

ANNUAL REPORT

2003-2004

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Modern
DENIM LIMITED

BOARD OF DIRECTORS

Shri H.S. Ranka	– Chairman
Shri Sachin Ranka	– Managing Director
Shri B.L. Verma	– Director
Shri P. Kar	– Nominee, IFCI
Shri V. Ramaswamy	– Nominee, GIC
Shri R.R. Maheshwari	– Director
Shri K.K. Baheti	– Director
Shri H.L. Sharma	– Director

Auditors

Messrs J.T. Shah & Company,
Chartered Accountants,
Ahmedabad-380009

Registered office

A-4, Vijay Path, Tilak Nagar,
Jaipur-302 004 (Rajasthan)

Corporate Headquarter

68/69, Godavari,
Poachkhanwala Road,
Worli, Mumbai-400 025

Plant

Village - Moriya
Distt. Ahmedabad-380015
(Gujarat)



NOTICE

Notice is hereby given that the 26th Annual General Meeting of **Modern Denim Limited** will be held on Thursday the 30th September, 2004 at 6.00 P.M. at Registered Office of the Company at A-4, Vijay Path, Tilak Nagar, Jaipur-302 004 to transact the following business :

- (1) To consider and adopt the Audited Balance Sheet as at 31st March, 2004 and the Audited Profit & Loss Account for the year ended on that date and the reports of the Board of Directors and Auditors thereon.
- (2) To appoint a Director in place of Shri B.L. Verma who retires by rotation and being eligible, offers himself for reappointment.
- (3) To appoint a Director in place of Shri K.K. Baheti who retires by rotation and being eligible, offers himself for reappointment.

- (4) To appoint Auditors and to fix their remuneration and in connection therewith to pass the following resolution with or without modifications, as an ordinary resolution :

“RESOLVED THAT pursuant to the provisions of Section 224(1) of the Companies Act, 1956, M/s. J.T. Shah & Co., Chartered Accountants, Ahmedabad be and are hereby re-appointed as Auditors of the Company to hold office from conclusion of this Annual General Meeting until the conclusion of the next Annual General Meeting of the Company, on such remuneration as may be determined by the Board of Directors of the Company.”

BY ORDER OF THE BOARD

Place: Mumbai
Date : 29.6.2004

(H.S. RANKA)
Chairman

NOTES :

1. **A MEMBER ENTITLED TO ATTEND AND VOTE IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF AND SUCH PROXY NEED NOT BE A MEMBER OF THE COMPANY.**
2. The proxy should be deposited at the Registered Office of the Company not less than FORTYEIGHT hours before the commencement of the meeting.
3. The Share transfer books and Register of members shall remain closed from 28.9.2004 to 30.9.2004 (both days inclusive).
4. **NO GIFTS SHALL BE DISTRIBUTED AT THE ANNUAL GENERAL MEETING.**

DIRECTORS' REPORT

The Members,

Your Directors present the 26th Annual Report and Audited Statement of Accounts for the year ended 31st March, 2004.

1. FINANCIAL RESULTS

	(Rs. in crores)	
	2003-2004	2002-2003
Gross Profit/(Loss) before Depreciation	(23.92)	(30.86)
Depreciation	22.25	18.18
Net Profit/(Loss)	(46.17)	(49.04)
Add : Exceptional items	34.42	-
Net Profit/(Loss) after exceptional items	(11.75)	(49.04)
Add : Balance brought forward from last year	(350.44)	(301.40)
Balance carried to Balance Sheet	(362.19)	(350.44)

2. OPERATIONS

The performance of your company during the year under review has improved. The turnover for the year under review was Rs. 99 crores as against Rs. 78 crores in previous year. The loss before depreciation has also reduced during the year under review to about Rs. 24 crores as against about Rs. 31 crores in last year. In absence of net profits, your directors are unable to declare any dividend for the year under review.

The market trend has now tilted from basic denim to fancy varieties viz. Lycra, Slub, Multicount, Soft and feather touch, tinted, mercerized denim etc. has given boost to the demand world over. Your company did all endeavour to optimize its bottom line by utilizing available manufacturing facilities for innovative qualities. However insufficient resources could not allow to reap the benefits to its fullest extent and the margins are still under pressure due to continuous rising trend of cotton prices. Your company is aware about stiff competition prevailing the global market and therefore aggressive steps have been initiated for over all reduction in cost, upgrading of quality and raising all round productivity.

3. EXPORTS

During this year the company has increased its sales in domestic market instead of international market because of lower price realization and stiff competition in global markets. The exports of the company during the year have been scaled down strategically since the ruling price of the exports continued to be non-remunerative due to depreciation in dollar and reduction in DEPB rates. The exports for the year under review was only about Rs. 8 crores.

