

'Carpe Diem'!

Krishna Filaments Ltd.

Performance Review of 1996-97 to Shareowners

We make what others can't knot

✓	✓	✓	✓
NA		SRG	✓
✓		DRY	NA
✓		DIV	✓
✓		AC	✓
NA	✓	SEI	✓
✓	✓		✓
✓	✓		✓

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THE PHILOSOPHY OF 'CARPE DIEM'

The line in Latin that you see on the cover - 'Carpe Diem' - is the theme of this Annual Report.

'Carpe Diem' literally means 'Seize the Day'. There is an urgency in the statement; an urgency which combines the act of being pro-active, being early off the blocks and going out to trigger changes rather than waiting for the tide to turn.

The line fits the philosophy of Krishna Filaments Limited. We are a successful company if you go by the numbers in this report. Instead of being complacent, we have embarked on an expansion that should enable the company to emerge as one of the largest in synthetic ropes in the world.

*'Seize the day, put no trust
in the morrow.'*

- Horace

MANAGEMENT RESPONSIBILITY STATEMENT

To the shareholders of Krishna Filaments Limited

YOUR MANAGEMENT HAS FOLLOWED GENERALLY Accepted Accounting Principles as prevalent in India. It has prepared - and is responsible for - the accompanying financial statements. The statements also include some figures based on the management's reasonable estimates and judgments.

The Company's accounting systems include internal controls designed to provide a reasonable assurance of the reliability of its financial records and a proper safeguarding and use of its assets. Such controls are based on established policies and procedures and are implemented by trained skilled personnel with an appropriate segregation of duties. The internal controls are complemented by the company's internal auditors who conduct regular and extensive internal audits. The company's policies and procedures prescribe that the company and all employees are to maintain the highest ethical standards and that business practices are to be conducted in a manner which is above reproach.

The Company's independent auditors M/s G. Daga & Co have audited the consolidated financial statements. The audit was conducted in accordance with generally accepted auditing standards as indicated in their report.

For KRISHNA FILAMENTS LIMITED,



K. K. Agarwal, *Managing Director*



Synthetic ropes
have emerged as a
robust alternative
especially in
hauling
operations over
time.

CORPORATE DESCRIPTION

A HIGHLY PROFITABLE MANUFACTURER

Krishna Filaments Limited is an aggressive, dynamic and highly profitable manufacturer of synthetic ropes. The company started business in 1988 as a 100 per cent Export Oriented Unit.

The global production of synthetic ropes gradually shifted from the first world to low labour cost economies. These included Korea (initially), Taiwan, Thailand and India. In 1995, KFL expanded its activities by adding machinery for the manufacture of 8-strand ropes aimed at the shipping and oil exploration segments. During 1996, it installed machinery for the manufacture of twines, thin ropes used by the fishing industry. KFL sells its products under the 'SHIP' brand name and exports almost half its total production, earning crucial tax breaks in a high margins business.

In 1996-97, the company embarked on an expansion in its capacity to 20,000 tpa of its product mix. This is expected to make Krishna Filaments one of the world's largest manufacturers of synthetic ropes. The company's shares are listed on the Mumbai, Ahmedabad, Calcutta and National Stock Exchanges.

There are only two manufacturers in the organised sector engaged in the manufacture of these products in India. Krishna Filaments has outperformed its only domestic competitor consistently while posting excellent shareholder returns. The Krishna Filaments stock is listed in the B1 group on the Bombay Stock Exchange. The promoters own over 47 per cent of KFL's equity.

