

# 28<sup>th</sup> Annual Report 2003 - 2004

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## Malwa Cotton Spinning Mills Limited



## **MALWA COTTON SPINNING MILLS LIMITED**

### **THE MANAGEMENT**

|                    |  |
|--------------------|--|
| BOARD OF DIRECTORS | : MR. JANGI LAL OSWAL<br>Chairman-cum-Managing Director<br>MR. Y. P. GUPTA (Nominee of IFCI)<br>MR. B.DASGUPTA (Nominee of IDBI)<br>MR. RISHI OSWAL<br>MR. RAHUL OSWAL<br>MR. G.BANSAL<br>MR. RAJDEEP JAIN<br>MR. B.S.MANN |
| AUDITORS           | : S.C.Vasudeva & Co., New Delhi  |
| BANKERS            | : Punjab National Bank<br>State Bank of India<br>Vijaya Bank<br>The Jammu & Kashmir Bank Ltd<br>American Express Bank Ltd  |
| REGISTERED OFFICE  | : Industrial Area - 'A'<br>Ludhiana - 141 003  |
| WORKS              | : i) Village Harigarh,<br>Raikot Road, Barnala (Punjab)<br>ii) Village Patlian,<br>Paonta Sahib (Himachal Pradesh)<br>iii) Village Harian, Kohara-Machhiwara Road,<br>Distt. Ludhiana (Punjab)                             |

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# MALWA COTTON SPINNING MILLS LIMITED

## FINANCIAL HIGHLIGHTS

(Rs. in Lac)

|                                      | 2003-2004 | 2002-2003 | 2001-2002 | 2000-2001 | 1999-2000 | 1998-99             | 1997-98  | 1996-97  | 1995-96  | 1994-95  |
|--------------------------------------|-----------|-----------|-----------|-----------|-----------|---------------------|----------|----------|----------|----------|
| Share Capital                        | 3267.46   | 3283.00   | 3283.00   | 1558.39   | 1558.39   | 1556.04             | 489.89   | 489.89   | 489.89   | 489.89   |
| Reserves                             | 6550.46   | 6037.44   | 6602.91   | 8515.35   | 10666.37  | 10244.22            | 9561.81  | 8138.55  | 7136.03  | 6844.99  |
| Net Worth                            | 9833.46   | 9320.44   | 9885.91   | 10713.74  | 12224.76  | *11825.91**10117.85 | 8628.44  | 7625.92  | 7334.88  |          |
| Fixed Assets (Gross)                 | 27386.15  | 27229.28  | 26765.86  | 25950.52  | 24708.51  | 23170.15            | 19915.08 | 16305.26 | 13992.24 | 13227.40 |
| Depreciation                         | 16383.02  | 14988.16  | 13606.14  | 12120.44  | 10559.11  | 9063.38             | 7685.69  | 6457.37  | 5305.07  | 4235.40  |
| Net Block                            | 11003.13  | 12241.12  | 13159.72  | 13830.08  | 14149.40  | 14106.77            | 12229.39 | 9847.89  | 8687.17  | 8992.00  |
| Investments                          | 1205.91   | 2599.76   | 2599.76   | 2718.76   | 2627.04   | 2627.04             | 2279.04  | 1033.27  | 1052.76  | 700.93   |
| Net Current Assets                   | 14595.87  | 13809.89  | 12734.80  | 12696.10  | 14313.20  | 14356.70            | 13218.12 | 11191.36 | 9186.87  | 9986.39  |
| Net Assets Employed                  | 27060.62  | 28697.18  | 28570.35  | 29350.68  | 31116.71  | 31293.55            | 27733.56 | 22072.52 | 18926.80 | 19679.32 |
| Book Value<br>Per Equity Share (Rs.) | 117.26    | 166.85    | 176.98    | 191.80    | 218.84    | 212.58              | 206.44   | 176.05   | 155.60   | 149.66   |
| Gross Income                         | 36285.74  | 35993.80  | 36860.69  | 39001.73  | 37101.60  | 35176.23            | 37053.60 | 31956.50 | 32529.72 | 27153.33 |
| Export Sales (FOB)                   | 11573.78  | 13618.63  | 12339.88  | 14671.15  | 13334.27  | 11904.82            | 13197.20 | 11688.41 | 5717.52  | 5576.68  |
| Gross Profit/(Loss)                  | (1574.52) | 806.44    | (254.01)  | 8.18      | 2175.00   | 1735.69             | 3081.05  | 2478.80  | 1571.14  | 2162.01  |
| Depreciation                         | 1442.45   | 1382.02   | 1539.31   | 1618.86   | 1522.85   | 1413.68             | 1317.87  | 1166.71  | 1076.30  | 992.07   |
| Profit/(Loss) Before Tax             | (3016.97) | (575.58)  | (1793.32) | (1610.68) | 652.15    | 322.01              | 1763.18  | 1312.09  | 494.84   | 1169.94  |
| Profit/(Loss) After Tax              | (1108.03) | (335.35)  | (1761.29) | (1611.28) | 552.15    | 286.01              | 1563.18  | 1112.09  | 484.84   | 1069.94  |
| Equity Dividend (%)                  | --        | --        | --        | --        | --        | 15                  | 40       | 40       | 37       | 37       |
| Earning Per Share (Rs.)              | (26.11)   | (11.58)   | (36.48)   | (31.11)   | 9.89      | 5.14                | 31.89    | 22.69    | 9.89     | 21.83    |
| Cash Earning Per Share (Rs.)         | (0.29)    | 13.16     | (8.92)    | (2.14)    | 37.14     | 30.55               | 58.78    | 46.50    | 31.85    | 42.07    |

