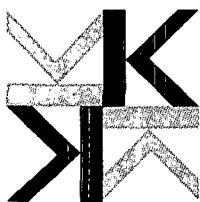


## ABRIDGED ANNUAL REPORT 2007-2008

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## KANCO ENTERPRISES LIMITED



## KANCO ENTERPRISES LIMITED

### Abridged Annual Report 2007-2008

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#### **BOARD OF DIRECTORS**

**Sri U. Kanoria**

*Chairman & Managing Director*

**Sri G. R. Basotia**

*Wholtime Director*

**Sri G. Momen**

**Sri P. K. Bhattacharjee**

**Sri P. K. Poddar**

**Sri A. K. Jain**

*Directors*

#### **COMPANY SECRETARY**

**Sri R. Mundhra**

#### **AUDITORS**

**M/s. Jain & Co.**

*Chartered Accountants*

#### **BRANCH AUDITORS**

**M/s. Dalal & Shah**

*Chartered Accountants*

#### **COST AUDITORS**

**M/s. N D Birla & Co.**

*Cost Accountants*

#### **BANKERS**

**State Bank of India**

**Punjab National Bank**

#### **REGISTERED OFFICE**

Jasmine Tower, 3rd Floor

31, Shakespeare Sarani, Kolkata 700 017

Telefax : 2281 5217

Email : [kanco@vsnl.com](mailto:kanco@vsnl.com)

Website : [www.kanco.in](http://www.kanco.in)

#### **BRANCH OFFICE**

207, Shitiratna, 2nd Floor

Panchavati Circle, Ahmedabad 380 006

#### **TEA DIVISION**

**Mackeypore Tea Estate**

P.O. Nazira 785 685

Dist. Sivasagar (Assam)

#### **TEXTILE DIVISION**

**Kanco Overseas**

Village: Walthera

Taluka : Dholka 387 810

Dist. Ahmedabad (Gujarat)

#### **SHARE REGISTRARS**

**M C S Limited**

77/2A, Hazra Road

Ground Floor, Kolkata 700 029

Phone : 2454 1892-93

Fax : 2454 1961

Email : [mcscal@cal2.vsnl.net.in](mailto:mcscal@cal2.vsnl.net.in)



KANCO ENTERPRISES LIMITED

## NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Seventeenth Annual General Meeting of the Members of KANCO ENTERPRISES LIMITED will be held at "Kalakunj", 48 Shakespeare Sarani, Kolkata 700 017 on Tuesday, the 29th of July, 2008 at 10:30 A.M. to transact the following business :

### ORDINARY BUSINESS

1. To receive, consider and adopt the Audited Balance Sheet as at 31st March, 2008, Audited Profit & Loss Account for the year ended on that date and the Directors' Report and Auditors' Report thereto.
2. To appoint a Director in place of Mr. G. Momen, who retires by rotation and being eligible, offers himself for re-appointment.
3. To appoint a Director in place of Mr. Anil Kumar Jain, who retires by rotation and being eligible, offers himself for re-appointment.
4. To appoint Auditors and authorise the Board of Directors to fix their remuneration.

### SPECIAL BUSINESS

5. To consider and if thought fit to pass, with or without modification(s), the following resolution as an Ordinary Resolution :  
"RESOLVED THAT the Board of Directors be and is hereby authorized to appoint individual(s) or firm other than the Company's Auditors at Head Office, as Branch Auditors pursuant to Section 228 of the Companies Act, 1956, and to fix their remuneration for the audit of accounts of its Textile Division at Ahmedabad for the financial year ending 31st March, 2009."