Summarised performance

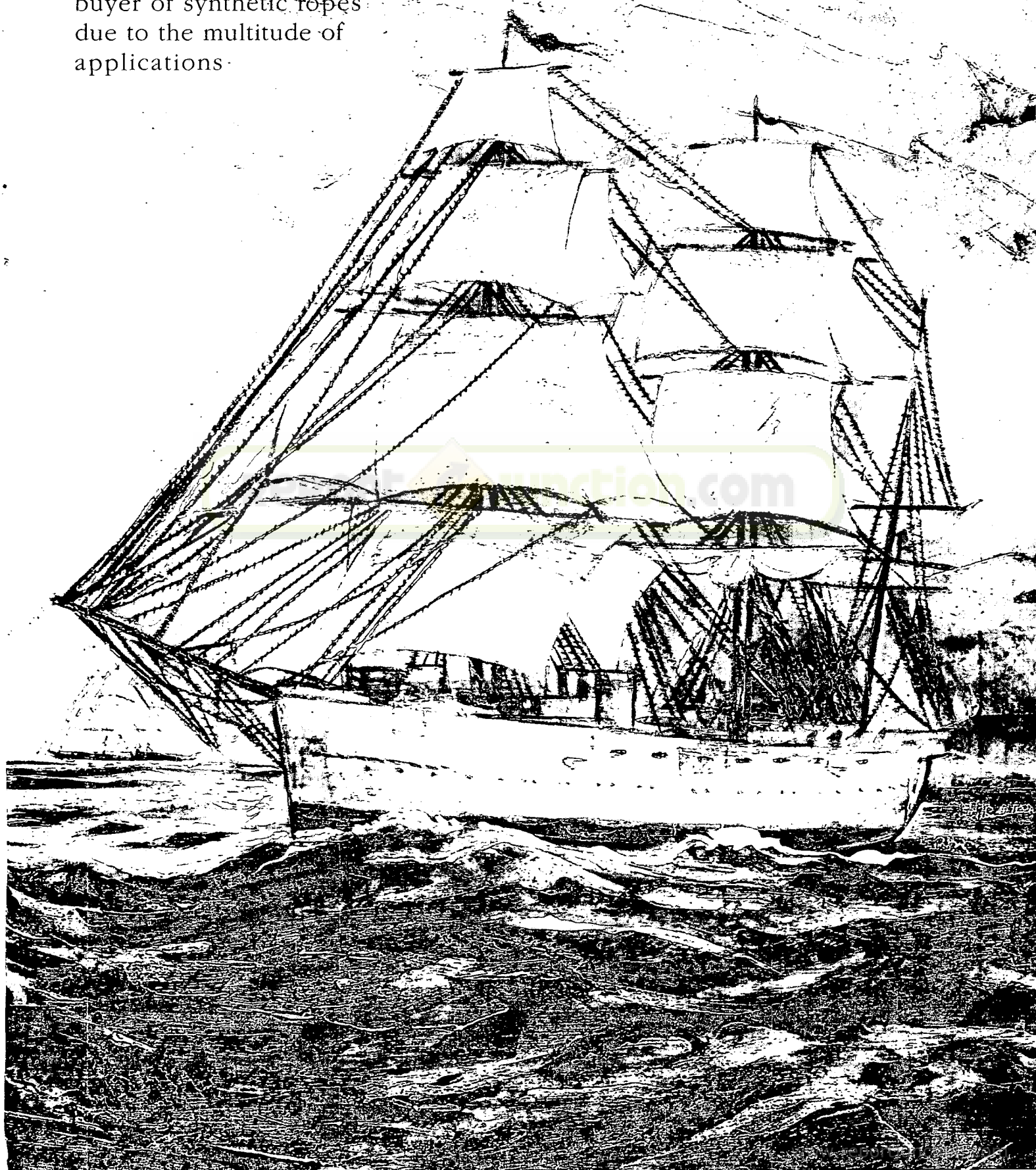
Listed below is the financial performance of the company in brief (Rs / lacs) :

Particulars	1992-93	1993-94	1994-95	1995-96	1996-97
Turnover	693.33	849.95	2013.17	5221.53	5442.58
Profit earned	116.79	141.12	779.61	2108.34	1744.64
Net Worth	263.10	390.62	1868.19	4343.30	6242.61
Gross Block	417.28	507.01	1926.38	3985.33	6554.32
EPS	13.74	16.60	15.45	45.84	37.24
Book Value	30.95	45.96	40.62	83.54	109.61
Dividend (per cent)	12.50	16.00	18.00	30.00	40.00
Debt Equity Ratio	0.52	0.18	0.79	0.31	0.24

Highlights of the previous year

Krishna Filaments consolidated its strengths in the financial year under review. The profit before depreciation and interest during has increased to Rs.2641.44 lacs during 1996-97 as compared to the 1995-96 figure of Rs.2565.58. Owing to a change in the method of depreciation from SLM to WDV, the quantum of depreciation has sharply increased from Rs.163.37 lacs during 1995-96 to Rs.536.90 lacs during 1996-97, leading to a fall in the net profit after tax. **The company increased exports to 52 countries.** An anti-dumping stricture initiated by the European Union on Krishna's exports was contested by the company and subsequently withdrawn by the EU.

The shipping industry has emerged as the principal buyer of synthetic ropes due to the multitude of applications.



