

ANNUAL REPORT

2001-2002

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Modern
THREADS (INDIA) LIMITED

BOARD OF DIRECTORS

| | | |
|----------------------|---|------------------------------|
| Shri H.S. Ranka | - | Chairman & Managing Director |
| Shri Sachin Ranka | - | Director |
| Shri G.C. Baveja | - | Director |
| Shri T.K. Sinha | - | Director |
| Shri R.R. Maheshwari | - | Director |
| Shri H.L. Sharma | - | Director |
| Shri K.K. Baheti | - | Director |
| Shri K.G. Somani | - | Executive Director |

BANKERS

State Bank of India
State Bank of Bikaner & Jaipur
Dena Bank
Vijaya Bank
State Bank of Patiala
State Bank of Saurashtra
Oriental Bank of Commerce
Allahabad Bank
Syndicate Bank
Punjab & Sind Bank
Canara Bank

AUDITORS

Messrs S.S. Surana & Co.,
Chartered Accountants,
Jaipur-302 015

REGISTERED OFFICE

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

CORPORATE HEADQUARTER

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

PLANTS

Yarn Division

Village Raila, Distt. Bhilwara (Rajasthan)

Woollens Division

Hamirgarh Road, Bhilwara-311 001 (Rajasthan)

Petrochemical Division

(Under implementation)

Village Bhensali, Distt. Bharuch (Gujarat)

NOTICE

Notice is hereby given that the 21st Annual General Meeting of **Modern Threads (India) Limited** will be held on Saturday the 28th September, 2002 at 4.30 PM at Registered Office of the Company at A-4, Vijay Path, Tilak Nagar, Jaipur-302 004 to transact the following business :

ORDINARY BUSINESS :

- (1) To consider and adopt the Audited Balance Sheet as at 31st March, 2002 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 T.K. Sinha who retires by rotation and being eligible, offers himself for re-appointment.
- (3) To appoint a Director in place of Shri K.K. Baheti who retires by rotation and being eligible, offers

himself for re-appointment.

- (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. S.S. Surana & Co., Chartered Accountants, Jaipur, be and are hereby re-appointed as Auditors of the Company to hold office from the conclusion of this meeting upto 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

H.S. RANKA

Chairman & Managing
Director

Place : Mumbai

Date : 29th June, 2002

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.
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 26th September, 2002 to 28th September, 2002 (both days inclusive).
4. NO GIFTS SHALL BE DISTRIBUTED AT THE ANNUAL GENERAL MEETING.

DIRECTORS' REPORT

The Members,

Your Directors present the 21st Annual Report and Audited Statement of Accounts for the year ended 31st March, 2002.

1. FINANCIAL RESULTS

| | (Rs. in Lacs) | |
|--|---------------|------------|
| | 2001-2002 | 2000-2001 |
| Profit/(Loss) before Depreciation | (5948.39) | (6769.08) |
| Less : - Depreciation | 1722.46 | 1717.38 |
| Net Profit/(Loss) for the year | (7670.85) | (8486.46) |
| Add : Balance brought forward from last year | (17020.37) | (8533.91) |
| Balance carried to Balance Sheet | (24691.22) | (17020.37) |

2. OPERATIONS

During the year under review the Company achieved a turnover of Rs. 111.81 Crores as against Rs. 147.58 Crores during the previous year. The Company has suffered loss before depreciation of Rs. 59.48 Crores during the year under review against Rs. 67.69 Crores during the previous year. The performance of the company was badly affected due to severe recessionary trend persisting in 'Textile Industry' and also due to shortage of working capital. Company suffered serious set back on account of the Strike by workmen of Yarn division. Oversupply situation in Textile Industry resulted in lower volume of Sales and Lower realisation which squeezed margins of your Company. In absence of profits your Directors are unable to declare any Dividend for the year under review.

The Company has two divisions and performance of each division is given hereunder :

YARN DIVISION

The Yarn Division of the Company at Raila, Bhilwara was incurring heavy losses due to depressed market conditions in synthetic blended yarn segment of 'Textile Industry' and consequently the available working capital was eroded to an extent that it was not possible to operate the plant. In view of recessionary trend prevailing in synthetic blended segment of textile industry, since last year it was also not possible to arrange job work to keep the plant in running condition. The workers of 'Yarn Division' under permanent employment were demanding full wages inspite of no work/partial work which Company was not in a position to pay. Workers of the Yarn division went on strike since 20.8.2001. Efforts made by management to settle the issue of strike were not successful due to arrogant attitude adopted by the workers and therefore the strike is continuing since then.