4. FUTURE PROSPECTS

We foresee upsurge in demand during the ensuing year since growth in consumption worldwide is projected to the extent of about 7%. Roaring temptation for new varieties will further strengthen the product mix of the company. With quota dismantling due in 2005, global international brands are setting up offices in India. Company is optimistic about good future of denim industry. At the same time the growth in domestic market is also envisaged.

5. REFERENCE TO BIFR & RESTRUCTURING OF DEBTS

As reported last year, Hon'ble Board for Industrial & Finance Reconstruction (BIFR) issued Show Cause Notice for winding up. However, the Company as well as worker's Union challenged the decision of BIFR including change in appointment of Operating Agency by filing a petition in Gujarat High Court and the Hon'ble High Court granted interim stay on further proceedings which is still continuing.

In the meantime Company has again submitted a restructuring/settlement scheme to the secured lenders. Some of the secured lenders have already approved the settlement/restructuring scheme submitted by the Company which has resulted into write back of principal and interest during the year under review and have been included in the exceptional items. The Company is making continuous efforts for sanction of restructuring/settlement scheme with remaining lenders.

6. FIXED DEPOSITS

In view of petition filed by the Company, the Hon'ble Company Law Board has passed an order on 21.12.2001 that "The repayment of fixed deposits shall be made by the Company in accordance with the "revival scheme" as and when

approved by BIFR under the provisions of "SICA". However payment on compassionate ground are continued to be made as per the decision of the committee formed by Hon'ble Company Law Board for this purpose.

7. SUBSIDIARY COMPANY

In view of continuous losses since 1998-99, the entire capital of the Modern Europe Ltd. (MEL), a wholly owned subsidiary has been eroded and net value of investment became negative. The Company House of U.K. has issued an order for dissolution of the Company and the Company stand closed by order of the Registrar of Companies, U.K. Accordingly, Company has approached to Reserve Bank of India for its approval for the write off of investments made in MEL. RBI has accorded its approval and accordingly investments made in MEL have been written off. Therefore statement under section 212 of the Companies Act, 1956 has not been annexed to this report.

8. DIRECTORS

Shri B.L. Verma and Shri K.K. Baheti are liable to retire by rotation and being eligible, offer themselves for reappointment. The UTI withdrew the nomination of Shri K. Madhava Kumar & nominated Shri K.R. Ramamoorthy in his place and subsequently has withdrawn his nomination also as Director of the Company. GIC has also withdrawn the nomination of Shri P.S. Sheth and nominated Shri V. Ramaswamy in his place. The Board welcome Shri V. Ramaswamy and places on record its appreciation for the valuable contribution given by Shri K. Madhava Kumar and Shri P.S. Sheth during their tenure as Directors of the Company.

9. AUDITORS

M/s J.T. Shah & Co., Chartered Accountants, Ahmedabad retire at the forthcoming Annual General Meeting. Your Directors recommend their reappointment as Auditors of the Company for the year 2004-2005. The observation made by the Auditors are self explanatory and have been dealt with in the notes vide Schedule 15 forming part of the accounts and hence need no further clarifications.

10. INDUSTRIAL RELATIONS & PARTICULARS OF EMPLOYEES

Your Directors sincerely appreciate the workers, staff and officers for their putting best efforts at a time when Company is passing through bad industrial weather. The Company has enjoyed healthy & cordial relations throughout the year. There is no employee getting remuneration as prescribed under Section 217 (2A) of the Companies Act, 1956 read with Companies (Particulars of Employees) Rules, 1975 as amended.

11. DIRECTORS' RESPONSIBILITY STATEMENT

In terms of Section 217 (2AA) of the Companies Act, 1956, the Directors would like to state that :-

- in the preparation of the Annual Accounts, the applicable accounting standards have been followed;
- the Directors have selected such accounting policies and applied them consistently and made judgement and estimates that were 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 the year under review;
- the Directors have 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;
- the Directors have prepared the annual accounts on a going concern basis.

12. PARTICULARS OF ENERGY CONSERVATION, TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE OUTGO

The statement of particulars relating to energy conservation, technology absorption and foreign exchange earnings and outgo as required in accordance with Section 217(1)(e) of the Companies Act, 1956 read with Rule 2(A), 2(B), and 2(C) of the Companies (Disclosures of particulars in the report of Board of Directors) Rules, 1988 is annexed hereto and forms part of this report.

13. CORPORATE GOVERNANCE

The Company is making efforts for complying the provisions relating to Corporate Governance pursuant to clause 49 of the Listing Agreement with Stock Exchanges.

14. ACKNOWLEDGMENTS

The Board places on record its sincere thanks and gratitude for the assistance and continued co-operation that the Company has been receiving from the all India Financial Institutions, Banks as well as State and Central Government.

