

SCHLAFHORST ENGINEERING (INDIA) LIMITED

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28TH ANNUAL REPORT & ACCOUNTS - 1ST JANUARY 2009 TO 31ST DECEMBER 2009

BOARD OF DIRECTORS

- Mr. Sanjay K. Asher - Chairman (from 28th October 2009)
- Mr. Leen Osterloh - Director
- Mr. K.M. Thanawalla - Director
- Mr. CBK Pillai - Managing Director
- Mr. Suraj L. Mehta - Chairman (Up to 27th October 2009)

COMPANY SECRETARY

Mr. CBK Pillai

AUDITORS

Shah & Shah Associates

REGISTERED OFFICE & WORKS

Chandrapura Village, Tal. Halol – 389 350

Dist. Panchmahals, Gujarat State

Telephone No. (02676) 221870

Fax No. (02676) 220887

E-mail : seilhalol@sify.com

IMPORTANT NOTICE

1. Members / Shareholders are requested to lodge their Equity Share certificates for transfer with the Company at its Registered Office.
2. With effect from 9th October 2000, the Company got 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., & Sharepro Services for providing electronic connectivity.

NOTICE

Notice is hereby given that the TWENTY EIGHTH ANNUAL GENERAL MEETING of the Members of SCHLAFHORST ENGINEERING (INDIA) LIMITED will be held at the Registered Office of the Company, Chandrapura Village, Tal. Halol - 389 350, Dist. Panchmahals, Gujarat on Wednesday, the 23rd June, 2010 at 2.30 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 2009 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. Sanjay Asher, 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.

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 the provisions of Sections 198, 269, 309 and other applicable provisions, if any, of the Companies Act, 1956 read with Schedule XIII to the said Act and subject to such approvals as may be necessary or required,

the Company hereby approves the reappointment of and terms of remuneration (including minimum remuneration) payable to Mr. CBK Pillai as Managing Director of the Company for the period beginning 1st January, 2010 and ending on 30th June, 2010 on the terms & conditions as set out in the letter of appointment/agreement submitted to this meeting and initialed by the Chairman for the purpose of identification which letter of appointment/agreement is hereby specifically sanctioned with a liberty to the Board of Directors to alter and vary the terms and conditions of the said reappointment including the terms of remuneration during the currency of the agreement as may be agreed to between the Board of Directors and Mr. Pillai.

Where the reappointment and/or remuneration requires the approval of any authority under any law, such approval shall be obtained within such time as may be prescribed and the Board of Directors be and is hereby authorized to do such things as may be required to give effect to this resolution."

By order of the Board of Directors

SCHLAFHORST ENGINEERING (INDIA) LTD.

CBK PILLAI

MANAGING DIRECTOR

Registered Office:

Chandrapura Village, Tal. Halol - 389 350

Dist. Panchmahals, Gujarat.

Place : Mumbai

Date : 30th April, 2010

NOTES:

1. 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. Members are requested to intimate the change of address, if any, immediately to Share Dept., Schlafhorst Engineering (India) Ltd., Chandrapura Village, Tal. Halol - 389 350, Dist. Panchmahals, Gujarat, quoting their Folio Number(s).
4. 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., Chandrapura Village, Tal. Halol - 389 350, Dist. Panchmahals, Gujarat.
5. 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.
6. 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.
7. The Register of Members and the Share Transfer Books of the Company will remain closed from Monday, the 21st June, 2010 to Tuesday, the 22nd June, 2010 (both days inclusive).

By order of the Board of Directors
SCHLAFHORST ENGINEERING (INDIA) LTD.
CBK PILLAI
MANAGING DIRECTOR

Registered Office:

Chandrapura Village, Tal. Halol - 389 350
Dist. Panchmahals, Gujarat.
Place: Mumbai
Date : 30th April, 2010

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 Wednesday, the 23rd June, 2010 at the Registered Office of the Company at Halol.

Item No. 4- Reappointment of MD for 6 months January 2010 to June 2010.