WOOLLENS DIVISION

During the year under review performance of 'Woollens Division' was also affected adversely due to depressed conditions prevailing in woollen and worsted yarn segment of Textile Industry. Low realisation on sales coupled with incremental cost of raw material and other inputs severely affected margins of this division. Efforts are made to reduce cost of production to meet with the present complex situation.

3. EXPORTS

During the year under review the Company could achieved export of Rs. 24.21 Crores. The fall in exports was mainly due to international recession and closure of production facilities at Company's Raila Plant. The efforts are being intensified to explore possibilities of selling products of the Woollens division in new international markets. 'Woollens Division' of the Company continues to be among large exporters of the woollen products.

4. FUTURE PROSPECTS

Although the general outlook for the textile industry is not promising but in view of Company's inherent strengths in the fields of manufacturing and market capabilities, future of 'woollens division' looks optimistic.

5. REFERENCE TO BIFR

As reported last year that the accumulated losses of the Company exceeded its entire net worth at the end of audited accounts for the year ended on 31.3.2001, the Company is covered under the definition of "Sick Industrial Company" in terms of Section 3(1)(o) of the Sick Industrial Companies (Special Provisions) Act, 1985 (SICA). Accordingly a reference to Board for Industrial and Financial Reconstruction (BIFR) under the provisions of SICA has been made and registered by BIFR. The reference of sickness is now under consideration of BIFR.

The Ajmer Vidyut Vitran Nigam Ltd. (AVVNL) had in the meantime, sealed the entire plant and machinery of the Raila Unit on 19.10.2001 due to non-payment of their arrears. The Hon'ble Rajasthan High Court has admitted a petition filed by the Company against the above seizure.

6. FIXED DEPOSITS

Since the Company has become 'Sick Industrial Company' as defined under section 3(1)(o) of Sick Industrial Companies (Special Provisions) Act, 1985 (SICA). Company filed a petition to CLB to pass an appropriate order so as to provide for repayment of fixed deposit in accordance with the revival scheme as and when approved by BIFR under the provisions of SICA and Hon'ble CLB has passed the order on 30.4.2002 that "The repayment of fixed deposits of Modern Threads (India) Limited 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. DIRECTORS

Shri T.K. Sinha and Shri K.K. Baheti are liable to retire by rotation and being eligible, offer themselves for reappointment. During the period under review IFCI Ltd. withdrew the nomination of Shri Ishtiaq Ali & nominated Shri N.K. Ramachandran in his place and subsequently has withdrawn his nomination as Director of the Company. Lt. Gen. Sagat Singh ceased to be Director due to his demise. The Board places on record its appreciation for the valuable contribution given by Shri Ishtiaq Ali, Shri N.K. Ramachandran and late Lt. Gen. Sagat Singh during their tenure as Director of the Company.

8. AUDITORS

M/s S.S. Surana & Co., Chartered Accountants, Jaipur retire at the forthcoming Annual General Meeting. Your Directors recommend their reappointment as Auditors of the Company for the year 2002-2003. 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.

9. INDUSTRIAL RELATIONS AND PARTICULARS OF EMPLOYEES

The Company has enjoyed healthy and cordial industrial relations throughout the period except that the workers of 'Yarn Division' under permanent employment went on strike demanding full wages inspite of no work/partial work which Company was not in a position to pay.

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.

10. 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 of 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 except Yarn Division of the Company which is not in manufacturing operation on account of labour problem.

11. 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.

12. CONSTITUTION OF AUDIT COMMITTEE

As required under section 292(A) of the Companies Act, 1956 an existing Audit Committee has been reconstituted. The present members of the Audit Committee are Shri T.K. Sinha, Shri G.C. Baveja and Shri H.L. Sharma.

13. CORPORATE GOVERNANCE

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

14. ACKNOWLEDGEMENTS

The Board place on record its sincere thanks and gratitude for the assistance and continued co-operation that the Company has been receiving from the financial Institutions working capital bankers, shareholders, employees and Central as well as State Government.