\* Includes Application money for shares and warrants Rs. 25.65 Lacs.

\*\* Includes Application money for warrants Rs. 66.15 Lacs.

Reserves include deferred tax liability.



# MALWA COTTON SPINNING MILLS LIMITED

## NOTICE

Notice is hereby given that the Twenty Eighth Annual General Meeting of the Members of Malwa Cotton Spinning Mills Limited will be held at Plot No. 230, Industrial Area-'A', Ludhiana on Thursday, 30th September, 2004 at 9.30 AM to transact the following business:

### ORDINARY BUSINESS :

1. To receive, consider and adopt the Balance Sheet as at 31st March, 2004 and Profit and Loss Account for the year ended on that date together with Auditors' and Directors' Report thereon.
2. To appoint a director in place of Shri Rahul Oswal, who retires by rotation and being eligible, offers himself for re-appointment.
3. To appoint a director in place of Shri Rajdeep Jain, who retires by rotation and being eligible, offers himself for re-appointment.
4. To appoint Auditors for the year 2004-2005 and fix their remuneration.

### SPECIAL BUSINESS :

5. To consider and, if thought fit, to pass with or without modification(s) the following resolution as a Special Resolution.

RESOLVED THAT in accordance with the provisions of Section 81 (1A) and all other applicable provisions, if any, of the Companies Act, 1956, and in accordance with the Guidelines issued by the Securities and Exchange Board of India (SEBI) and clarifications thereon issued from time to time and subject to the approval of financial institutions (FIs) and other concerned authorities, if any, and all such approvals, permissions and sanctions as may be necessary and subject to such conditions and modifications as may be prescribed or imposed by any of them while granting such approvals, permissions and sanctions, which may be agreed to, by the Board of directors of the Company (hereinafter referred to as "the Board" which term shall be deemed to include any duly authorised committee thereof for the time being exercising the powers conferred on the Board by this resolution), the consent of the Company be and is hereby accorded to the Board to issue equity shares of Rs. 10/- each at a premium as per pricing of the issue under SEBI guidelines aggregating Rs. 280.34 lacs including premium by conversion of loan/interest of IDBI.

Resolved further that the Board be and is hereby authorised to accept any modification(s) or to modify the terms of issue of the said new equity shares subject to the provisions of the Companies Act, 1956 and SEBI guidelines / Regulations, without being required to seek any further consent or approval of the Company in general meeting.

Further resolved that the Board be and is hereby authorised to do all acts, deeds and things as the Board may in its absolute discretion consider necessary, proper, desirable or appropriate for making the said issue as the Board may deem fit in this regard to be most beneficial to the Company.

### NOTES :

1. The Explanatory Statement pursuant to section 173 of the Companies Act, 1956 in respect of Special Business set out above is annexed hereto.
2. A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE ON A POLL INSTEAD OF HIMSELF/HERSELF AND SUCH A PROXY NEED NOT TO BE A MEMBER OF THE COMPANY, THE PROXY IN ORDER TO BE EFFECTIVE, MUST BE RECEIVED BY THE COMPANY NOT LESS THAN 48 HOURS BEFORE THE MEETING, THE BLANK PROXY FORM IS ENCLOSED.
3. The Register of Members and the Share Transfer Books of the Company shall remain closed from 29th September, 2004 to 30th September, 2004 (both days inclusive).
4. Members holding shares in physical form are requested to notify the change in their addresses, if any, to the Company immediately quoting their Folio Number(s).
5. Members holding shares in dematerialised mode are requested to intimate the change in their addresses to their respective Depository Participant.
6. Member(s) desiring any information as regards Accounts are requested to write to the Company at its Registered Office at least 10 days before the date of Annual General Meeting so as to enable the Management to keep the information ready.
7. During the current financial year viz. 2004-05, the Company will be required to transfer to the Investor Education & Protection Fund, the unpaid dividend for the year ended March 31, 1997. Those shareholders who have not encashed their warrants are requested to immediately return the outdated warrants to the Company to enable

the Company to issue demand draft in lieu thereof.

