarat

Place: Mumbai  
Date : 30th March, 2001

**NOTES :**

1. The documents and/or letters referred to in the Resolutions and in the Explanatory Statement annexed hereto are open for inspection of the Members at the Registered Office of the Company during business hours on any working day except Sunday being the weekly off.
2. A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT A PROXY AND VOTE INSTEAD OF HIMSELF AND A PROXY NEED NOT BE A MEMBER.
2. An instrument appointing a proxy should be deposited at the Registered Office of the Company not less than forty eight hours before the commencement of the meeting.
3. The relative Explanatory Statement pursuant to Section 173 of the Companies Act, 1956, is annexed hereto.
5. Members are requested to intimate the change of address, if any, immediately to Share Dept., Schlafhorst Engineering (India) Ltd., Vishwamitri Road, Near Lalbaug, Vadodara - 390 001, quoting their Folio Number(s).
6. Shareholders seeking information on accounts published herein are kindly requested to

furnish their queries to the Company at least TEN days before the date of the meeting addressed to the Secretary, Schlafhorst Engineering (India) Ltd., Vishwamitri Road, Near Lalbaug, Vadodara - 390 001.

7. In view of the high cost of paper and printing, the practice of handing out copies of the Annual Report at the Annual General Meeting has been discontinued. Shareholders are therefore requested to bring their copies of the Report to the Meeting.
8. The Share Transfer Deeds should be sent to the Company at its Registered Office. In case the Share Certificates duly transferred are not received by the Members within one month from the date of lodgement and for resolving any (Investors' Grievances), please write to the Secretariate (Investors' Grievances) at the Registered Office of the Company at Vishwamitri Road, Near Lalbaug, Vadodara 390 001, Telephone No. (0265) 646040 / 646 347, Fax No. (0265) 646471.
9. The unclaimed dividends for the Financial Year 1991-92 and 1992-93 declared by the Company on 20th August, 1992 and 21st September, 1993 were transferred to the General Revenue Account of the Central Government on 13th November, 1995 and 23rd October, 1996 respectively and any claim by any Shareholder to the money so transferred shall be preferred to the Central Government. Application for this purpose can be made to the Registrar of Companies, Gujarat, Ankur Char Rasta, Near Ankur Bus Stop, Opp. Rupal Park, Naranpura, Ahmedabad - 380 061.
10. The Register of Members and the Share Transfer Books of the Company will remain closed from Tuesday, the 26th June 2001 to Thursday, the 28th June, 2001 (both days inclusive).

By order of the Board of Directors  
SCHLAFHORST ENGINEERING (INDIA) LTD.

CBK PILLAI  
JT.MANAGING DIRECTOR

Registered Office:  
Vishwamitri Road  
Near Lalbaug  
Vadodara - 390 001, Gujarat

Place: Mumbai  
Date : 30th March, 2001

## **EXPLANATORY STATEMENT**

The following Explanatory Statement sets out all material facts relating to Item No. 4 in the accompanying Notice of the Annual General Meeting to be held on Thursday, the 28th June, 2001 at the Registered Office of the Company at Vishwamitri Road, Near Lalbaug, Vadodara - 390 001, Gujarat.

Item No. 4

In compliance of the directions of the Securities Exchange Board of India, the Company has admitted its equity shares to be dealt in dematerialized format with effect from 9th October, 2000 when a tripartite agreement was signed between the Company and the Central Depository Services (I) Ltd (CDSL) and Sharepro Services, Mumbai for providing electronic connectivity.

As a result thereof and to give effect to the provisions of the Depositories Act 1996 and the amended provisions of the Companies Act, 1956, necessary provisions are proposed to be incorporated in the Articles of Association of the Company as proposed

in the Notice. It is also proposed to give nomination facility to the shareholders.

None of the Directors of the Company are concerned or interested in the said resolution.

The Board of Directors recommended passing of the Resolution set out at Item No. 4 of the Notice convening the Meeting.

By order of the Board of Directors  
SCHLAFHORST ENGINEERING (INDIA) LTD.