CHAIRMAN'S STATEMENT

**'QUALITY
MADE IT HAPPEN.'**

When we first sold synthetic ropes, we did so under a stigma. Few dared to touch our product. Some said that the rope would snap at a high pressure. When we proved that it wouldn't, they said that we would never be consistent. When we proved that our quality was not a one-off thing, they said very well, but this Indian company will never supply on time. When we proved that the day we promised was the date when the material reached our users, they said that we would back out of our contracts when raw material or end product prices see-sawed.

We didn't have a great insight into international business. So we said we would do the simple things really well.

We said that if we promised to deliver by a certain date, we would. If we promised a certain price we would keep to it. And if we guaranteed a particular technical specification, we would exceed it.

Gradually, as business picked up and clients become increasingly demanding, we evolved. We said the old system wouldn't work, so we would need to redefine our response to clients. We would need to quote competitively, become quicker, have a larger presence, package better and we would need to position our expertise more strongly than ever.

We are not entirely there.

But the big thing is that 'Ship' is a respected brand name going to 52 countries. And 'India' is no longer a dirty word in trade circles. Better still, a number of those who showed us the door in 1990 are our long-standing clients now.

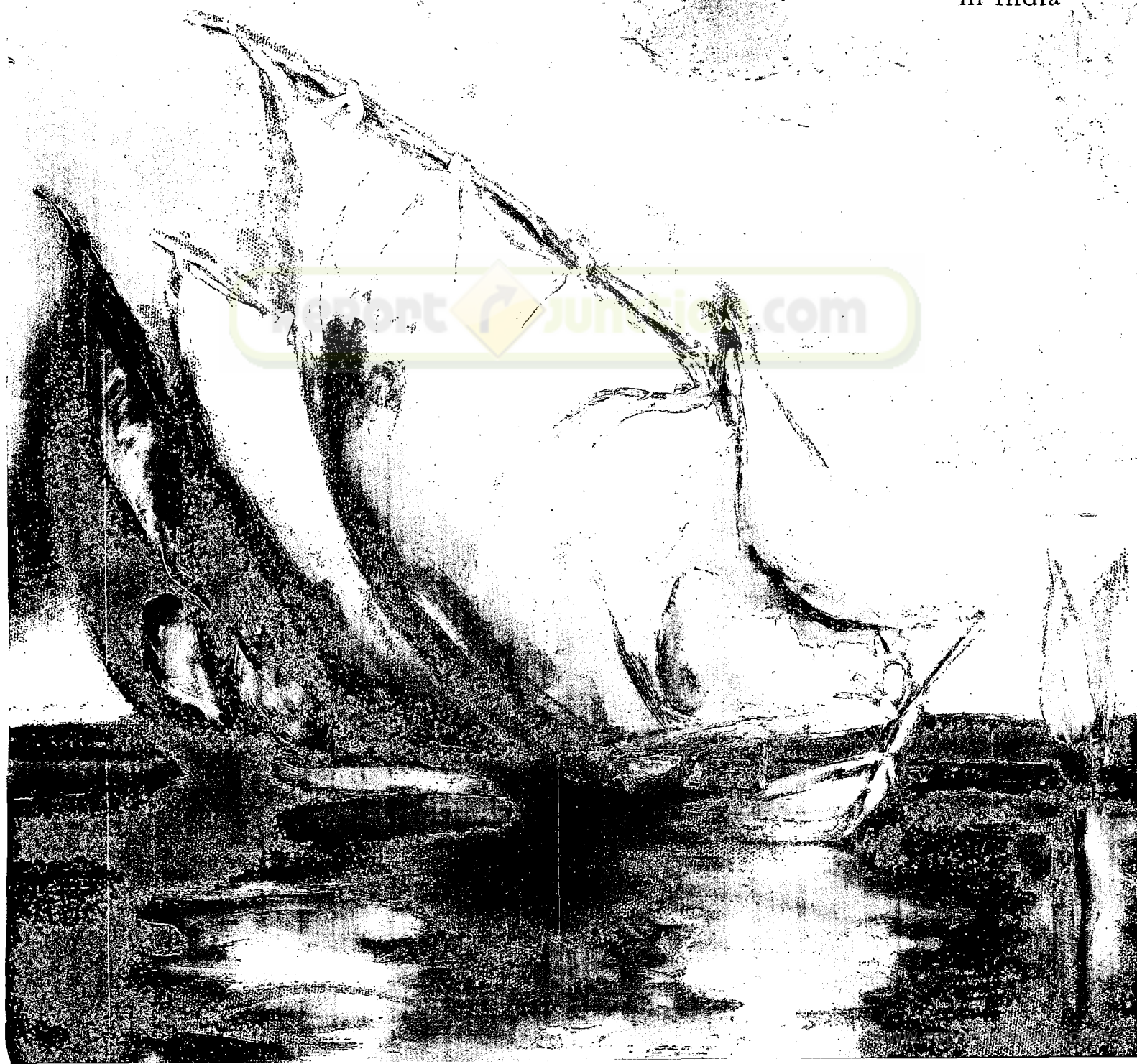
Quality made it happen.