8. Members are requested to bring their copy of Annual Report along with them at the Annual General Meeting.
9. INFORMATION REQUIRED PURSUANT TO CORPORATE GOVERNANCE CLAUSE OF THE LISTING AGREEMENT(S) REGARDING THE DIRECTORS' RE-APPOINTMENT IN THE ANNUAL GENERAL MEETING AS PROPOSED IN ITEM NO. 2 AND 3 OF THE NOTICE IS AS UNDER :

#### Mr. Rahul Oswal

Mr. Rahul Oswal is Commerce graduate and is an industrialist having more than 10 years experience in textile industry. His date of birth is 07.01.1974 and date of appointment is 29.07.1994.

He holds the position of director on the board of the following companies :

- i. Malwa Industries Limited
- ii. Oswal Multimedia KID Limited
- iii. Malwa Corporation Limited
- iv. Oswal Corporation Limited
- v. Oswal Dremz Limited

He is the Chairman of Investors' Grievance Committee and member of Share Transfer Committee of the Company.

#### Mr. Rajdeep Jain

Mr. Rajdeep Jain is Commerce graduate and is an industrialist having 15 years experience in steel industry. His date of birth is 13.06.1966 and date of appointment is 30.11.1996.

He is director on the board of Deep Tools Pvt. Ltd. He is member of Audit Committee, Share Transfer Committee and Remuneration Committee of the Company.

By order of the Board

Regd. Office  
Industrial Area 'A'  
Ludhiana.

Dated : 20th August, 2004

DINESH GUPTA  
Company Secretary

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

As required under section 173 of the Companies Act, 1956 the following explanatory statement set out all the material facts relating to the business under Item No. 5 mentioned in the accompanying notice dated 20th August, 2004.

#### Item No. 5

Industrial Development Bank of India (IDBI) has granted restructuring package for liabilities of your Company vide their letter No. DA3(231)/76 dated 16th August, 2004 for conversion of Rs. 280.34 lacs into equity shares as per SEBI guidelines with the following terms and conditions:

Conversion of simple interest and compound interest overdues as on Cut-off-Date (1st April, 2004) aggregating Rs. 280.34 lacs into Equity Shares of the Company at pricing of Equity Shares under SEBI guidelines. The shares would have a provision for Buy-back by the Private Promoters within a period of five years from the Cut-off-Date at a price equivalent to allotment price plus interest @ 9% p.a. (on quarterly compounding basis) with effect from Cut-off-Date or Market Price, whichever is higher, on or before the following dates :

- a) Minimum 30% of IDBI's Equity Holding to be bought back latest by April 01, 2007.
- b) Minimum 60% of IDBI's Equity Holding to be bought back latest by April 01, 2008.
- c) 100% of IDBI's Equity Holding to be bought back latest by April 01, 2009.

The said allotment of equity shares to IDBI would not result in any change in the control over your Company.

Your directors recommend the special resolution under clause (a) of section 81 (1A) of the Companies Act, 1956 for approval of the members.

#### Memorandum of Interest

None of the directors of the Company is in any way concerned or interest in the resolution.

By order of the Board

Regd. Office  
Industrial Area 'A'  
Ludhiana.  
Dated : 20th August, 2004

DINESH GUPTA  
Company Secretary



## MALWA COTTON SPINNING MILLS LIMITED

### DIRECTORS' REPORT

The Directors are pleased to present their Twenty Eighth Annual Report on the business of the Company and the Audited Statement of Accounts of the Company for the year ended 31<sup>st</sup> March, 2004.

(Rs. in Lac)

| FINANCIAL RESULTS                               | 2003-04   | 2002-03   |
|---|-----------|-----------|
| Profit before financial expenses & depreciation | 1535.01   | 3929.74   |
| Financial expenses                              | 3109.53   | 3123.30   |
| Depreciation                                    | 1442.45   | 1382.02   |
| (Loss) before tax                               | (3016.97) | (575.58)  |
| Provision for taxation                          |           |           |
| - Deferred Tax                                  | (2030.58) | (240.23)  |
| - Deferred Tax Adjustments                      | 121.64    | ---       |
| Income Tax for earlier year written back        | 12.28     | 10.11     |
| Depreciation for earlier year written back      | 0.67      | ---       |
| Loss for the year after tax adjustments         | (1095.08) | (325.24)  |
| Balance brought forward                         | (2318.65) | (1993.41) |
| Balance Carried to Balance Sheet                | (3413.73) | (2318.65) |

### YEAR IN RETROSPECT

The textile industry, being one of the important sectors of the Indian economy, contributes more than 4 per cent to the gross domestic product, accounts for 14 per cent of the total industrial production, employs 28 percent country's industrial work force and earns 25 per cent of country's export revenues.

There is a general feeling that the Indian textile industry is being neglected by the Indian government. Despite getting recognition as an alternate supplier to US and UK markets after China, the industry is still not on the priority list of the Indian government. Industry lacks in relation to power, infrastructure, labour laws and port inefficiency etc.