- A. The Board of Directors of the Company by a Resolution passed on 16th December 2009, has re-appointed Mr. CBK Pillai as Managing Director of the Company for the period beginning 1st January, 2010 and ending on 30th June, 2010, subject to the approval of the Members in the General Meeting.
- B. Mr. Pillai, aged more than 59 years, has been in the Company as Company Secretary from February 1995 and as Managing Director from 1.6.1998 and is a Chartered Secretary by profession with more than 41 years experience in various fields including Corporate Management, Legal affairs, Finance, Insurance, etc. He is also a graduate in Law.
- C. Mr Pillai had expressed his intention to retire from the services as the Managing Director at the expiry of the previous contract on 31st December, 2009 as also the Company Secretary from 31st December, 2009 after office hours. On the request of the Board, he has agreed to continue as the Managing Director and the Company Secretary till 30th June, 2010 on the same terms and conditions and within the over all remuneration as approved by the shareholders at the 25th Annual General Meeting. Mr. Pillai has not availed the fixed and varying performance allowances aggregating to Rs. 26.8 lacs for the period January, 2007 to December 2009 which he agreed to forgo due to the prevailing condition of the company. The Board of Directors and the Remuneration Committee of the Board are of the view that his continued services are required for 6 more months in the interest of the company.
- D. The terms and conditions of his appointment are as under:

Terms of Remuneration:

- a. Salary:
Rs. 1,50,000/- (Rupees One lac Fifty thousand only) per month.
- c. Perquisites:

i. Housing

Rent-free furnished residential accommodation, the monetary value of which will be evaluated as per the Income-Tax Rules 1962, or in case the appointee is occupying premises of his own, then reimbursement of a sum which shall be calculated as fair and reasonable rental of such premises or if he is occupying rented premises, then reimbursement of the actual rent, taxes, repairs maintenance etc. paid by him in respect of the said premises as and by way of Special Allowance with the intention in either case he will be entitled to all amenities such as gas, electricity, water, air-conditioners, geysers, refrigerators, domestic servants, gardener etc. and in case he is using own furniture, air conditioners, geysers and refrigerators, then he will be paid fair and reasonable sum, as and by way of rent for the use thereof at the cost of the Company. The monetary value may be evaluated as per the Income-tax Rules, 1962.

The above is subject to the following:

- The expenditure incurred by the Company in hiring an unfurnished accommodation, domestic servants, gardener etc for him will be subject to the ceiling of 50% of salary over and above 10% payable by him.
- The expenditure incurred by the Company on gas, electricity, water and furnishing will be evaluated as per the Income-tax Rules, 1962. This will, however, be subject to a ceiling of 10% of the salary paid to him.
- House rent allowance payable to him shall be limited to 25% of the salary & allowances stated above

ii. Medical benefits for self and family:

Reimbursement of expenses actually incurred, the total cost of which to the Company shall not exceed one month's salary per annum.

iii. Leave Travel Concession:

For self and family once in a year in accordance with the rules of the Company.

Explanation: Family means spouse, dependent children and dependent parents.

iv. Personal Accident Insurance/Mediclaim insurance:

Personal Accident Insurance/mediclaim insurance and/or differed annuity on the life

of the appointee may be taken by the Company for an amount, the premium of which shall not exceed Rs.5,000/- (Rupees Five thousand only) p.m. In the case of differed annuity, no interest shall accrue to him, until the date of retirement or death, whichever is earlier.

OTHER BENEFITS/AMENITIES

v. Provident Fund, Superannuation Fund:

Company's contribution to Provident Fund and Superannuation Fund to the extent these either singly or put together are not taxable under the Income-Tax Act.

vi. Gratuity:

Not exceeding half a month's salary for each completed year of service or part thereof of 6 months or as per the existing Company Rules, whichever is more.

vii. Car:

Provision of a Car for official use the perquisites value of which shall be computed in accordance with Income-Tax Rules 1962. Personal use of Car for private purpose shall be billed by the Company. Where personal driver is engaged, an amount not exceeding Rs. 15,000/- (Rupees Fifteen thousand only) per month shall be reimbursed to him.

viii. Club Fees

Fees of Clubs subject to a maximum of two clubs. No admission and life membership fees will be paid by the Company.

The aggregate value of all the perquisites & other benefits/amenities referred to in b(i) to (viii), Children's educational allowance not exceeding Rs.2,400/- p.a., personal development allowance of Rs.36,000/- p.a. and lease or hire rentals for any vehicle that may be hired or obtained on lease by you shall not exceed Rs.3,44,575/- (Rupees Three lacs forty four thousand five hundred seventy five only) from January 2010 to June 2010.

ix. Telephone:

Provision of telephone at residence. Personal long distance calls shall be billed by the Company to him.

x. Leave:

Leave on full pay and allowances as per the rules of the Company. Earned leave shall be at the rate of 1 month for every 11 months of service. Earned leave can be encashed at

