

ANNUAL REPORT

2005-2006

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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 A.K. Srivastava	– Nominee, IFCI
Shri V. Ramasaamy	– Nominee, GIC
Shri R.R. Maheshwari	– Director
Shri K.K. Baheti	– Director
Shri H.L. Sharma	– Director

Company Secretary

Shri Arvind A. Sudra.

Auditors

M/s J.T. Shah & Company,
Chartered Accountants,
Ahmedabad - 380 009

Registered office

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

Corporate Headquarter

68/69, Godavari,
Poachkhanwala Road,
Worli, Mumbai - 400 030

Plant

Village - Moriya
Distt. Ahmedabad - 380 015
(Gujarat)

NOTICE

Notice is hereby given that the 28th Annual General Meeting of **Modern Denim Limited** will be held on Saturday the 30th September, 2006 1.30 P.M. at Registered Office of the Company at A-4, Vijay Path, Tilak Nagar, Jaipur - 302 004 to transact the following business :

A. ORDINARY BUSINESS :

- (1) To consider and adopt the Audited Balance Sheet as at 31st March, 2006 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 (Arvind A. Sudra)
Dated : 7th June, 2006 Company Secretary

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 28.09.2006 to 30.09.2006 (both days inclusive).
4. NO GIFTS SHALL BE DISTRIBUTED AT THE ANNUAL GENERAL MEETING.

DIRECTORS' REPORT

The Members,

Your Directors present Annual Report and Audited Statement of Accounts for the year ended 31st March, 2006.

1. FINANCIAL RESULTS

	(Rs. in crores)	
	2005-2006	2004-2005
Net Profit / (Loss) before Tax	(16.59)	(32.63)
Fringe Benefit Tax	0.06	-
Net profit / (Loss) for the Year	(16.65)	(32.63)
Exceptional items	142.12	34.86
Balance brought forward from last year	(359.96)	(362.19)
Balance carried to Balance Sheet	(234.49)	(359.96)

2. OPERATIONS

From the few years, the market situation has gradually changed and demand is growing. This is because, denim is no longer remains restricted to only men's wear. There is greater acceptance among kids and women. In domestic market, Denim is finding wide acceptance in small cities and villages. Your Company had made all out efforts to take benefit of aforesaid opportunities with innovative qualities.

However during the second half of the year due to huge supply of grey cotton fabric dyed in various indigo colours by the unorganized sector at cheaper rates, disturbed the entire denim market apart from additional supply of denim fabrics by the new denim manufacturers, which has now created over supply situation in the domestic market particularly the price realization per meter at considerably low level.

During the year under review the ruling prices in the overseas market were non remunerative for our type of products due to flooding of cheaper denim fabrics by China, East Asian Countries, Pakistan and Bangladesh and therefore, during the year exports were not significant.

The total turnover for the year under review was Rs. 123 crores only as against Rs. 132 crores in the previous year. In absence of net profits your Directors are unable to declare any dividend for the year under review.

3. FUTURE PROSPECTS

The robust demand in the domestic market encouraged players to plan for massive capacity expansion in last few years. The substantial increase in the number of players in denim is a cause of worry and may lead to a glut in the market. Domestic demand is expected to grow at 20-25% whereas supply growth is expected to be in excess of 50%.

The market across the globe is fragmented in nature and it become tough to access the real size both in the demand as well as the supply side. China continue to be a threat not only in Export but also via imports in our domestic market. This obviously means pressure on prices and margins. However removal of quota restrictions and growing consumption in Asian countries along with the growing mall mania is likely to increase the demand of denim.

Our strategy to focus development of new designs in the conventional denim fabric is coming to our respite and being welcome in the medium segment of the market. As such your Company is hopeful to maintain its presence with competitive edge inspite of new entrants.