CBK PILLAI  
JT. MANAGING DIRECTOR

Registered Office:  
Vishwamitri Road  
Near Lalbaug  
Vadodara - 390 001, Gujarat

Place: Mumbai  
Date: 30th March, 2001

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**DIRECTORS' REPORT**

To,

The Shareholders,  
SCHLAFHORST ENGINEERING (INDIA) LIMITED

Your Directors submit their Nineteenth Annual Report & Audited Statement of Accounts for the year ended on 31st December, 2000.

**1. FINANCIAL RESULTS**

	<b>Current Year</b>	<b>Previous Year</b>
	<b>Rupees</b>	<b>Rupees</b>
	<b>('000)</b>	<b>('000)</b>
Income from sale of product and Parts	55,326	50,367
Job work	12,755	13,227
Other income including provisions Written back/ exchange gain	12,893	23,274
Profit/(Loss) before Depreciation Interest and Taxation	1,303	(3,208)
Depreciation	11,277	12,056
Interest	27,420	26,531
Loss before Tax	37,394	41,795
Provision for Wealth tax	37	38
Loss after tax	37,431	41,833
Brought forward balance of previous year losses	330,490	288,657
Cumulative losses	367,921	330,490

**2. PERFORMANCE**

Income from sale of products, parts and job work for the year was up to Rs.68.08 mio. as against Rs. 63.59 mio. an increase of 7%. In the previous year, there was an exchange gain of Rs.19.39 mio. as a result of reduction in exchange rate recognized in the books for providing for foreign currency loan liabilities as per standard accounting policies, as against a loss of Rs.0.4 mio. this year. Provisions written back are no longer considered necessary. The company has reported a profit (before depreciation, interest and tax) of Rs.1.3 mio. this year as against a loss of Rs. 3.21 mio. in the previous year. This profit has been achieved after providing for interest amounting to Rs.5.87 mio. to the ex-employees retired under Voluntary Retirement Scheme whose dues are outstanding to be paid under the scheme, lease finance charges of Rs.6.04 mio. and writing off of the differed VRS expenditure of Rs.9.9 mio.. The loss for the year after providing for all expenses has come down to Rs.37.4 mio. as against the previous year's loss of Rs.41.8 mio..

**3. OUTLOOK FOR THE CURRENT YEAR & ONWARDS**

With the single product - the Draw Frame - which has demand only from the replacement market and with the income from the sale of textile machinery parts, most of which are imported, the prospect of your company is far from bright. There are large number of secondhand Draw Frames in circulation and the Spinning Mills have excess capacity though, most of these are outdated. Under the Technology upgradation scheme, only Draw Frame with autoleveller is permitted for concessional financing.

To overcome the problem, your collaborators agreed to consider a new product provided the Financial Institutions pay back the excess interest charged, grant some relief by way of waiver of interest and the Government of Gujarat give permission for change in the land use of the company's Vadodara property.

Out of the total loans/debentures of Rs.1305 lacs. disbursed by the financial institutions in 1992/93, the company has already repaid Rs. 1717 lacs (which includes interest) up to March 1998 without any default and without questioning the high and excess interest charged on foreign currency loans. Under the Loan Agreements, the institutions were supposed to charge a min. of 23% and max. of 26% interest on foreign currency loans. However, the institutions were collecting the interest at the maximum rate of 26% right from the beginning without any justification, despite the fact that the interest rates were subsequently lowering. The institutions need to understand that it would be difficult for any business to survive with this rate of interest burden ranging from more than 15% for Rupees term loans, 19/20% for debentures and 26% for foreign currency loans. In view of the fact that the company has repaid Rs.412 lacs over the principal disbursed, they need to repay the excess interest to the tune of Rs 251 lacs and waive the outstanding interest. The company however has continued to provide in its books interests at the highest contracted rates as above.

Assuming that the Institutions will support the company and the Government of Gujarat would grant to the Vadodara property zone change from industrial to commercial/residential, a revival proposal has been submitted to ICICI in July,2000 to enable them to finally prepare a rehabilitation scheme and submitting it to BIFR. The submission of final scheme by ICICI to BIFR appears to be still pending. The Government of Gujarat, despite 30 letters to it by the Company since February 1999, 9 petitions from the Workmen (whose VRS dues are yet to be paid out of the sale proceeds of Vadodara Property) and personal meeting with the Urban Development Minister and Vadodara Urban Development Authorities, has not yet given the zone clearance.