- the end of the tenure at the rate of salary and perks stated above.
- E. No sitting fees shall be paid for attending the meetings of the Board of Directors or Committee thereof of the Company.
- F. In the absence or inadequacy of profits in any year, he shall be paid the remuneration set out above as minimum remuneration.
- The other terms and conditions of his appointment are as under :
- G. As Managing Director, he shall be responsible for the overall management of the Company subject to the control, superintendence and direction of the Board of Directors and shall perform such specific functions and duties that are entrusted to him from time to time by the Chairman or the Board of Directors of the Company. Subject to the provisions of the Companies Act and/or Memorandum and Articles of Association of the Company and/or any regulations made by the Company in General Meeting and/or by the Board of Directors at a Meeting of the Board, he shall be eligible to exercise substantial power of Management.
- H. He shall continue to perform the duties of the Company Secretary under the Companies Act, 1956.
- I. So long as he functions as Managing Director of the Company, he shall not become interested or otherwise concerned directly or through his wife and/or minor children in any selling agency of the Company in future without the prior approval of the Central Government or engage in any activity detrimental to the interest of or competing with the business of the Company.
- J. He shall also be entitled to the reimbursement of expenses actually and properly incurred by him for the business of the Company, subject to a ceiling of Rs.30,000/- (Rupees Thirty thousand only) p.a. against bills to be produced.
- K. He shall be liable to retire by rotation of Directors.
- L. Either Party shall be at liberty to terminate the service by giving not less than 3 months notice in writing in advance and by complying with the provisions of Companies Act, 1956.
- M. The terms & conditions mentioned here are subjected to the approval of the Members at the General Meeting and the provisions of the Companies Act, 1956.
- N. His Head Quarters are fixed at Vadodara/Halol.
- O. Mr. CBK Pillai may be regarded as concerned or interested in the Resolution. None of the other Directors of the Company is concerned or interested in the above Resolution.
- P. The above may be treated as an abstract as required under Section 302 of the Companies Act, 1956. A copy of the letter of appointment/agreement referred to in the resolution is open for inspection of Members between 2 p.m. to 4 p.m. on any working day at the Registered Office of the Company, except Tuesday being weekly off.
- Q. Information sought to be disclosed to the Shareholders under Schedule XIII of the Companies Act, 1956 for re-appointment of Mr. CBK Pillai as Managing Director.

1. General information

Schlafhorst Engineering (India) Limited (SEIL) was incorporated in 1981 and commenced production of Textile Machineries in 1983. Till 1997, the main products of the Company were (1) Automatic Cone Winding textile machinery (Autoconer) & (2) Draw Frame textile machinery. Production of Autoconer was discontinued by end 1997 due to liberalized import regime, high cost of operations, technological obsolescence of the product and increasing competition from multinational companies with technologically superior products. Since 1998 the Company has been continuing the operation with Draw Frame production, which itself is an obsolete and old design and engineering job work. As the net worth of the company was negative, the Company was declared Sick by BIFR in 2000. The financial positions of the Company in December 1998 vis-à-vis December 2009 are as under:

	Rs. in Mio.	
	December 1998	December 2009
Share capital	256	380
Loans	260	0
Current liability	54	13
Total outside liability	314	13
Net Fixed assets	118	29
Usable current assets	96	151
Obsolete current assets	57	5
Cumulative losses/Misc. exp.	299	196
Net worth	-43	172
No. of permanent employees	440	21

Notes:

1. Losses were Rs.535 Mio as at 15th Dec.2003 & Rs.350 Mio as at 31st Dec.2003 after set off with the relief and concessions from Banks/finance Institutions, etc.
2. Employee strength was brought down to 21 on 1st April 2009.
3. Current Assets of Rs.156 Mio. includes cash of Rs.99 Mio.

The Company was de-registered from BIFR in 2007.

The detailed financial performance of the Company for the last 5 years are as under:

	Rs.in Mio.				
	2009	2008	2007	2006	2005
Equity share capital	194	194	194	194	194
Preference share capital	124	124	124	124	124
Reserves & Surplus	62	62	62	62	62
Loans	0	0	0	0	57
Total	380	380	380	380	437
Net Block	29	35	39	42	49
Current assets	143	140	127	116	96
Loans & advances	13	13	14	18	49
Less:Current liabilities & Prov.	13	14	21	36	99
Net current assets	143	139	120	98	45
Misc.Expenditure-VRS deferred	12	0	0	0	2
Debit balance of P&L A/c	196	206	221	239	341
Total	380	380	380	380	437
Total income	72	93	127	277	94
Total expenditure	57	74	102	166	72
Interest & financial charges	0	0	0	4	9
Depreciation	4	5	5	5	6
Tax	1	0	0	0	0
Profit	10	14	19	102	7
Export earnings	NIL	0.10	0.18	0.16	0.12
Net foreign exchange outgo (import of parts)	3.30	5.84	15.46	15.03	8.00

Foreign investments:

