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35th Annual Report 2005-06

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ORIENT ABRASIVES LIMITED

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MANAGEMENT

BOARD OF DIRECTORS

Mr R K Rajgarhia,Chairman
Mr R S Bajoria
Mr T N Chaturvedi
Mr Umesh Kumar Khaitan
Mr S G Rajgarhia, Managing Director

BANKERS

UCO Bank
HDFC Bank

AUDITORS

S. R. Batliboi & Co.

REGISTERED OFFICE

1307, Chiranjiv Tower
43, Nehru Place
New Delhi-110 019

REGISTRAR & TRANSFER AGENT

Skyline Financial Services Pvt. Ltd.
123, Vinobapuri
Lajpat Nagar II
New Delhi – 110 024
Ph. : 011-29847136, 29833777
Fax. : 011-29848352
E mail : admin@skylinerta.com

WORKS

Abrasives Grains & Power Division :
GIDC Industrial Area,
Porbandar
Gujarat-360 577

Bonded Abrasives Divisions:
SP-148A, RIICO Industrial Area,
Bhiwadi, Dist. Alwar (Rajasthan)

Refractories Division :
SP-148B, RIICO Industrial Area,
Bhiwadi, Dist Alwar(Rajasthan)

Salem Division :
13/1B, Mullathopu
Mamangam Post
Salem
Tamil Nadu-636 302

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CONTENTS

Notice of Annual General Meeting	1
Directors' Report	7
Corporate Governance Report	11
Management Discussion & Analysis Report	18
Auditors' Report	21
Balance Sheet	24
Profit & Loss Account	25
Schedules to the Accounts (Schedule No. 1 to 22)	26
Notes to the Financial Statements (Schedule No. 23)	33
Cash Flow Statement	44

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NOTICE

To the Members of ORIENT ABRASIVES LIMITED :

Notice is hereby given that the 35th Annual General Meeting of the Members of Orient Abrasives Limited will be held at Vishwa Yuvak Kendra, Circular Road, Chanakyapuri, New Delhi – 110 021 on Wednesday, August 2, 2006 at 11.00 A.M. to transact the following business:

ORDINARY BUSINESS

1. To receive, consider and adopt the Audited Annual Accounts of the Company for the year ended March 31, 2006 and the report of the Directors and Auditors thereon.
2. To appoint a Director in place of Mr Tribhuvan Nath Chaturvedi who retires by rotation and being eligible offers himself for re-appointment.
3. To confirm the interim dividend paid on the preference shares for the year ended March 31, 2006.
4. To confirm the interim dividend paid on the preference shares for the period from April 1, 2006 to May 31, 2006 in connection with redemption of the preference shares on June 1, 2006.
5. To declare a final dividend on equity shares.
6. To appoint Auditors to hold office from the conclusion of this Annual General Meeting till the conclusion of next Annual General Meeting and to fix their remuneration.

SPECIAL BUSINESS

7. To consider, and if thought fit, to pass the following resolution with or without modification as a Special Resolution:

   "RESOLVED THAT subject to the provisions of Sections 198, 269, 309 and Schedule XIII and other applicable provisions of the Companies Act, 1956, approval of the members of the Company be and is hereby accorded to the appointment of Mr S G Rajgarhia as Managing Director of the Company for a further term of 5 years w.e.f. October 1, 2006 upon the terms and conditions set out below :

   1. Basic Salary – in the limits of Rs. 100000/- to Rs. 300000/- per month. In the first year it shall be Rs. 1 lac per month. Thereafter the Board of Directors shall fix annual increments every year within the above ceiling. First increment shall be due from April 1, 2007. Other allowances, bonus and perquisites linked with basic salary shall also proportionately increase.
   2. Bonus/Ex-gratia – 20% of basic salary
   3. Perquisites :
      a) Housing - Rent free furnished accommodation or house rent allowance in lieu thereof, either of which shall be subject to a maximum value of 50% of the basic salary.
      b) Medical reimbursement – reimbursement of medical expenses incurred by self and dependant family members subject to a ceiling of one month's salary in an year or three months' salary over a period of three years.
      c) Leave travel allowance – reimbursement of traveling expenses incurred by self and dependent family members once an year subject to a ceiling of one months' basic salary.
      d) Payment of club membership fees, credit card subscription and periodic bills and other recreational expenses subject to a ceiling of Rs. 20000/- per month.
      e) Provision of chauffer driven car (s) for official and personal purposes; Provision of telephone and internet at home and mobile phone. These facilities, to the extent used for official purposes, as far as can be ascertained, shall not be considered in the computation of limits of remuneration being approved herein.