O.P. Agarwal

O.P. Agarwal, Chairman

The fishing industry
has traditionally been
a big consumer of
twine and nets.

The quality of
Krishna's twine has
been well accepted by
the fishing community
in India



A REVIEW OF 1996 - 97

'A YEAR OF CONSOLIDATION'*Managing Director K.K. Agarwal analyses the last year for KFL**Q : Were you happy with the company's working in 1996-97 ?*

A : I was reasonably satisfied with our working. When one sees the numbers that we reported, one must keep in mind that most of our Indian buyers faced a crippling liquidity problem. This immediately resulted in a longer receivables cycle as we were now required to extend credit for 60 days instead of the usual 30. The interest outgo increased as a result. Yet our post-interest profit was almost at par with the previous year, which is encouraging.

Q : Shareholders would want to know why the turnover and net profit dropped in the last fiscal after Krishna set a scorching pace in the previous two years.

A : There were a few reasons. One, because interest outgo rose from Rs 2.94 cr in 1995-96 to Rs 3.60 cr in 1996-97. This was on account of our having to source funds at a cost of 20 to 21 per cent during the course of the year for financing our working capital requirements. Two, we changed our method of calculating depreciation from the Straight Line method to the Written Down Value method and this resulted in a provision higher by Rs 2.83 cr over the previous year (had we stuck to the SLM the bottomline for 1996-97 would have been the same as in the previous year). Our cash earnings per share (CEPS) has remained steady around Rs 49 for the last two years. Shareholders ought to be seeing our cash profit instead of our net profit.

Q : What are the other points of optimism with regard to the company's working in 1996-97 ?

A : Primarily it was the reason that resulted in no sales and cash flow growth. A number of observers might mistakenly believe that the company is running out of steam. This would be a misleading assumption because the no-growth performance that we registered in the last financial year was on account of exhausted manufacturing capacity within the company. In the last two years we utilised our assets to the brim. Since a higher utilisation was not forthcoming in 1996-97, sales and profits steadied. **So the point of optimism is that profits stagnated not because of some unfavourable shift in the markets but because we didn't have adequate capacity to meet the emerging scenario.** The best proof of this lies in our margins which remained steady. This proves that we did not lose our grip on the business.

Q : Can you elaborate on this 'did not lose our grip on the business' bit ?

A : Earlier we sold to 36 countries, now we do to 52 covering five continents. We sell under own brand and we sell directly to the users in 80 per cent of the cases. Our quality continues to be at par with the best in the world and this was vindicated by the fact that none of our customers suffered any accidents on account of the quality of our ropes. There were no rejections either. **Our ropes are 100 per cent safe because we exceed the normally required technical parameter of breaking strength,** which means that Krishna delivers a better quality of rope than what is required. Better value for money.

Q : Is there any specific instance which proves this ?

A : We entered new export markets. We received a big order from the US which would have increased the export component of our income for 1996-97 from 50 per cent to 80 per cent. Interestingly, synthetic ropes comes under the classification of 'textiles' for exports to the US so we had to apply for the relevant quota from Texprocil. We were assured of the unutilised quotas by Texprocil, based on which we bagged a big US order. Exports continued until December 1996. Thereafter, Texprocil did not give us any quotas and we were compelled to bring the cargo back from the docks after a three-month wait.

Q : What were the other highlights of 1996-97 ?

A : Despite a difficult domestic economy, we had no outstandings or defaults in our realisation. We were awarded the ISI standard which will help us supply to large Indian companies that respect the mark. We conceived and structured the expansion from 6900 tpa to 20000 tpa worth Rs 189 cr, firming up the funding and asset supply for the purpose. We devised a novel instrument for financing the expansion, keeping in mind the needs of the investors and the fact that the capital market was difficult. The company was also the subject of a European Union action on anti-dumping. We fought the ruling in the Brussels court during 1996-97. As a result, a team of EU auditors came to India to check our books. During the course of their scrutiny they found no ground for slapping an anti-dumping structure against Krishna Filaments and thereafter the proceedings against the company were discontinued.