1. Equity participation from the Collaborators : Rs. 10,55,12,480
 2. Preference capital from the Collaborators : Rs. 12,40,00,000
 3. Non Resident Indians in the equity capital : Rs. 7,57,920
 4. Non Resident Body Corporate : Rs. 58,40,000
 5. Foreign Institutional Investor (FII) : Rs. 20,000
2. Information about the appointee:
 - a) Mr. Pillai, aged more than 59 years, has been in the Company as Company Secretary from February 1995 and as Managing Director from 1st June 1998 and is a Chartered Secretary by profession with more than 41 years experience in various fields including Corporate Management, Legal affairs, Finance, Insurance, etc. He is a Graduate in Law.
 - b) In 1998, Mr. Pillai assumed the leadership when its accumulated losses were around Rs.300 Mio, which went up to Rs.535 Mio in 2003 and succeeded in bringing it down to Rs.196 Mio in 2009. He also brought down the outside liability of Rs.314 Mio in 1998 to Rs.13 Mio in 2009 and streamlined the operations of the Company, introduced engineering job work and generated a net cash of Rs.99 Mio by December 2009 after liquidating almost all outside liabilities, placing it on a sound financial footing.
 - c) His past and proposed remunerations are as under:

	Past remuneration from 1st January 2009 to 31st December 2009	Proposed remuneration from 1st January 2010 to 30th June 2010
	Rs. in Lacs	Rs. in Lacs
Basic salary	13.23	9.00
PF, Superannuation, Gratuity @ 31.81% of basic salary, Medical & LTA	6.00	3.45
Fixed Allowance	5.00	0.00
Variable performance allowance	5.00	0.00
Total	29.23	12.45

d) Due to operational losses, Mr. Pillai has not claimed the fixed & variable allowances of Rs.10 lacs per annum since 2007 aggregating to Rs.26.8 lacs till December 2009, which he has agreed to forgo.

e) His total remuneration package as indicated above is quite reasonable compared to still higher remuneration packages prevailing in the comparable industry for senior positions.

3. Other information:

Reason for loss and inadequate profit.

The company was set up in 1981 to produce Autoconer under a protected market but with liberalized economy since 1991, increasing competition from imported technologically superior product, which virtually marketed out the

Company's product, continuing with the production of Autoconer was unsustainable with heavy losses and therefore discontinued the production of Autoconer in December 1997.

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

CBK PILLAI
MANAGING DIRECTOR

Registered Office :

Chandrapura Village, Tal. Halol - 389 350

Dist. Panchmahals, Gujarat.

Place : Mumbai

Date : 30th April, 2010

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DIRECTORS' REPORT

To,

The Shareholders,

SCHLAFHORST ENGINEERING (INDIA) LIMITED

Your Directors submit their Twenty Eight Annual Report & Audited Statement of Accounts for the year ended on 31st December, 2009.

1. FINANCIAL RESULTS

	Current Year Rupees ('000)	Previous Year Rupees ('000)
Net Income from manufacturing	37,990	63,683
Income from trading in spare parts	11,632	13,689
Other income (Interest, Lease Rent, etc.)	22,418	16,017
Total income	72,040	93,389
Depreciation	3,732	4,924
Profit/(Loss) before Tax	11,566	14,769
Provision for taxation	1,345	215
Profit after tax	10,221	14,554
Brought forward balance of previous year losses	206,383	220,937
Cumulative losses	196,162	206,383
Deferred amount under VRS	12,294	-
Net worth	171,827	173,900

2. FINANCIAL PERFORMANCE WITH RESPECT TO OPERATIONAL PERFORMANCE:

- a) During the year, 4 Draw Frames of the aggregate value of Rs.3.09 mio was sold as against 21 Draw Frames of the aggregate value of Rs.18.42 mio in the previous year and job work aggregating to Rs.38.15 mio was executed as against Rs.54.31 mio in the previous year. Job work constituted around 69% of the total manufacturing income. The decrease of income from sale of spare parts from Rs.14.15 mio in the previous year to 11.85 Mio during the year under review is mainly on account of phasing out of old model Autoconers AC138 (which was discontinued in 1993) and AC 238 (which was discontinued in 1997) from the market. Other income includes interest from deposits

of Rs.8.84 Mio (Rs.6.75 Mio in the previous year) and rent from the lease of company's Factory premise surplus to its current requirement of Rs.7.87 Mio (previous year Rs.7.26 Mio) and write back of provisions and liabilities no more required to be provided amounting to Rs.4.7 Mio. The net profit after provision for tax is Rs.10.22 Mio (14.1% of total income) as against Rs.14.6 Mio (15.6% of total income) in the previous year.