#### Registered Office :

Jasmine Tower, 3rd Floor  
31, Shakespeare Sarani, Kolkata 700 017  
Dated, the 5th day of May, 2008

By Order of the Board  
for KANCO ENTERPRISES LIMITED

R. MUNDHRA  
Company Secretary

#### Notes :

- A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE ON POLL, IN HIS STEAD. THE PROXY NEED NOT BE A MEMBER OF THE COMPANY.
- Proxies in order to be effective must be received by the Company at the registered office address not less than 48 hours before the meeting.
- The Register of Members and Share Transfer Register shall remain closed with effect from Friday, the 25th of July, 2008 to Tuesday, the 29th of July, 2008 (both days inclusive).
- The shareholders are requested to communicate to the Registrar & Transfer Agent, change in address, if any, at the address given in the Annual Report.
- Members are requested to preferably send their queries to the Registered Office 7 days before the date of the AGM.
- In accordance with the Clause 32 as amended, abridged Statement of Accounts is being sent to the members. However, complete Statement of Accounts for the financial year ended 31st March, 2008 shall be provided to them on written request & be available for inspection at the Registered Office of the Company in accordance with the applicable law and a soft copy thereof shall also be posted on the website - [www.kanco.in](http://www.kanco.in).
- The Explanatory Statement pursuant to Section 173(2) of the Companies Act, 1956 is appended below :

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

#### Item No. 5

It is proposed to appoint Branch Auditors other than the Auditors appointed at Head Office for carrying out audit of the Accounts of its Textile Division at Ahmedabad in Gujarat for the financial year ending 31st March, 2009. The resolution seeks to obtain the members' consent as required under Section 228 of the Act.

The Directors recommend the resolution for your acceptance. None of the Directors is concerned or interested in this resolution.

By Order of the Board  
for KANCO ENTERPRISES LIMITED

R. MUNDHRA  
Company Secretary

Kolkata, the 5th day of May, 2008

**KANCO ENTERPRISES LIMITED****DIRECTORS' REPORT**

Dear Shareholders,

Your Directors present their Seventeenth Annual Report and Audited Accounts for the year ended 31st March, 2008.

**FINANCIALS**

Your Company's financial performance was as follows :

	2007-2008	2006-2007
	(Rs. in lacs)	(Rs. in lacs)
Profit Before Interest, Depreciation and Tax	471.45	845.18
Less : Interest	593.01	307.29
Gross (Loss)/Profit for the year	(121.56)	537.89
Less : Depreciation	647.64	440.11
(Loss)/Profit Before Tax	(769.20)	97.78
Less : Provision for -		
Net Current Tax	0.22	11.82
Fringe Benefit Tax	8.63	7.36
Taxation for Earlier Years	0.53	—
	9.38	19.18
Add/Less : Deferred Tax	230.44	25.95
Add/Less : MAT Credit Entitlement	—	11.48
(Loss)/Profit After Taxation	(548.14)	37.43
Balance Brought Forward from Last Account	(37.63)	(153.66)
Balance Carried to Balance Sheet	(585.77)	(37.63)

**DIVIDEND**

In view of loss, the Directors do not recommend any dividend for the year under review.

**OPERATIONS**

Your Company's operating profit during the financial year ended 31st March, 2008 is Rs. (176.19) Lakhs against Rs. 405.07 Lakhs last year, and was adversely affected mainly due to higher input costs, particularly raw material, interest, power & fuel costs and appreciating Rupee impacting export margins of the textile division.

**Tea Division**

North Indian crop has recorded a decline. The decline in crop coupled with rising domestic demand led to higher prices being realized at the auctions. The division's own crop decreased by about 4.95% due to better plucking to enable the division to make quality tea and adverse weather conditions. Improvement in quality of tea produced, coupled with a changed marketing strategy enabled the division to fetch better prices. Along with better prices, stringent cost cutting measures enabled the division to report better results.

With the steps being taken to augment the availability of labour, expectation of favourable weather combined with better field practices, the division expects to achieve higher crop. With expectations of a strong market and expected further improvement in quality of tea produced by the division, the outlook for the division is favourable.