Textile exports in the financial year ended 31<sup>st</sup> March, 2004 fall below the target of \$ 13 billion, due to the steady appreciation of rupee. Export performance is less than the targeted figure, but able to touch previous years figure of \$ 11.7 billion. Textile sector has recorded 10 to 11 percent growth, but the steady appreciation of rupee had blunted the export growth. However, adverse implication caused by the appreciation of rupee could be off-set through facilitation measures such as lower power cost, freight cost, reduced rates of export credits and increasing DEPB rate etc.

During the year 2003-04, the cotton prices ruled well over 62 cents/lb and even touched 80 cents. However, there is no corresponding increase in the yarn prices. Also the stronger rupee has hit the exports adversely. However, there is positive developments for textile industry. Harvested area is rising and growing conditions have proven favourable across the world. For 2003-04, countries that harvest later in the crop are showing better than expected results. India, which harvests close to half of its crop after January, is estimated to have, had record yields, 359 kg. per hectare, 18 percent greater than last year. The New York December, 2004 future price for cotton that had been at 65 cent/lb in late April, is now below 48 cents/lb. The

complete turnaround in cotton price expectation for the year comes after bumper crop expectation in China.

In the financial year 2003-04, raw cotton prices has increased by 32% as compared to the last year, whereas corresponding increase in the selling price was only 13%. Also synthetic fibre prices have increased by 10% to 14%, but there is negligible increase in yarn prices. Unabated rise in the raw material prices without corresponding increase in sale realisation has adversely affected the bottom line of the Company. Also the appreciation in INR against USD affected the exports realisation adversely.

Your Company has focussed on the production of value added and high quality yarn viz. Sewing Thread, Gassed Mercerized Yarn, Indigo Yarn, Lycra Yarn and Specialized Yarns etc. The Company has received tremendous response in the domestic thread market and opened new sale centres to meet the local demand. Thread/specialized yarn market has the better growth potential as compared to conventional yarn market. The Company achieved thread sale of Rs.6474 lac as compared to Rs.4722 lac in the previous year, which shows a growth of 37%.

### PRODUCTION

The total production of all types of yarn during the year was recorded 233 Lac Kgs. against 236 Lac Kgs. in the previous year. The production of cotton yarn was 146 Lac Kgs. against 155 Lac Kgs. in the previous year. The production of other yarns during the year was 87 Lac Kgs. against 81 Lac Kgs. in the previous year. Production of yarn marginally decreased due to manufacturing of finer counts for value added yarn instead of conventional yarn and stoppage of part spindleage.

### TURNOVER

During the year, your Company recorded a turnover of Rs.36103 lac against Rs.35961 lac in the previous year. The Company has achieved yarn sale of Rs.27127 lac, Thread sale of Rs. 6474 lac and others of Rs.2502 lac in the current year ending 31<sup>st</sup> March, 2004 against sale of yarn Rs.28472 lac, Thread of Rs. 4722 lac and others of Rs.2767 lac in the previous year ended 31<sup>st</sup> March, 2003. Thread sale has increased by Rs.1752 lac (37 %) in the current year 2003-04.

### EXPORTS

Abolition of MFA Quota from January, 2005 will offer various opportunities for textile business especially in China, EU and USA. As China encouraged exports of value added products like apparel and processed fabrics, the real threat of India being challenged by the international yarn market is mitigated. Pakistan and to an extent Turkey, are in a position to take on India. If India is able to maintain its existing competitive edge, this threat can be saved off. China's import of cotton yarn in the year 2010 would touch the figure of US\$ 3.5 billion per annum and India will be a major beneficiary.

Your Company has achieved Export Turnover of Rs.11918 lac (CIF) against Rs.14017 lac (CIF) in the previous year. Exports amount to 33% of the total turnover of the company. Exports have decreased due to recession in the international market, higher raw material prices, lower sale realisation and rupee appreciation against USD.





## MALWA COTTON SPINNING MILLS LIMITED

### Barnala Unit

The Barnala unit has achieved production of 89.05 lac kgs of Yarn and capacity utilization of 89.79% in the current year.

The EOU unit was operating at 98.51% capacity utilization and production of 45.94 lac kgs of Cotton Yarn recorded during the year. The plant is equipped with the machinery of latest technology to meet the demand of high quality yarn in the international market.

### Paonta Sahib Unit

The Paonta Sahib unit was also operating at optimum capacity utilization of 93.50% and has production of 90.66 Lac Kgs of yarns. Ring Doubling Frame, Cheese Winder & Cone Winders were added for manufacturing of high value added yarns. The Company has partly replaced its existing capacity for production of Cotton & Synthetic Yarn with the finer count of value added yarn.

### Machhiwara Unit

With the phasing out of MFA draws nearer, your Company has prepared itself for global opportunities and have more emphasis on increase in production of value added yarns and specialised yarns. The Company has increased its capacity of thread to 7 TPD. Dyeing plant, Soft Packaging Winder, Wet Scrubber, Tube Winding machine, Polishing machine, Cop Banding machine etc. are installed at Machhiwara. The unit had achieved production of 22.69 Lac Kgs of value added yarns during the year.