   The total of perquisites listed from 3 (a) to 3 (e) shall not exceed 100 percent of the basic salary mentioned at 1 above.

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4. Company's contribution to Provident Fund, Super-annuation Fund, Annuity fund to the extent these either singly or put together are not taxable under the Income Tax Act, 1961, gratuity payable at a rate not exceeding half month's salary for each completed year of service and encashment of leave at end of the tenure shall not be included in the above limits of remuneration provided it is within the limits of section I of Part II of Schedule XIII and also shall not be included in the limits of minimum remuneration, if any, becoming payable in the event of loss or inadequacy of profits remuneration herein.

5. Commission – over and above the remuneration mentioned aforesaid, at the rate of 2 % of the net profits or such other percent as the Board of Directors may fix every year, provided that the total remuneration including basic salary, bonus, perquisites and commission shall be within the overall limits laid down in Section 198 and 309 of the Companies Act, 1956.

FURTHER RESOLVED THAT in the event of loss or inadequacy of profit in any financial year during the tenure of Mr. S G Rajgarhia as Managing Director, the remuneration and perquisites as given above or such remuneration as would be permissible under paragraph 1 (B) of Section II in Part II of Schedule XIII, having regard to the effective paid up capital of the Company, shall be paid to him as minimum remuneration for a period of three years from the date of appointment."

8. To consider, and if thought fit, to pass the following resolution with or without modification as a Special Resolution:

"RESOLVED THAT the members of the Company do hereby accord their approval under section 314 (1) and other applicable provision of the Companies Act, 1956, to the appointment of Ms Anisha Mittal, daughter of Mr. S G Rajgarhia, Managing Director of the Company, who holds an office of profit in the Company, for holding and continuing to hold the office or place of profit as Vice President (Corporate) or such other designation the management may assign in due course under a contract of service and at such remuneration as the Board of Directors has fixed or may vary in due course subject to a maximum remuneration not exceeding Rs. 50000 per month inclusive basic salary, other monthly allowances and perquisites and benefits in whatsoever form given.

FURTHER RESOLVED THAT the Board of Directors be and is hereby authorized to vary the terms of appointment including remuneration in due course without approval of the members provided that the total remuneration including all perquisites and allowances accruing from such office of profit shall not exceed Rs. 50000 a month."

9. To consider, and if thought fit, to pass the following resolution with or without modification as a Special Resolution :

"RESOLVED THAT pursuant to the provisions of section 294, 294 AA and all other applicable provisions of the Companies Act, 1956 and subject to the approval of Central Government, the members of the Company do hereby approve the terms and conditions of the Business Organisation Agreement between Orient Abrasives Ltd. and Grindwell Norton Ltd., a copy of which duly initialled buy the Chairman for the purpose of identification was placed before this meeting, to the extent they purport to imply an appointment of sole selling agent for the bonded abrasives (grinding wheels) in the present markets of the Company in the entire territory of India for a period from June 1, 2006 to July 31, 2006 or such extended period as the Board of Directors of the Company and the said Party may mutually determine provided however that in any case such period does not go beyond 6 months.

FURTHER RESOLVED THAT the Board of Directors be and is hereby authorized to effect such modifications in the terms and conditions in the purported appointment as may be approved by the Central Government and agreed to by the Board of Directors and the said sole selling agent by implication."

for ORIENT ABRASIVES LIMITED

Place : New Delhi
Date : May 29, 2006

Deepak C S
Company Secretary

NOTES :

1. A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF/HERSELF AND THE PROXY NEED NOT BE A MEMBER OF THE COMPANY. PROXIES IN ORDER TO BE EFFECTIVE MUST REACH THE REGISTERED OFFICE OF THE COMPANY NOT LESS THAN 48 HOURS BEFORE THE MEETING.