**DIRECTORS' REPORT (Contd.)****Textile Division**

The dismantling of MFA (Multi Fibre Agreement) from January 2005, and the fillip provided to Textile industry for investments under TUFs (Technology Upgradation Fund Scheme) has resulted in capacity addition in all segments of textile industry. The spinning industry has seen maximum investment resulting in creation of over capacity. Average sales realisation declined by 4.79% primarily due to appreciating Rupee. Indian textile manufacturers competitive strength weakened as other countries did not see appreciation of the same magnitude. The 2007-08 season saw bumper cotton harvest, however prices ruled high due to decline in world cotton crop and large exports of cotton. On back of record crude oil prices, the rise in furnace oil prices rendered captive generation unviable.

Overcapacity in the industry is not allowing the producers to pass on the increase in input costs putting pressure on margins. As a cumulative impact of poor realisations and high costs, Yarn exporters are presently working on negative margins.

The division is looking at ways to bring power cost under control. Some respite is expected by way of stability in exchange rate. The current year looks difficult and trying for the industry.

**EXPANSION PROJECT**

The division had planned to expand capacity by adding 5280 Spindles and 6 numbers Circular Knitting Machines at a capital cost of Rs.1412 lacs. Knitting Machines were installed and commissioned last year. The addition of 5280 Spindles has been deferred due to overcapacity in the spinning industry.

**FINANCE**

During the year under review, the Company repaid the installments of Term Loans amounting to Rs.1835.96 lakhs, falling due during the current year. The Company has also made fresh borrowings of Rs.1581.99 lakhs for funding capital expenditure and other working capital requirements. Long Term Debts of the Company stands at Rs.5339.82 Lakhs.

**DIRECTORS**

Mr. G. Momen and Mr. Anil Kumar Jain, Directors of the Company, retire by rotation at the ensuing Annual General Meeting and are eligible for re-election.

**LISTINGS**

The Equity Shares of the Company has been permitted to be traded on Bombay Stock Exchange Limited under the 'B' Group w.e.f. 6th of May, 2008 vide notification no. 20080429-20 dated 29/04/2008 issued by Bombay Stock Exchange Limited.

**CORPORATE GOVERNANCE & MANAGEMENT DISCUSSION AND ANALYSIS**

A separate report on Corporate Governance along with Auditors' Certificate on its compliance is attached to and forms part of this Report. Management Discussion & Analysis Report forms a part of the Annexure to Directors' Report.



## DIRECTORS' REPORT (Contd.)

### DIRECTORS' RESPONSIBILITY STATEMENT

The Directors state that:

- Appropriate Accounting Standards as are applicable to the Annual Statement of Accounts for the financial year ended 31st March, 2008 have been followed in preparation of the said accounts.
- The Directors have followed the accounting policies as described in the Schedule 20 (Notes on Accounts) and applied them consistently to facilitate true and fair view of the state of affairs of the Company.
- Sufficient care has been taken to maintain accounting records of the Company.
- The statement of accounts has been prepared on a going concern basis.

### FIXED DEPOSITS

The amount outstanding as on 31st March, 2008 on account of Fixed Deposits aggregating Rs.56.01 lacs is yet to mature and all the deposits that matured during the year were repaid with interest due thereon and nothing remains unclaimed.

### AUDITORS

Messrs Jain & Co., Chartered Accountants, Auditors of the Company retire at the conclusion of this Annual General Meeting and have submitted the certificate pursuant to Section 224(1)(b) of the Companies Act, 1956 about their eligibility for re-appointment.

### PROMOTER GROUP

In accordance with the SEBI (Substantial Acquisition and Takeovers) Regulations, 1997, details of Promoter, Promoter Group and its constituents are disclosed in a statement annexed to this Report.

### EMPLOYEE PARTICULARS

The particulars of employees pursuant to Section 217 (2A) of the Companies Act, 1956 read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 are not applicable as no employee was in receipt of remuneration to the extent laid down in the said Rules.

### CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION, FOREIGN EXCHANGE EARNINGS AND OUTGO

A statement pursuant to Section 217(1) (e) of the Companies Act, 1956 read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 on conservation of energy, technology absorption, foreign exchange earnings and outgo is annexed to and forms part of this Report.