The capacity utilisation of Worsteds unit, with installed capacity of 5,040 spindles, is 55% and was not up to the mark. The unit had achieved production of 7.34 Lac Kgs of yarn. Part of the spindleage is stopped due to higher raw material cost and poor sale realisation. However, your Company has changed its product-mix for increasing the capacity utilisation and also introducing new products with better realisation.

### SUBSIDIARY COMPANIES

In the current year, the Company has dis-invested 1,20,00,000 equity shares of Malwa Industries Ltd. out of total 2,16,30,700 equity shares and thereafter the latter ceased to be a subsidiary of the Company w.e.f. 31st March, 2004.

We have not received the audited accounts of M/s Oswal Chartak, Uzbekistan. However, there were no operations in the Company during the year. Therefore, the same are not annexed. However, statement under section 212 of the Companies Act, 1956 is annexed.

### FIXED DEPOSITS

The Company has not accepted/renewed any deposits from the public during the year under review under section 58A of the Companies Act, 1956.

### INDUSTRIAL RELATIONS

Your Company has received full and whole hearted support from its employees at all levels of the organization, which helped in achieving optimum level of efficiency in production of all products.

### COMPLIANCE OF LISTING AGREEMENT

The equity shares of the Company are listed at The Bombay Stock Exchange and National Stock Exchange.

The Company has paid annual listing fee upto 31st March, 2004.

### CORPORATE GOVERNANCE

Your Company has been practicing the principles of good corporate governance. Certificate of the Auditors of your Company regarding compliance of the conditions of corporate governance as stipulated in clause 49 of the listing agreement with stock exchange is annexed hereto.

### AUDITORS

M/s. S.C. Vasudeva & Co., auditors of the Company hold office until the conclusion of the ensuing Annual General Meeting and being eligible, offered themselves, for re-appointment.

### AUDITORS' REPORT

The Auditors' Report on the Accounts is self-explanatory and required no comments.

### DIRECTORS' RESPONSIBILITY STATEMENT

Directors' Responsibility Statement pursuant to the provision of section 217(2AA) of the Companies Act, 1956 is attached as per Annexure 'C' and forms part of the report.

### DIRECTORS

S/Shri Rahul Oswal and Rajdeep Jain retire at the ensuing Annual General Meeting and are eligible for appointment as Directors subject to retirement by rotation. They offer themselves for the re-appointment.

Sh. V.S.Pandey and Sh. R. Krishnamurthy nominees of IFCL, ceased to be Director of the Company. The Board places on records its appreciation for the services rendered during their tenure as Directors of the Company.

### ACKNOWLEDGEMENT

Your Directors place on record their appreciation for the valuable assistance and guidance extended to the Company by the Financial Institutions and Banks and also acknowledges the support and co-operation received from dealers, retailers and agents for promoting various products of the Company. The Board also desires to express its deep gratitude for the continued support from its shareholders and appreciate the contribution made by the employees at all levels.

### DISCLOSURE OF PARTICULARS

Statement of particulars of employees pursuant to Section 217(2A) of the Companies Act, 1956 is attached as per Annexure 'A'. Information as per the Companies (Disclosure of particulars in the Report of Board of Directors) Rules, 1988 relating to conservation of energy, technology absorption, foreign exchange earning and outgo is given in Annexure 'B' forming part of this Report.

For and on behalf of the Board

Place : Ludhiana  
Dated : 30.06.2004

JANGI LAL OSWAL  
Chairman-cum-Managing Director



## MALWA COTTON SPINNING MILLS LIMITED

### ANNEXURE 'A' TO THE DIRECTORS' REPORT

#### PARTICULARS OF EMPLOYEES

Statement of Particulars of Employees under Section 217 (2A) of the Companies Act, 1956 read with Companies (Particulars of Employees) Rules, 1975 and Forming Part of Directors' Report for the year ended 31.03.2004.

| Name                | Age | Date of Employment | Qualification | No. of Years Experience | Designation & Nature of Duties | Remuneration (Rs. in Lac) | Last Employment held        | Designation with last employer | Period of Service with last employer (Years) |
|---------------------|-----|--------------------|---------------|-------------------------|--------------------------------|---------------------------|-----------------------------|--------------------------------|--|
| Sh. Jangi Lal Oswal | 53  | 09.04.1980         | B.A. II Year  | 33                      | Chairman-cum-Managing Director | 19.35                     | Oswal Woollen Mills Limited | Commercial Manager             | 9  |

- The appointment of Sh. Jangi Lal Oswal is on contractual basis.
- Sh. Jangi Lal Oswal is related to Sh. Rishi Oswal and Sh. Rahul Oswal, Directors of the Company.
- The remuneration includes salary, cash allowances / and perquisite value of other non cash perquisites.