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2. THE REGISTER OF MEMBERS AND SHARE TRANSFER BOOKS OF THE COMPANY WILL REMAIN CLOSED FROM JUNE 22, 2006 (THURSDAY) TO JUNE 29, 2006 (THURSDAY) - BOTH DAYS INCLUSIVE. DIVIDEND ON EQUITY SHARES, IF DECLARED AT THE ANNUAL GENERAL MEETING, SHALL BE PAYABLE TO ALL THOSE MEMBERS WHOSE NAMES APPEAR ON THE REGISTER OF MEMBERS AS ON JUNE 29, 2006 IN THE CASE OF THOSE HOLDING IN PHYSICAL MODE AND TO ALL THOSE WHOSE NAMES APPEAR IN THE LIST TO BE FURNISHED BY THE DEPOSITORIES AS AT THE CLOSING HOURS OF JUNE 21, 2006 IN THE CASE OF THOSE HOLDING IN DEMAT MODE.

3. THE AMOUNT OF DIVIDEND REMAINING UNPAID FOR THE YEARS 2002-03, 2003-04 AND 2004-05, AND TRANSFERRED TO THE COMPANY'S UNPAID DIVIDEND ACCOUNT, CAN BE CLAIMED FROM THE COMPANY BY THE MEMBERS ENTITLED TO IT FOR A PERIOD OF SEVEN YEARS FROM THE RESPECTIVE DATES OF SUCH TRANSFER AFTER WHICH IT SHALL BE TRANSFERRED TO THE INVESTOR EDUCATION AND PROTECTION FUND CONSTITUTED UNDER SECTION 205 (C) OF THE COMPANIES ACT, 1956.

4. THE COMPANY SUB-DIVIDED THE FACE VALUE OF EQUITY SHARES FROM RS. 10 TO RE. 1 W.E.F. AUGUST 24, 2005. MEMBERS WERE ADVISED THROUGH A CIRCULAR DATED AUGUST 8, 2005 TO SURRENDER THEIR OLD SHARE CERTIFICATES FOR EXCHANGE WITH THE NEW ONES. MEMBERS WHO HAVE NOT ALREADY EXCHANGED THEIR OLD CERTIFICATES WHICH ANYWAY CEASED TO BE VALID FROM THAT DATE, MAY DO SO BY SENDING THE OLD CERTIFICATES TO THE REGISTERED OFFICE OF THE COMPANY. THE OLD CERTIFICATES ARE BEING ASKED FOR TO VERIFY GENUINENESS AND TO PROCURE INDEMNITY IN THE CASE OF LOST SHARE CERTIFICATES.

5. THE MEMBERS ARE REQUESTED TO GET THEIR SHARES DEMATERIALISED. THE COMPANY'S NEW ISIN CODE IS INE569C01020 PURSUANT TO CHANGE IN FACE VALUE.

6. MEMBERS CAN AVAIL NOMINATION FACILITY IN RESPECT OF THEIR SHAREHOLDINGS BY APPLYING IN FORM 2 B OF COMPANIES (CENTRAL GOVERNMENT'S_ GENERAL RULES & FORMS, 1956. THE SAID FORMS CAN BE OBTAINED FROM THE REGISTRAR OF THE COMPANY ON APPLICATION.

7. MEMBERS ARE REQUESTED TO FILL UP THE ECS MANDATE FORM PROVIDED WITH THIS REPORT AND SUBMIT TO THE REGISTRAR AT THE EARLIEST FOR THE PURPOSE OF DIVIDEND CREDIT.

8. EXPLANATORY STATEMENT AS REQUIRED UNDER SECTION 173(2) OF THE COMPANIES ACT, 1956 IN RESPECT OF ITEM NOS. 7 TO 9 IS ANNEXED.

EXPLANATORY STATEMENT AS REQUIRED UNDER SECTION 173 (2) OF THE COMPANIES ACT, 1956 IN RESPECT OF ITEM NO. 7 TO 9.

ITEM NO. 7

Mr. S G Rajgarhia's present term in the office of Managing Director would come to an end on September 30, 2006. The Board of Directors has felt that it is in the interest of the Company to reappoint him for a further period of 5 years w.e.f. October 1, 2006 considering the contribution made by him in the past years in taking the Company to its current position in the industry.

Accordingly a fresh agreement dated May 29, 2006 was entered into between the Company and Mr Rajgarhia subject to members' approval, appointing him as Managing Director for a further term of 5 years. According to Schedule XIII of the Companies Act, 1956, this appointment requires members' approval by way of ordinary resolution. However to provide for minimum remuneration in the event of loss or inadequacy of profits in any year, a special resolution is required to be passed by the members approving payment of remuneration for 3 years. The proposed special resolution combines both the appointment and payment of minimum remuneration. After a period of three years, the Board of Directors may again approach the members for provision of minimum remuneration. However the appointment and payment of remuneration in the case of sufficient profits shall remain intact for 5 years.