4. RESTRUCTURING OF DEBTS & REFERENCE TO BIFR

The Company has submitted proposal for settlement/restructuring of outstanding debts to all the secured lenders which includes re-schedulement of term loans, one time settlement, waiver of penal and compound interest, re-schedulement of redemption period of preference shares. Majority of secured debts have been settled. Settlement made during the year under review has resulted into write back of principal and interest which has been included in the 'exceptional items' shown under the financial results. The company is making continuous efforts for settlement of dues with the remaining lender and making regular payments to all the settled lenders as per settlement terms.

The Company has challenged the decision of Hon'ble Board for Industrial & Financial Reconstruction (BIFR) for change of operating Agency as also issue of show cause notice for winding up. The same is also being contested by the Company as well as Worker's Union before the Appellate Authority.

5. 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 CLB for this purpose.

6. DIRECTORS

Shri B.L. Verma and Shri K.K. Baheti are liable to retire by rotation and being eligible, offer themselves for reappointment.

7. 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 2006-2007. The observation made by the Auditors are self explanatory and have been dealt with in the notes vide Schedule 14 forming part of the accounts and hence need no further clarifications.

8. INDUSTRIAL RELATIONS & PARTICULARS OF EMPLOYEES

Your Directors sincerely appreciate the workers, staff and officers for putting their best efforts. 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.

9. 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 judgements 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.

10. 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.

11. CONSTITUTION OF AUDIT COMMITTEE

The Board of Directors has constituted an Audit Committee of Directors to exercise powers and discharge functions as stipulated in section 292 A of the Companies Act, 1956. The Audit Committee consists of member directors as under :-

Shri H.L. Sharma, Chairman
Shri B.L. Verma
Shri A.K. Srivastava

12. CORPORATE GOVERNANCE

The Company is making all efforts for complying the provisions relating to Corporate Governance pursuant to clause 49 of the Listing Agreement with Stock Exchange(s).

13. ACKNOWLEDGEMENTS

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 financial institutions, banks, employees, shareholders and Central as well as State Government.

ON BEHALF OF THE BOARD

Place : Mumbai
Dated : 7th June, 2006

(H.S. RANKA)
CHAIRMAN

ANNEXURE TO THE DIRECTORS' REPORT

Information as per Section 217(1)(e) read with the Companies
(Disclosure of particulars in the Report of Board of Directors) Rules, 1988.

1. ENERGY CONSERVATION :-

The Company has been giving high priority to conservation of energy on continuous basis by close monitoring of energy consuming equipments. The energy conservation measures taken by the Company include installation of energy efficient equipments and energy saving devices, implementation of various measures arising out of an energy audit and reduction of motor-ratings wherever possible. Periodical reviews and studies are undertaken from time to time for energy savings.

	Current Year	Previous Year
A. Power & Fuel Consumption :		
1. Electricity		
a) Purchased (Units in lacs)	118.71	82.59
Total Amount (Rs. in lacs)	572.39	405.39
Rate/Unit (Rs.)	4.82	4.91
b) Own Generation :-		
Through Diesel Generator (Units in lacs)	82.13	92.50
Units/Litres of Diesel Oil	3.53	3.63
Cost/Unit (Rs.)	7.89	6.55
2. Furnace Oil		
Quantity (KL)	2723.82	2681.89
Total Cost (Rs. in lacs)	460.46	335.19
Rate/ KL Unit (Rs.)	16.90	12.50
B. Consumption per unit of Production :		
Electricity (Kwh./mtr.)	1.24	1.19
Furnace Oil (Ltr./mtr.)	0.18	0.19

2. TECHNOLOGY ABSORPTION :-

Your company is having research and development cell headed by a senior and experienced textile technologist. The section is keeping continuous watch on the quality of the product at various stages. The R & D section also keeps a regular track on the latest advancement on the spinning and finishing technology in order to keep pace with the demand of the new products.

3. FOREIGN EXCHANGE EARNINGS AND OUTGO :-

The company has earned foreign exchange during the year of Rs. 37.96 Lacs against an outgo of Rs. 567.70 Lacs.