For and on behalf of the Board

Place : Ludhiana  
Dated : 30.06.2004

JANGI LAL OSWAL  
Chairman-cum-Managing Director

### ANNEXURE 'B' TO THE DIRECTORS' REPORT

INFORMATION AS PER SECTION 217(1)(e) READ WITH COMPANIES (DISCLOSURE OF PARTICULARS IN THE REPORT OF BOARD OF DIRECTORS) RULES, 1988.

#### 1. CONSERVATION OF ENERGY

- Energy conservation measures taken
  - Technical upgradation and modernisation of various machines.
  - Power capacitor banks are on different load centres to reduce power losses.
  - Electronic Soft start units with Power Saving features installed in various machines to get power saving.
  - Flat belt, Flat Pulley & FRP Fans are installed in humidification plant.
- Further proposed and investment for reduction of energy consumption.
  - Modernisation/replacement of old plant & machinery.
- Overall impact of measures of above resulting in energy saving.
  - Not ascertainable precisely.
  - Reduction in Cost of production and improvement in quality.
- Total energy consumption and energy consumption per unit of production as per Form A in respect of industries specified in the schedule.

#### FORM A

(Disclosure of particulars with respect to conservation of energy)

#### A. POWER AND FUEL CONSUMPTION

|                            |           | 2003-2004 | 2002-2003 |
|----------------------------|-----------|-----------|-----------|
| 1. Electricity             |           |           |           |
| a) Purchased               |           |           |           |
| Unit                       | Lacs unit | 970.13    | 894.59    |
| Total Amount               | Rs. Lacs  | 3155.98   | 2755.97   |
| Rate/Unit                  | Rs.       | 3.25      | 3.08      |
| b) Own generation          |           |           |           |
| Through diesel generator   |           |           |           |
| Unit                       | Lac unit  | 78.24     | 102.83    |
| Unit/Litre                 |           | 3.44      | 3.46      |
| Rate/Unit                  | Rs.       | 4.74      | 3.78      |
| 2. Coal (B & C grade)/Husk |           |           |           |
| Quantity                   | Tonnes    | 15309.98  | 16237.60  |
| Total Cost                 | Rs.Lacs   | 245.47    | 264.26    |
| Average rate               | Rs./Tonne | 1603.44   | 1627.47   |

#### B. CONSUMPTION PER UNIT OF PRODUCTION

|             |                            |         |         |
|-------------|----------------------------|---------|---------|
| Electricity | Per Tonne in unit          | 4499.62 | 4227.09 |
| Coal/Husk   | Per Kg. of Fibre/Yarn Dyed | 2.95    | 3.17    |



## MALWA COTTON SPINNING MILLS LIMITED

### II. TECHNOLOGY ABSORPTION

e) Efforts are being made in Technology Absorption as per Form B.

#### FORM - B

#### RESEARCH AND DEVELOPMENT (R&D)

1. Continuous efforts being made for developing new products and processes and to bring about improvement in existing products and processes in Research and Development wing.
2. With the ongoing efforts by R&D, benefits derived are :
  - A. Improvement in yarn quality and productivity.
  - B. Development of new products.
  - C. Consistency in work performance and reduction in waste.
3. Future plan of action  
New products and processes and improvement in the existing products on continuous basis.
4. Expenditure on R & D
 

|  | 2003-2004 | (Rs. in Lac)<br>2002-2003 |
|--|-----------|---------------------------|
| a) Capital   | —         | 2.88                      |
| b) Recurring   | 37.29     | 36.38                     |
| c) Total   | 37.29     | 39.26                     |
| d) Total R&D Expenditure as a percentage of total turnover | 0.11%     | 0.11%                     |

#### TECHNOLOGY ABSORPTION, ADAPTATION AND INNOVATION

1. Efforts in brief, made towards technology absorption, adaptation and innovation.
  - Absorption and adaptation of new indigenous technology are being made.
2. Benefit derived as a result of the above efforts, e.g. product improvement, cost reduction, product development, import substitution etc.
  - Not ascertainable
3. Information regarding technology imported during the last 5 years : Nil

### III. FOREIGN EXCHANGE EARNINGS AND OUTGO

- f) Activities relating to exports; initiatives taken to increase exports; development of new export market for products and services; and export plans.
- g) Total Foreign Exchange earned and used :
 

|                               | 2003-2004 | (Rs. in Lac)<br>2002-2003 |
|-------------------------------|-----------|---------------------------|
| Foreign Exchange earned (FOB) | 11573.78  | 13618.63                  |
| Foreign Exchange used (CIF)   | 2108.47   | 1118.86                   |

## ANNEXURE 'C' TO THE DIRECTORS' REPORT

### Directors' Responsibility Statement

Pursuant to the provisions of section 217(2AA) of the Companies Act, 1956 it is hereby confirmed:

1. That in preparation of the annual accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures.
2. That the directors had selected such accounting policies and applied them consistently and made judgements 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 profit or loss of the Company for that period.
3. That the directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities.
4. That the directors have prepared the annual accounts on a going concern basis.