The information required to be given as per paragraph 1 (B) (iv) of Section II of Part II of Schedule XIII of the Companies Act, 1956 in the context of above appointment is given below :

I GENERAL INFORMATION

1) Nature of Industry :

The Company's activities can be classified under the engineering industry. It has three business divisions

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including the Bonded Abrasives Division which is being sold to a competing corporate entity. The other divisions are the Abrasive Grains Division which manufactures fused and calcined alumina grains and the Refractory Division which manufactures refractory and monolithic products.

2) Commencement of Commercial Production

Commercial production of Abrasive Grains Division commenced in January 1975. The Bonded Abrasives Division commenced production in November 1980 while Refractory Division commenced commercial production in November 1985.

3) The financial performance for the year ended March 31, 2006 :

	(Rs. in lac)
Gross sales and income	18508.93
Operating profit	2958.78
Net profit	1573.81
EPS	2.59

II INFORMATION ABOUT THE APPOINTEE

Mr S G Rajgarhia, aged 59 years, is a successful entrepreneur and an accomplished industrialist having over 35 years of experience. He is a chemical engineer by profession; did his post graduate studies in USA acquiring a Masters degree from Massachusetts Institute of Technology (USA). He has been associated with the Company since inception and has been the Executive/Managing Director for the last more than 33 years.

Mr. Rajgarhia has managed the Company competently over the past years and helped it in becoming a successful business entity in the industry. His vast industrial experience and technical and commercial knowledge of the products helped the Company in enduring the difficult phases posed by industrial recession, financial problems, natural calamities and labour problems. Over the years the total turnover and profit have increased manifold. At present the gross turnover is about Rs. 185 crore and the gross profit for the year 2005-06 was about Rs. 22 crore.

Mr S G Rajgarhia is the Managing Director of the Company. He takes all the key policy decisions in consultation with the senior management team and under the supervision of the Board of Directors of the Company. He manages the affairs of the entire Company and also oversees the major day to day events in the Company. Heads of all the functional divisions and departments report to him on such periodic intervals as instructed.

The remuneration proposed to be paid to him is mentioned elsewhere in this Annual Report. The remuneration paid to him during the financial year 2005-2006 is as under :

	(Rs. in lac)
Total remuneration	38.49

The remuneration being paid by other comparable entities in the industry to their Managing Director is as under. The figures have been drawn from the published annual reports :

Name of Company	Turnover (Rs. crore)	Remuneration (Rs. Lac)
Carborundum Universal Ltd.	356.46	56.69
Vesuvius India Ltd.	195.88	44.06
IFGL Refractories Ltd.	113.87	62.80
Grindwell Norton Ltd.	360.49	108.90

Pecuniary relationship & relationship with managerial persons –

Mr S G Rajgarhia's pecuniary relationship is limited to the remuneration including commission he receives in the capacity of Managing Director and the dividend or other benefits accruing to shareholders to the extent of his shareholding.

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He is related to Mrs. Usha Rajgarhia, as husband and to Mrs. Anisha Mittal, as father, both employees of the Company.

III OTHER INFORMATION

The profit of the Company during the financial year 2005-06 is adequate and it is expected that the Company will perform satisfactorily in the coming years making provision of minimum remuneration redundant.

However, there could be events or external factors beyond the control of the Company which would influence Company's profitability. Hence it is necessary to provide for minimum remuneration to adequately compensate the Managing Director in case of any such eventuality.

IV DISCLOSURES

The remuneration package is already explained in the foregoing paragraphs. The report on Corporate Governance which forms part of this Annual Report also gives various details related to remuneration and contract of service as required.

The Board of Directors recommends that his appointment be unanimously approved by the members. The appointment and the remuneration have been approved by the remuneration committee in its meeting held on May 29, 2006.

No director of the Company except Mr. S G Rajgarhia himself and Mr. R K Rajgarhia is interested or concerned in the resolution.

This may also be treated as an abstract of the terms of the contract between the Company and Mr. S G Rajgarhia and of the memorandum of interest under section 302 of the Companies Act, 1956.

The said contract is open for inspection on all working days during business hours at the registered office of the Company.