On Behalf of the Board

Place : Mumbai
Dated : 29th June, 2002

H.S. RANKA
Chairman

AUDITORS' REPORT

To the Members,

of Modern Threads (I) Limited

We have audited the attached Balance Sheet of MODERN THREADS (INDIA) LIMITED as at 31st March, 2002 and Profit & Loss Account of the Company for the year ended on that date, annexed thereto and report that :

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.

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 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.

1. As required by the Manufacturing and other Companies (Auditor's Report) Order, 1998 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 paragraph 4 and 5 of the said order.
2. Further to our comments in the Annexure referred to in paragraph 1 above, we state that :
 - (a) We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit.
 - (b) 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 such books.
 - (c) The Balance Sheet and Profit & Loss Account referred to in this report are in agreement with the books of account.
 - (d) In our opinion, the profit and loss account and balance sheet complied with accounting standards referred in Section 211(3C) of the Companies Act, 1956, except otherwise appearing in Schedule 15- Notes on accounts.
 - (e) The accounts of the company have been prepared on going concern basis. However Threads division of the Company is lying closed since 20.08.01 and appropriate provisions have been made for non-realizable assets.
 - (f) The directors of the company are restricted from being appointed as director under clause B Section 274 (1)(g) of the Companies Act, 1956. We have been informed that the company has decided to make representation to BIFR and the Central Government/Company Law Board seeking appropriate exemption from applicability of the section.

Referred to in paragraph 1 of Report of even date to the Members of MODERN THREADS (INDIA) LIMITED :

- (i) The Company has maintained proper records showing full particulars including Quantitative details and situations of its fixed assets other than furniture and fixtures for which detailed records are not maintained. According to the information and explanations given to us, the fixed assets were physically verified by the management except of Threads Division being under attachment by AVVNL, at reasonable intervals during the year in accordance with a programme of physical verification and no material discrepancies were noticed on such verification as compared to the available records.
- (ii) None of the fixed assets has been revalued during the year.
- (iii) As explained to us, physical verification except of Threads Division of the Company being under attachment of AVVNL, has been conducted by the management at reasonable intervals in respect of finished goods, including merchandise goods, stores, spare parts and raw material except stocks in transit and lying with third parties which have generally been confirmed.
- (iv) In our opinion and according to the information and explanations given to us, the procedures of physical verification of the stocks followed by the management, are reasonable and adequate in relation to the size of the company and the nature of its business.
- (v) According to the records produced to us for our verification, there were no material discrepancies noticed on physical verification of stocks as compared to book records and the same have been properly dealt with in the books of account.
- (vi) In our opinion and on the basis of examination, the valuation of stocks is fair and proper in accordance with the normally accepted accounting principles and is on the same basis as in the preceding year except valuation of work in process estimated at realisable value in case of Threads Division of the Company.
- (vii) The company has not taken any loans, secured or unsecured, from companies, firms or other parties listed in the register maintained under Section 301 of the Companies Act, 1956 and from the company under the same management, as defined under sub-section (1B) of Section 370 of the Companies Act, 1956.
- (viii) The company has not granted any loans, secured or unsecured, to companies, firms or other parties listed in the register maintained under Section 301 of the Companies Act, 1956. As explained to us there are no companies under the same management within the meaning of Section 370 (1B) of the Companies Act, 1956.
- (ix) In respect of other loans and advances given by the company, we have to state that in respect of interest free loans and advances in the nature of loans given by the company to its employees, recoveries are generally made as per the stipulations except in case of ex-employees where reasonable steps, as informed to us are being taken by the Company for recovery.
- (x) 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 nature of its business with regard to purchase of stores, raw materials including components, plant and machinery equipments and other assets and for sale of goods.
- (xi) According to the information and explanations given to us, there were no transactions of sale/purchase of goods and materials entered in the register maintained under Section