For and on behalf of the Board

Place : Ludhiana  
Dated : 30.06.2004

JANGI LAL OSWAL  
Chairman-cum-Managing Director





## MALWA COTTON SPINNING MILLS LIMITED

### MANAGEMENT DISCUSSION AND ANALYSIS REPORT

#### Industry Structure and Developments

The history of textiles in India is inextricably woven in to the story of civilization. During 1950's and 1960's, contribution of spinning industry in country's export earnings was modest. However, the scenario started changing from the beginning of 1970's. Indian textile industry had undergone major structural and environmental changes. Investments in spinning industries had risen substantially which in turn had a major impact in the exports of yarn. Continuous infusion of funds, setting up of Export Oriented Units (EOU), technological upgradation of existing units coupled with availability of raw material and skilled labour at competitive cost helped the industry registering and extremely high rate of growth in export year after year. No wonder, today India is the world leader in the global cotton yarn exports at 25% market share. However, the rising trend received a set back in 2001-02 due to spreading of SARS in far eastern countries, economic recession in global market.

#### Opportunities & Threats

India is holding the first rank in global cotton yarn exports with over 39 million spindles. India is one of the dominant players in terms of installed capacity and 45% of these spindles are less than 10 years old. Apart from the existing market opportunities for expanding business are already on the horizon especially in EU and USA. Phasing out of trade quotas from January, 2005 will also offer big scope for Indian exporters to capture a major portion of yarn market in EU and USA.

Exporting fraternity need not be complacent as there are crucial areas that may create very big problems in near future and seriously effect the competitiveness of the spinning industry. Dismantling of MFA quotas from the year 2005 will not in themselves result in any automatic growth in exports. There are effects, bound to bring fresh turbulence in the form of pressure on prices, growing resorts to protectionist measures, proliferation of bilateral arrangements and regional groupings. In a market of falling prices competition is expected to be intensified with the country offering good value for money retaining the export edge.

#### Segment wise Product wise performance

Detailed performances have already been discussed in Director's Report.

#### Future Outlook

The textile sector contributes nearly 30% of the export earning of the country and is also largest employment provider after agriculture. The growth opportunities that would be open to our exporters from the year 2005 in the quota free regime will have to be exploited by developing new products, maintaining price competitiveness and ensuring quality and timely deliveries in order to maintain and expand our market share in world markets.

India's textile industry spans the entire spectrum of the entire value chain. India has inherent advantages of raw material supply i.e. raw cotton, world class spinning capacity. India's strengths in textile production include inexpensive, abundant and skilled labour force that is suited for labour intensive apparel exports, sufficient raw material supplies because India is third

largest producer of cotton with highest area under cotton cultivation in the world. It is still maintaining the position of second-largest textiles producer in the world having a long and deep rooted tradition in textile production. India needs to seize the opportunities thrown open by removal of MFA Quota.

#### Risks & Concerns

Removal of quotas may open new frontiers, but will also close captive markets. The EU and US will no longer be restrained in buying as much as they want from the cheapest possible sources. Consequently, the ending of quotas could result in cut throat competition among developing countries. Thus, while the world trade in textiles may grow in volume terms, due to the pricing pressure it may even stagnate or decline in value terms post the removal of quotas.

India's current position is under threat. The single most important reason for India being world leader in cotton yarn is easy availability of raw cotton at competitive price. India's cotton cost has risen above the international prices over the last few years. Moreover, India continues to be disadvantage on power cost and cost of money. Corrective measures should be taken immediately to capture the opportunities in the quota free regime.

#### Internal Control System and their adequacy

The Company has a proper and adequate system of internal control commensurate with the size of the Company. The Company is also having Internal Audit Department, which ensures adherence to all internal control policies and procedures.

The Audit Committee of Board of Directors reviews the adequacy of internal controls.

#### Financial/operation Performance

(Rs. In Lac)

| Particulars                  | 2003-04 | 2002-03 |
|------------------------------|---------|---------|
| Turnover & Other Income      | 36286   | 35994   |
| PBDIT                        | 1535    | 3929    |
| Interest & Financial Charges | 3110    | 3123    |
| Depreciation                 | 1442    | 1382    |
| Profit/(Loss) before Tax     | (3017)  | (576)   |
| Profit/(Loss) after Tax      | (1095)  | (325)   |
| Earning Per Share (Rs.)      | (26.11) | (11.58) |

#### Human Resources/Industrial Relations

Human resource is the most significant and valuable asset of the Company. Industrial relations at all units of the Company remain cordial and peaceful during the year. Your Company has not lost a single man day during the year and every member of the Company contributes to the Company's growth and reputation.