### ACKNOWLEDGEMENT

Your Directors place on record their appreciation for the cooperation and support extended by the Employees, Banks/ Financial Institutions and all other business partners.

For and on behalf of the Board

U. KANORIA  
Chairman

Kolkata, 5th May, 2008

## Management Discussion and Analysis Report

### OVERVIEW

The overall performance of the Company for the year 2007-08 has been adversely affected by lower average realization for yarn manufactured by the Textile Division. Appreciation of the Rupee against the Dollar and steep increase in operating costs due to rise in power and fuel costs on account of unprecedented rise in crude prices and sharp increase in cotton prices resulting in negative profit margins of the division and the Company as a whole. However, Tea Division of the Company in spite of a decline in crop, recorded an improved performance. The Company's strategy revolved around :

- Creating and maintaining niche markets while exploring new horizons simultaneously.
- Improvement in utilisation of assets to achieve productivity gains.
- Improvement of working capital management.
- Measures to consistently reduce costs and improvement in productivity of factors of production.
- Expansion of capacity and upgradation of facilities to be better prepared for growth in demand.

### SEGMENT ANALYSIS & REVIEW

The key business segments of the Company are beverages (Tea) and Textile. The Company's business is mainly based out of two tea estates in Assam and a Textile Division in Gujarat.

#### A. TEXTILE DIVISION

**Industry Conditions :** Outlook for the Industry at present appears to be gloomy. In spite of a bumper crop during the year under review, prices ruled at exorbitant levels, due to export of large quantity of cotton, coupled with a decline in production in China, Pakistan and USA. Appreciation of Rupee by almost 11% has significantly eroded the profit margins of the Industry. Steep increase in international prices of crude oil resulted in substantial increases in power cost. The problem has been aggravated further due to inability of the manufacturers to pass on the increased production cost, due to over capacity. A weak US economy and a drop in global demand have resulted in a decline in export orders, which has significantly played on the revenue projections of the current year.

**Opportunities & Threats :** Opening up of International markets, especially the primary markets of the United States of America (U.S.A.) and European Union (E.U.), provides a big opportunity for the textile industry. The increase in per capita consumption of fabric, driven by rising income levels and organized retail penetration, provides long term indigenous opportunities. However, unprecedented appreciation in Rupee, fluctuating crude prices and overcapacity poses a serious challenge to the Industry. Besides, continuous changes in the products being demanded internationally due to constant changes in design/fashion is a challenge. The Industry is also facing a serious shortage of skilled manpower.

**Textile Division Overview :** The year under review had seen the performance of the division affected adversely. Realisations were negatively impacted by appreciating rupee. Further pressures on margins came from stagnant price for finished produce commensurate with high to very high raw material and furnace oil prices. The strong rupee and a lower demand from international buyers have impacted the export realisation by the division.

Your Company has undertaken steps to reduce production costs and remove production bottle necks. Steps are being undertaken to reduce cost of power. Your Company has been successful in addressing the issue of labour shortage. To improve realization, your Company is exploring and developing new markets in Europe, Africa and Latin America. The division is focusing on productivity, quality and exercising tight control on manufacturing and finance costs to tide over the difficult times.

**Performance Highlights :** The performance highlights for the year ended 31st March, 2008 as against 31st March, 2007 are as follows :

	Units	2007-08	2006-07	% Change
Production of Cotton Yarn/Fabrics	Kgs	65,82,661	54,54,923	20.67
Sales of Cotton Yarn/Fabrics	Kgs	64,60,813	52,89,706	22.14
Average Realisation	Rs./Kg	109.38	114.88	(4.79)
Average Cost of Cotton	Rs./Ton	55,614	51,160	8.71
Profit Before Interest but after Depreciation	Rs. in Lacs	(291.79)	341.53	(185.43)

#### B. TEA DIVISION

**Industry Conditions :** Tea Industry in India has been a major foreign exchange earner for the country for a long time. However, over the last few years, Indian tea has suffered significantly in the export market and this has brought to light the industry's comparative low level of competitiveness due to lower productivity and higher levels of labour and social costs. However, the growth of Indian market as well as a spurt in demand for quality tea, has provided the much needed relief to the industry. During the year, there was an increase in average price realization, which has resulted in better margins for the industry.