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ITEM NO. 8

Ms. Anisha Mittal, aged about 31 years, is a commerce graduate with honours with a Masters in Business Administration degree from University of Pittsburgh, USA. She is the daughter of Mr S G Rajgarhia, the Managing Director. She was appointed as Vice President (Corporate) from February 14, 2005 by the Board of Directors.

Before joining the Company she worked with Ernst & Young both in India and in the United States for about 8 years. Ms. Mittals' sincerity, dedication and competence came to be noticed and appreciated by the Board of Directors which in the meeting held on May 29, 2006 decided to increase her remuneration and seek members' approval by way of special resolution as required by section 314 (1) of the Companies Act, 1956 for paying her upto Rs. 50000 a month.

The proposed special resolution for the same. Your directors recommend passing of the resolution with requisite majority.

None of the Directors except Mr S G Rajgarhia is concerned or interested in the resolution.

ITEM NO. 9

It may be recalled that vide a resolution passed through postal ballots on January 27, 2006, the members had kindly consented to a proposal under section 293 (1) (a) of the Companies Act, 1956 to sell the Bonded Abrasives Division of the company to Grindwell Norton Ltd. Subsequently final agreements were entered and it was decided that the Division shall be transferred on August 1, 2006 or on such extended date, as may be mutually decided. As stipulated in certain clauses of the agreement, there is a Business Organization Agreement under which products manufactured by the said Division during an intervening period of June 1, 2006 to July 31, 2006 would be primarily sold to the said Grindwell Norton Ltd. The draft of the said agreement is ready and it is likely to be executed by the parties very shortly. This is the agreement referred to in the resolution. The period of the Agreement may be extended by mutual consent as the Board of Directors of the Company and the said Grindwell Norton Ltd. may mutually determine.

Such an arrangement, however attracts the provisions of sub section 3 of section 294 (AA) of the Companies Act, 1956, and may be construed as an appointment of sole selling agent requiring approval of members through

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special resolution and subsequent approval of the Central Government. The members may note that the Company does not intend to appoint any sole selling agent for commercial purposes and just in order that abundant compliance of the legal provisions be made and any potential violation be avoided, approval of members is being sought. The business organization arrangement and the implicit appointment of the sole selling agent is expected to come to an end on July 31, 2006 before this resolution would come up to the members for their consideration. However, to complete the legal formalities, after obtaining members approval, if any, the Company would go on to make an application to the Central Government even though the subject agreement may not be in force by that time.

Your Board of Directors recommends passing of the resolution unanimously.

None of the Directors of the Company is deemed to be concerned or interested in the resolution.

Brief resume of the Directors being re-appointed :

1. Mr Tribhuvan Nath Chaturvedi

Name	:	Mr Tribhuvan Nath Chaturvedi
Date of Birth	:	15/01/1959
Date of Appointment	:	30/07/2001
Expertise in field	:	Mr T N Chaturvedi is a chartered accountant qualified in the year 1987. He is a senior partner of a reputed Chartered Accountants' firm having more than 19 years of experience in institutional finance, corporate restructuring, financial due diligence, auditing, corporate law and taxation. He is on the Board of Directors of several well known listed companies and is also chairman of their audit committees.
His Directorship in other Companies	:	1. Perfectpac Ltd. 2. IVRCL Infrastructures & projects Ltd. 3. Hindustan Dorr – Oliver Ltd. 4. Perfect Softech Pvt. Ltd. 5. Chaturvedi Merchant Bankers Pvt. Ltd. 6. Jubilant Enpro Pvt. Ltd. 7. Surya Global Lighting Ltd. 8. Universal Cylinders Ltd.
His Committee membership in Orient Abrasives Ltd.	:	Chairman – Audit Committee, Remuneration Committee Member – Share Transfer Committee
His Committee membership in other Companies	:	IVRCL Infrastructures & Projects Ltd.- in following Committees : 1. Chairman – Share transfer & Investors Grievances Committee 2. Member - Compensation Committee 3. Member - Audit Committee
His shareholding in the Company		NIL

for ORIENT ABRASIVES LIMITED

Place : New Delhi
Date : May 29, 2006

Deepak C S
Company Secretary

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DIRECTORS' REPORT

The Members,

Orient Abrasives Limited

Your Directors have pleasure in presenting the 35th Annual Report of the company along with the Audited Statements of accounts for the year ended 31st March, 2006.