For and on behalf of the Board

Place : Ludhiana  
Dated : 30.06.2004

JANGI LAL OSWAL  
Chairman-cum-Managing Director



## MALWA COTTON SPINNING MILLS LIMITED

### CORPORATE GOVERNANCE REPORT

#### 1. Company's philosophy on Corporate Governance

Your Company has been practising the principle of good Corporate Governance since inception. Your Company in its attempt to be responsive to the stakeholder aspirations and quest for excellence has institutionalised best management practice. It places emphasis on integrity of internal control system and accountability and total compliance with all statutory/regulatory requirements.

In so far as compliance with requirements of clause 49 of the Listing Agreement with the Indian Stock Exchanges is concerned, the Company is in compliance with norms and disclosures required under Corporate Governance.

#### 2. Board of Directors

##### (a) Size and composition of Board

The Board comprises of eight directors out of which seven are non-executive Directors, five of whom are non executive independent Directors, Shri Jangi Lal Oswal, Chairman-cum-Managing Director is the Director in Executive capacity.

The details of the Composition of the Board, Number of Directorships in other companies and Committee position held by each of the directors in other companies as well as in Malwa Cotton Spinning Mills Limited are given below :

| S. No. | Name of the Directors                                     | Category                             | Number of directorship held in other companies* | Number of Board Committee Membership held | Number of Board Committee Chairmanship held |
|--------|---|--------------------------------------|---|---|---|
| 1      | Mr.Jangi Lal Oswal*<br>Chairman-cum-<br>Managing Director | Promoter/Executive Director          | 4   | -   | -   |
| 2      | Mr.Rishi Oswal**  | Non-Executive-Promoter Director      | 6   | -   | -   |
| 3      | Mr. Rahul Oswal **  | Non-Executive Promoter Director      | 2   | 1   | 1   |
| 4      | Mr. R. Krishnamurthy#                                     | Nominee of IFCI Independent Director | -   | -   | -   |
| 5      | Mr. V.S.Pandey ##   | Nominee of IFCI Independent Director | 6   | 6   | -   |
| 6      | Mr. G.Bansal  | Non-Executive Independent Director   | -   | 4   | 2   |
| 7      | Mr.B.S.Mann   | Non-Executive Independent Director   | -   | 3   | -   |
| 8      | Mr. Rajdeep Jain  | Non-Executive Independent Director   | 1   | 3   | -   |
| 9      | Mr. B. Das Gupta  | Nominee of IDBI Independent Director | 1   | 1   | -   |

\* Includes Directorship in Public Limited Companies

\*\* Mr. Rishi Oswal & Mr. Rahul Oswal are related to Mr. Jangi Lal Oswal

# Mr. R. Krishnamurthy appointed as Nominee director by IFCI w.e.f 28.08.2003 & withdrawn nomination on 27.11.2003

## Nomination of Mr. V.S. Pandey withdrawn w.e.f. 28.08.2003

##### b) Board Meetings

During the year ended 31<sup>st</sup> March,2004, eight Board Meetings were held on the following dates:

10<sup>th</sup> May,2003, 30<sup>th</sup> June,2003, 31<sup>st</sup> July,2003, 28<sup>th</sup> August,2003, 29<sup>th</sup> September, 2003, 31<sup>st</sup> October, 2003, 18<sup>th</sup> December, 2003 & 31<sup>st</sup> January,2004.

##### c) Directors Attendance Record

Attendance of Directors at Board Meetings and at Annual General Meeting (AGM).

| S.No. | Name of the Director | No.of Board Meetings held | No.of Board Meetings attended | Attendance at last AGM |
|-------|----------------------|---------------------------|-------------------------------|------------------------|
| 1     | Mr.Jangi Lal Oswal   | 8                         | 8                             | Yes                    |
| 2     | Mr.Rishi Oswal       | 8                         | 2                             | No                     |
| 3     | Mr. Rahul Oswal      | 8                         | 7                             | Yes                    |
| 4     | Mr. R. Krishnamurthy | 2                         | 1                             | No                     |
| 5     | Mr. V.S.Pandey       | 3                         | 3                             | No                     |
| 6     | Mr. G.Bansal         | 8                         | 8                             | Yes                    |
| 7     | Mr.B.S.Mann          | 8                         | 6                             | Yes                    |
| 8     | Mr. Rajdeep Jain     | 8                         | -                             | -                      |
| 9     | Mr. B. Das Gupta     | 8                         | 4                             | No                     |

##### d) Information supplied to the Board

The board of Company was presented with all the relevant and necessary information at their meetings such as Production, Sales, actual performance statistics, review of plant-wise business, share transfer and demat compliance, quarterly financial results, minutes of Audit Committee Meeting.

#### 3. Audit Committee

The Company has an Audit Committee of the board comprising five directors, all being Non-executive independent directors namely Mr. G. Bansal, Mr. V.S. Pandey, Mr. B. Das Gupta, Mr. B.S. Mann and Mr. Rajdeep Jain. Mr. G. Bansal a Non-executive independent director as the chairman of the Audit Committee. The Audit Committee, inter alia, provides reassurance to the Board on the existence of an effective internal control environment that ensures :

- Efficiency and effectiveness of operations.