- b) The current liabilities have decreased to Rs.13.4 Mio from Rs.14.1 Mio in the previous year which can at any time be met out of Rs.156 Mio current assets which includes cash of Rs.98.6 Mio in Fixed Deposits in various Banks. The preference shares which are repayable anytime after 15th December, 2006 (but before 28th October 2024) are yet to be redeemed. The Preference Share holder (Oerlikon) has sought the redemption of preference shares as early as possible.
- c) Net cash addition from the operation for the year under review is Rs.8.2 Mio.

2A Qualification in Auditors' Report

The Auditors in their report for the year under review vide para 4, subpara (iv) & (vi) has stated that the Company has not provided for the obsolete/slow/non moving inventory worth Rs.4.7 Mio. No provision was made in the earlier years as effort for liquidating the stock was in process. However, provision has now been made in the first quarter January - March 2010.

3. SEGMENT WISE PERFORMANCE

The operations of the company are in a single segment of Textile Machinery - High Speed Draw Frame. The job work and the sale of spare parts are not considered as separate product segments.

4. MANAGEMENT DISCUSSION AND ANALYSIS REPORT:

- (a) Industry structure and development

The Company was set up in 1983 to produce Autoconers (Yarn Tester & Rectifier). The Autoconer was discontinued in 1997 due to high cost of production and competition from imported Autoconers of superior technology from various countries. The resources so released are being used for job work since 1998.

Since 1984, your Company has been manufacturing Draw Frame, which is used as a spinning preparatory machine by textile

mills. It is a very old product designed by Zinser several years back. Due to paucity of funds, difficulty in getting competent technical hands and lack of R&D facilities, the Company has not been able to make any material technological improvement in it, except replacing PCB with PLC and some other minor changes. It is a small value product.

(b) Opportunities and Threats

The fortunes of Textile Machinery Industry are tied with the fortunes of Textile Mills Industry which has enormous scope for enormous growth. Your Company was set up during an era of protected market and has not been able to face the onslaught of competitive product with superior technology under the liberalized economy policies initiated since 1991. The Draw Frame being manufactured by your Company is of very old design and technology. Draw Frames of superior technology are available in the market. The Mills increasingly prefer Autoleveller Draw Frame for which your Company does not have the required technology and R & D facilities. In the case of mills setting up new projects, the tendency is to source the Draw Frames from the manufacturers, who supply a line/range of products.

(c) Outlook, risk and concerns:

- i) 2009 was the worst year for your Company as far as Draw Frame sale was concerned. The company received orders for 5 draw frames over the last 15 months from January, 2009 till March, 2010 and the future outlook continues to be not encouraging.
- ii) The company has not been able to obtain any viable product from its Collaborators. The majority share holder does not have any product to offer which could be manufactured in this company. Job work is not a reliable source of business & is likely to further slow down. The same can be the case with income from lease rent as the lessees have the option to move out after the lease period. Two of the Lessees namely Suzlon Infrastructure Services Ltd. and Zinser Textile Systems Pvt. Ltd. have vacated the leased premises in October 2009 and February 2010 respectively. The vacated premises have been now leased to ArcelorMittal

Dhamm Processing Pvt. Ltd. from 15th March 2010 for 3 years.

- iii) As reported to you in the past, the Board has been trying to attract investment in your company by any other reliable company with competitive technology and viable product. The overriding concern of the Board is the interest of the minority Shareholders. The accumulated losses of Rs.196 Mio and the Preference Shares of Rs.124 Mio are coming in the way of all efforts. However, the efforts are still continuing.
- iv) Till such time, the concern of the Board is to keep the company's operations profitable. Costs on all fronts have been on constant watch and critical evaluation. To reduce the fixed cost further, the number of permanent employees has been further reduced with effect from 1st April, 2009.

(d) Material development in Human Resources:

The strength of the permanent employees has been reduced with their support and cooperation. Except this, which took place on 1st April, 2009, there has not been any material development during the year under review.

(e) Internal control systems and their adequacy:

The company has adequate internal control systems commensurate with its size. The Internal Auditors submit their quarterly reports to the Audit Committee / the Board of Directors. Every month, a detailed Management report containing statistics on sales, income, expenses and cash flow of the company is being submitted to the Audit Committee and the Board for their review. All the fixed assets of the company are physically examined and recorded at regular intervals. In all operational matters, the Company follows the systems and procedures as set out in ISO 9001 : 2000 certification manual implemented since February 2007 and other standard operating procedures. Since February 2010, the company is ISO 9001 : 2008 certified.

5. DIVIDEND

In view of the carried forward accumulated losses, your Directors do not recommend any dividend for the year under review.