## Management Discussion and Analysis Report (Contd.)

**Opportunities and Threats :** The outlook for the industry is bright with growth in demand outstripping the growth of supply as a result of which carryover stocks have declined. Rising domestic demand coupled with prospects of greater exports due to lower production in Kenya, augur well for prices. The Government of India has already taken numerous measures to help the tea industry. These include setting up of a Special Purpose Tea Development Fund. These measures will help in augmenting the growth of Tea Industry in India. Rapidly rising labour and social costs coupled with steep rise in input prices are making it difficult for the industry to keep costs at par with its international competitors and the unorganized bought leaf sector.

**Tea Division Overview :** During the year under review, despite a decline in crop due to adverse weather conditions, the average sales realization of the division has improved substantially, owing to better quality of tea produced and superior marketing strategies adopted by your Company. Severe cost control measures helped your Company to keep production costs under control. These developments had a positive impact on the bottom line of the division. With the thrust on manufacture of quality teas expected to yield higher sales realisations, steps having been taken to mitigate shortage of labour, improved field practices and cost control measures make the outlook for the current year positive.

### Performance Highlights

The performance highlights for the year ended 31st March, 2008 as against 31st March, 2007 are as follows :

	Units	2007-08	2006-07	% Change
Production of Black Tea				
– Own	Kgs	16,90,724	17,78,931	(4.95)
– From Purchased Green Leaves		5,42,143	5,90,480	(8.19)
Average Realisation	Rs./Kg	89.48	78.69	13.71
Profit Before Interest but after Depreciation	Rs. in Lacs	182.54	133.13	37.12

**Risks & Concerns :** Tea being an agricultural commodity is affected by vagaries of weather. The Company regularly brings more area under cultivation to reduce such risks. Further, there is a risk of supply of cheap teas made available by bought tea leaf factories and from imports affecting the average realisation of teas in the domestic market. It is the endeavour of the Company to minimize such risks by being a consistent manufacturer of quality teas so as to create a niche market for its produce.

Increased export of cotton and its erratic production will adversely affect the Indian Textile Industry. Further, appreciating Rupee and increased cost of Power & Fuel adversely affect the margins. Your Company has adopted a policy of buying raw cotton on a continuous basis to reduce the impact of fluctuating spot rate.

In respect of its fixed assets, the Company has taken out insurance policies to cover against the risks they might be exposed to and suitable steps are taken whenever required to overcome the impact of fluctuating Rupee-value on exports.

### INTERNAL CONTROL SYSTEM AND ADEQUACY

The Company has adequate system of internal controls and necessary checks and balances are introduced/strengthened so as to ensure

- that its assets are safeguarded;
- that transactions are authorised, recorded and reported properly; and
- that the accounting records are properly maintained and its financial statements are reliable.

The Company appoints external firm of Chartered Accountants to conduct internal audit from time to time and their reports are reviewed by the management and audit committee.

### HUMAN RESOURCES

#### A. Business Segments

**Tea Division :** Being a labour intensive activity, efforts of the staff and the management personnel is on imparting continuous training to improve the management practices.

**Textile Division :** The division is an ISO 9001:2000 certified unit and is focused on improving quality at all levels so that the division continues to strengthen its position in the competitive markets.

**B. Industrial Relations :** Industrial relations at all sites of the Company remain cordial.

**C. No. of Employees :** Manpower employed as at 31st March, 2008 was 2490 compared to 2430 last year.

### CAUTIONARY STATEMENT

The statements in this report describing the Company's policy, strategy, projections, estimation and expectations may appear forward looking statements within the meaning of applicable securities laws or regulations. These statements are based on certain assumptions and expectations of future events and the actual results could materially differ from those expressly mentioned in this Report or implied for various factors including those mentioned in the paragraph "Risks and Concerns" herein above and subsequent developments, information or events.