ON BEHALF OF THE BOARD

Place : Mumbai
Dated : 29th June, 2004

H.S. RANKA
Chairman

AUDITORS' REPORT

To The Members of
Modern Denim Limited

1. We have audited the attached Balance Sheet of MODERN DENIM LIMITED as at 31st March, 2004 and also the Profit & Loss Account and the Cash Flow Statement for the year ended on that date annexed thereto. These financial statements are the responsibility of the Company's Management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with auditing standards generally accepted in India. These Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. As required by the Companies (Auditors' Report) Order, 2003 issued by the Company Law Board in terms of Section 227 (4A) of the Companies Act, 1956, we enclose in the annexure a statement on the matters specified in paragraphs 4 and 5 of the said order.
4. Further to our comments in the annexure referred to in paragraph 1 above, we report that :
 - (i) We have obtained all the information and explanations, which to the best of our knowledge and belief, were necessary for the purpose of our audit.
 - (ii) In our opinion, proper books of account as required by law have been kept by the Company so far as appears from our examination of those books.
 - (iii) The Balance Sheet, Profit & Loss Account and Cash Flow Statement dealt with by this report are in agreement with the books of account.
 - (iv) In our opinion the Balance Sheet, Profit & Loss Account and Cash Flow Statement dealt with by this report comply with the accounting standards referred to in sub section (3C) of section 211 of the Companies Act, 1956;
 - (v) We further report that :
 - (a) Compound interest, Penal and liquidated damages in respect of all borrowings, have not been provided, amount of which is unascertainable, pending confirmations/reconciliation. (Note No. 7 of Schedule 15)
 - (b) Dividend for the year amounting to Rs. 110.75 lacs on cumulative redeemable preference shares has not been provided. The total amount of Dividend not provided till 31st March 2004 amounts to Rs. 886.00 Lacs. (Note No. 8 of Schedule 15).
 - (c) Provision for interest on certain Secured and Unsecured Loans amounting to Rs. 834.17

Lacs has not been made in accounts. The total amount of Interest not provided till 31st March, 2004 amounts to Rs. 3312.07 Lacs. (Note No. 9, 10 and 11 Schedule 15)

- (d) Balances of Debtors, Creditors, Advances and Loans etc. are subject to confirmation and reconciliation (Note No. 15 of Schedule 15).
 - (e) The accounts of the Company have been prepared on a going concern basis though the Board for Industrial and Financial Reconstruction (BIFR) has declared the Company as a sick Company.
 - (f) Pursuant to restructuring of some of the borrowings, the Company has taken credit of Rs. 2147.95 Lacs of Profit and Loss account as exceptional items; pending fulfilment of future obligations. (Note No. 18 of Schedule 15).
- We further report that, without considering items mentioned at para (a), (d) and (e) above the effect of which could not be determined, had the observations made by us in para (b), (c) and (f) above been considered, the loss for the year would have been Rs. 4157.52 Lacs (as against the reported figure of Rs. 1175.40 Lacs). Secured loans would have been Rs. 46775.33 Lacs (as against the reported figure of Rs. 41675.40 Lacs). Current Liabilities would have been Rs. 2741.39 Lacs (as against the reported figure of Rs. 1495.30 Lacs) and Debit Balance in Profit & Loss Account would have been Rs. 42365.71 Lacs (as against the reported figure of Rs. 36219.69 Lacs).
- (vi) The directors of the company are restricted from being appointed as director in other companies under clause (B) of Section 274(1)(g) of the Companies Act, 1956 as the Company has defaulted in payment of Deposits, Term Loans, Redemption of Debentures and interest thereon. As per expert opinion obtained by the Company, existing directors of the Company can continue to be in office during their entire tenure and they can also be re-appointed as a director on the expiry of their tenure.
 - (vii) Subject to the above, in our opinion and to the best of our information and according to the explanations given to us; the said accounts, read together with the notes thereon, give the information required by the Companies Act, 1956 in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India :
 - (i) In the case of the Balance Sheet of the state of affairs of the Company as at 31st March, 2004;
 - (ii) In the case of the Profit and Loss Account, of the loss of the Company for the year ended on that date; and
 - (iii) In the case of Cash Flow Statement, of the Cash Flow for the year ended on that date.

for J.T. SHAH & COMPANY
Chartered Accountants
(J.T. SHAH)
Partner
Membership No. 3983

Place : Ahmedabad
Date : 30.6.2004

ANNEXURE TO THE AUDITORS' REPORT

Referred to in paragraph 3 of our Report of even date to the Members of MODERN DENIM LIMITED:

1. The Company has maintained proper records showing full particulars including quantitative details and situation of Fixed Assets other than Furniture and Fixtures for which detailed records are not maintained.
2. As per the information and explanations given to us, the management at reasonable intervals during the year in accordance with a programme of physical verification physically verified the fixed assets and no material discrepancies were noticed on such verification as compared to the available records.
3. During the year, the Company has not disposed off any major/substantial part of the fixed assets.
4. The inventory has been physically verified during the year by the management. In our opinion, the frequency of verification is reasonable.
5. The procedures of physical verification of inventories followed by the management are reasonable and adequate in relation to the size of the Company and the nature of its business.
6. On the basis of our examination of the records of inventory, we are of opinion that the Company is maintaining proper records of inventory. The discrepancies noticed on verification between the physical stocks and books records were not material.
7. The Company has neither granted nor taken any loans, secured or unsecured, to and from companies, firms or other parties covered in the register, maintained under section 301 of the Companies Act 1956, and therefore the clauses (iii)(a), (iii)(b), (iii)(c) and (iii)(d) of the Companies (Auditor's Report) Order, 2003 are not applicable.
8. In our opinion and according to the information and explanations given to us, there are adequate internal control procedures commensurate with the size of the Company and the nature of its business with regard to purchases of inventory, fixed assets and with regard to the sale of goods. During the course of our audit, no major weakness has been noticed in the internal controls.
9. Based on the audit procedures applied by us and according to the information and explanations provided by the management, we are of the opinion that the transactions that need to be entered into the register maintained under section 301 have been so entered.
10. In our opinion and according to the information and explanations given to us, the transactions made in pursuance of contracts or agreements entered in the registers maintained under section 301 and exceeding the value of the five lakh rupees in respect of any party during the year have been made at prices which are reasonable having regard to prevailing market prices at the relevant time.
11. As per the information and explanations given to us, in respect of deposits accepted in earlier years, the compliance with the provisions of Section 58A and 58AA of the Companies Act, 1956 and rules framed there under are subject to the order passed by the Company Law Board on 05.12.2001 whereby the Company is required to make repayment of deposits and payment of interest thereon in accordance with the revival scheme to be approved by the Board for Industrial and Financial Reconstruction (BIFR) under the provisions of Sick Industrial Companies (Special Provisions) Act, 1985.
12. In our opinion, the Company has an internal audit system commensurate with the size and nature of its business.
13. We have broadly reviewed the books of account relating to materials, labour and other items of cost maintained by the Company pursuant to the Rules made by the Central Government for the maintenance of cost records under Section 209 (1) (d) of the Companies Act, 1956 and we are of the opinion that prima facie the prescribed accounts and records have been made and maintained.

14. According to the records of the Company, the Company is regular in depositing with appropriate authorities undisputed statutory dues including provident funds, employee's state insurance, income tax, sales tax, wealth tax, custom duty, excise duty, cess and other statutory dues applicable to it.
15. According to the information and explanations given to us, no undisputed amounts payable in respect of Income Tax, Wealth Tax, Customs Duty, Sales Tax and Excise Duty were outstanding as at 31st March, 2004 for a period of more than six months from the date they become payable.
16. On the basis of our examination of the records, following disputed statutory dues on accounts of excise duty have not been deposited with the appropriate authorities :

Name of the Statute	Nature of the Dues	Amount (Rs. in lacs)	Forum where dispute is pending
The Central Excise Act, 1944	Excise duty	28.51	Commissioner Appeals, Ahmedabad
- Do -	Excise duty	1097.61	The Central Excise and Service Tax Appellate Tribunal

17. The accumulated losses of the Company as at 31st March, 2004 are more than fifty per cent of its net worth. The Company has also incurred cash losses during the financial year covered by our audit and the immediately preceding financial year.
18. The Company has defaulted in repayment of instalments of dues to Financial Institutions, Banks and Debenture holders amounting to Rs. 32805.86 Lacs since 1997.
19. Based on our examination of documents and records and information and explanations given to us, the Company has not granted any loans and advances on the basis of security by way of pledge of shares, debentures and other securities.
20. The provisions of any special statute applicable of Chit Fund, Nidhi or Mutual benefit Funds/ Societies are not applicable to the Company.
21. The Company is not dealing or trading in shares, securities, debentures or other investments and hence, the requirements of para 4(xiv) are not applicable to the Company.
22. As per the information provided to us, the Company has not given any guarantee for loans taken by others from bank or financial institutions.
23. The Company has not taken any fresh term loan during the year under review.
24. The Company has not raised any long term or short term funds during the year under review.
25. During the year, the Company has not made any preferential allotment of shares to parties and companies covered in the register maintained under Section 301 of the Companies Act, 1956.
26. As per the information given to us, the Company has created security in respect of debentures issued in earlier years.
27. During the year, the Company has not raised any money by way of Public issues.
28. Based upon the audit procedures performed and information and explanations given by the management, we report that no fraud on or by the Company has been noticed or reported during the course of our audit.

for J.T. SHAH & COMPANY
Chartered Accountants
(J.T. SHAH)
Partner
Membership No. 3983

Place : Ahmedabad
Date : 30.6.2004