The Company's proposal submitted to ICICI envisages introduction of a new product (subject to the above conditions being fulfilled i.e. the Gujarat Government giving Zone clearance, refunding excess interest charged and waiver of outstanding interest by the Financial Institutions, waiver of certain loans and interest by the Collaborators, deferment of sales tax by Gujarat Government) and wiping out of all the accumulated losses within 10 years.

The company has already repaid all its due to the State Bank of India against the working capital facilities drawn by the company in the previous years. The company will avail the credit facilities only if it is absolutely necessary in order to save interest cost. Outstanding to the Dena Bank is around Rs.5.2 mio. and interest thereon for the last few months.

**4. PERFORMANCE OF THE CURRENT YEAR :**

Income during the first quarter has been Rs. 10.88 mio. After providing for depreciation, interest and amortization of 20% of the amount under VRS, the company has reported a loss of Rs. 11.81 mio. for the period as against the loss of Rs. 12.83 mio. for the corresponding period of the previous year. Efforts to improve the overall performance is continuing and the company has reason to succeed with the support expected from above quarters.

**5. DIVIDEND**

In view of the net loss during the year under review, your Directors do not recommend any Dividend.

**6. SUBSIDIARY COMPANY**

In compliance with the provisions of Section 212 of the Companies Act 1956, the audited Statement of Accounts for the year ended 31st December, 2000 and the Directors' Report of the subsidiary company Gujarat Textronics Ltd, are annexed hereto.

**7. PERSONNEL**

- a. It was reported in the last Annual Report that the Company reduced the number of employees by 218 in 1999 under a Voluntary Retirement Scheme with a total outlay of Rs. 47 mio. In 2000, the employees' strength has been further reduced by giving VRS to 32 employees with an outlay of Rs 6.3 mio. which will take effect from 1st January 2001. The strength of employees after this last retirement is 143 persons.
- b. Industrial relations at the company's factories have been cordial and satisfactory.
- c. Particulars of Employees  
The particulars of employees as required under Section 217 (2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975 and forming part of the Directors' Report for the period under review are annexed hereto (Annexure A).

**8. DIRECTORS**

Mr. Fredy Hiltmann resigned as Director with effect from 26th July 2000. Mr. H.F. Kroll resigned as Director & Jt. Managing Director with effect from 9th December 2000. Mr.A.K.Bhagwati resigned as Director with effect from 11th December 2000. The Board places on record its appreciation of the valuable services rendered by them during their tenure as Directors of the Company. Mr. CBK Pillai retires at the ensuing Annual General Meeting and he is eligible for re-appointment. Mr. Martin Börger was appointed as a Director of the Company on 26th July 2000, in the casual vacancy of Mr. Hiltmann.

**9. DISCLOSURE OF INFORMATION ON ENERGY & TECHNOLOGY ABSORPTION**

**A) Conservation of Energy**

The Company continues to take all possible steps to conserve energy. These include various measures like the use of modern electric fittings/equipment, which consume less energy over the conventional ones. Frequent checks are being made in all departments to ensure that electricity is used only where and when absolutely necessary.

**B) Technology absorption**

Form B annexed hereto gives in detail the efforts made in the field of technology absorption by the Company.

**C) Foreign Exchange earnings and outgo :**

The total foreign exchange earned by the Company during the year under review from exports and other activities amounted to Rs.0.03mio.. The total foreign exchange used for imports and on account of various remittances amounted to Rs.10.71mio.

**10. AUDITORS**

The tenure of Price Waterhouse as Auditors of the Company expires at the conclusion of the 19th Annual General Meeting. They have expressed their unwillingness to be re-appointed as Auditors. You are requested to appoint Auditors and fix their remuneration. M/s. Shah & Shah Associates has expressed their willingness to act as Auditors of the Company if appointed.

**11. BOARD'S EXPLANATION ON THE AUDITORS' REMARKS**

Board's explanation on the Auditors' remarks:

The explanations of the Board on the Auditors' remarks appearing in clause 2.1 to 2.9 of the Auditors' Report are as under:

- 2.1 As stated in Note 4 of Schedule 18 to the accounts, a turn around of the Company is possible with the introduction of a new product agreed to be considered by the Collaborators of the Company subject to the Government of Gujarat permitting change in the land use of the Company's Vadodara property and the Financial Institutions refunding the excess interest charged and waiving the