- (g) In our opinion and to the best of our information and according to explanations given to us said accounts, read together with Notes on Accounts as per schedule 15 and subject to :
 - (i) Note No. 1(i) regarding non-provision for leave entitlements and premium on redemption of debentures which are accounted for on cash basis.
 - (ii) Note No. 5, provision for gratuity during the year including for earlier years Rs. 64.10 lacs.
 - (iii) Note No. 7, regarding balances of debtors, creditors, advances and loans etc., are being subject to confirmation and reconciliation.
 - (iv) Note No. 11, regarding non-provision of interest amounting to Rs. 544.19 lacs on converted/ convertible into optionally fully convertible debentures.
 - (v) Note No. 12, regarding non-provision of interest amounting to Rs. 1017.97 lacs on debentures and term loans for PTA project.
 - (vi) Note No. 13, non-provision of interest amounting to Rs. 44.19 lacs on other deposits and loans etc..
 - (vii) Note No. 14, non-provision of penal and compound interest/liquidated damages, amount of which is unascertainable, pending confirmation/reconciliations with the Institutions/Banks.
 - (viii) Note No. 17, non-provision of dividend on cumulative redeemable preference shares amounting to Rs. 140.38 lacs.
 - (ix) Note No. 19, regarding non-verification of certain records of Threads division due to seizure of entire plant and office block by Ajmer Vidyut Vitran Nigam Ltd.
 - (x) Note No. 20, prior period debits Rs. 396.48 lacs and credits Rs. 146.64 lacs charged/ credited to respective heads.
 - (xi) Note No. 28, amount overdue to SSI Units if any not ascertainable.

The impact of above on the state of affairs and profit and loss account elaborately disclosed in respective paras of schedule 15.

give the information required by the companies Act, 1956 in the manner so required and give a true and fair view.

- (i) In the case of Balance Sheet, of the state of affairs of the company as at 31st March, 2002 and
- (ii) In the case of Profit & Loss Account, of the loss for the year ended on that date.

For S.S. SURANA & CO.

Chartered Accountants

R.N. Goyal
Partner

Place : Mumbai

Date : 29th June, 2002

ANNEXURE TO THE AUDITORS' REPORT

- 301 of the Companies Act, 1956 and aggregating during the year of Rs. 50,000/- or more with the parties as per register.
- (xii) As explained to us the Company has regular procedure for determination of unserviceable/ damaged stores, raw materials and finished goods. Adequate provision have been made in the accounts for the loss arising on the items so determined.
- (xiii) As per information and explanations given to us, the company has not accepted fresh deposits during the year. The compliance with the provisions of Section 58-A of the Companies Act, 1956 and the rules framed thereunder with regard to the deposits accepted earlier are subject to and as stated in Note No. 30 of Schedule 15.
- (xiv) In our opinion, the Company has maintained reasonable records for the sale and disposal of realisable scrap and waste. The Company has no by-product.
- (xv) The Company has an internal audit, which in our opinion, commensurate with the size and nature of its business.
- (xvi) We have broadly reviewed the cost records maintained by the Company pursuant to Section 209(1)(d) of the Companies Act, 1956 and are of the opinion that prima-facie prescribed records have been maintained. We have not however, made a detailed examination of such records, so as to ascertain whether they are accurate or complete.
- (xvii) According to the records of the company, Provident Fund and Employees State Insurance dues have been generally deposited in time with the appropriate authorities.
- (xviii) According to the information and explanations given to us, there were no undisputed amount payable in respect of Income Tax, Wealth Tax, Custom Duty, Sales Tax and Excise Duty outstanding as at the last day of the financial year for a period of more than six months from the date they became payable.
- (xix) According to the information and explanations given to us and on the basis of records examined by us, on test check basis, no personal expenses have been charged to revenue accounts other than those payable under contractual obligations or in accordance with generally accepted business practices.
- (xx) The Company is a Sick Industrial Company within the meaning of clause (O) of sub-section (1) of Section 3 of the Sick Industrial Companies (Special Provisions) Act, 1985. We have been informed that the Company has made reference to the Board for Industrial and Financial Reconstruction (BIFR).
- (xxi) In respect of processing activities, we report that :
 - (a) The Company has a reasonable system of recording receipts, issues and consumption of the materials commensurate with its size and nature of its business.
 - (b) As the processing jobs are undertaken at prices agreed with the parties, allocation of labour to individual jobs is not considered necessary by the management, and
 - (c) The Company has a reasonable system of authorisation at proper levels and an adequate system of internal control on issue and allocation of stores.
- (xxii) In respect of merchandise activities of the Company, as per the information and explanations given to us, there were no damaged goods.

For S.S. SURANA & CO.

Chartered Accountants

R.N. Goyal
Partner

Place : Mumbai

Date : 29th June, 2002