FINANCIAL RESULTS

	(Rs.in lacs)	
	2005-06	2004-05
Gross Sales & Income	**18508.93**	16850.47
Profit before depreciation, Interest and Income-tax	**2958.78**	3269.20
Less : Depreciation	**472.73**	381.07
Interest	**259.96**	186.86
Profit before Income Tax	**2226.09**	2701.27
Less : Provision for Income Tax	**(490.00)**	(715.00)
Less : Fringe Benefit Tax	**(23.65)**	–
Add/(Less) : Deferred Tax Credit/(Liability)	**(193.52)**	42.05
Add : Income-tax Refund for Earlier Years	**54.89**	31.92
Net Profit for the year	**1573.81**	2060.24
Add : Balance brought forward from the previous year	**1087.52**	786.70
Amount available for appropriation	**2661.34**	2846.94
Appropriation :		
General Reserve	**980.01**	1250.00
Dividend :		
Preference Shares	**24.00**	28.00
Equity shares	**418.74**	418.74
Corporate Dividend Tax	**62.09**	62.68
Balance carried forward to Balance Sheet	**1176.50**	1087.52
	2661.34	2846.94

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DIVIDEND

Preference Shares

Your Board of Directors declared an interim dividend @ 6% on the 4,00,000 cumulative preference shares of Rs. 100 each for the financial year 2005-06 and for the two months' period ended on May 31, 2006 of the current year. These interim dividends were paid on June 1, 2006 and June 3, 2006 respectively pursuant to decision taken at the Board Meeting held on May 29, 2006. The said preference shares were redeemed in full on June 1, 2006.

Total cash outflow including distribution tax in respect of above interim dividends is Rs. 27.37 lac and Rs. 4.56 lac respectively.

The members are requested to pass resolutions confirming these dividend payments.

Equity Shares

In view of the satisfactory performance of the Company in the year under review, your directors are pleased to recommend a final dividend @ 70% i.e. Re. 0.70/- per equity share for the year ended on March 31, 2006.

The total cash out-flow on account of this dividend payment including distribution tax is Rs. 477.47 lac (Previous Year Rs. 337.42 lac).

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SUB-DIVISION OF EQUITY SHARES

Face value of the equity shares of the Company was subdivided from Rs. 10 to Re. 1 w.e.f. August 24, 2005.

REDEMPTION OF PREFERENCE SHARES

The 4,00,000 cumulative preference share of Rs. 100 each aggregating Rs. 4,00,00,000/- were redeemed on June 1, 2006 pursuant to the decision taken at the Board Meetings held on April 18, 2006 and May 29, 2006. Accumulated dividend @ 6% p.a. down to the date of redemption was also paid along with the redemption amount.

The Board of Directors had been authorized by the Articles of Association of the Company to redeem the preference shares at any time after 3 years but before 20 years from the date of issue of the preference shares. These preference shares had been issued on 31/03/1997 (356300 shares) and 28/05/1997 (43700 shares). The Board of Directors had felt it to be the right time for redemption in view of the healthy financial position of the Company.

SALE OF BONDED ABRASIVES DIVISION

As the members are aware of, during the year under review the Company decided to sell its business of grinding wheels (Bonded Abrasives Division) to an existing Company. In this regard, the approval of members was obtained by a resolution passed through postal ballots on January 27, 2006 and a final agreement was entered between the parties on April 18, 2006, according to which the business is expected to be transferred with effect from August 1, 2006. As per the agreement, the Company shall receive a consideration of Rs. 27.50 crore, subject to adjustment on account of net working capital. The consideration assumes net working capital on June 1, 2006 to be in the range of Rs. 6.50 crores to Rs. 7.50 crores. The consideration shall be reduced by the amount of deficit in the net working capital as on June 1, 2006 from Rs. 6.50 crore and shall further be increased or decreased as the case may be, by the amount of difference in net working capital between the date of transfer and June 1, 2006.

The sale proceeds is proposed to be deployed in augmenting the working capital and also in part financing its future capital expenditure including the installation of a captive thermal power plant with a capacity of 9 MW.

After the sale of the Bonded Abrasives Division, the Company will focus on its core businesses namely Abrasive Grains, where the Company is the largest producer in India and Refractories and Monolithics which promises significant potential for growth.

OPERATIONS REVIEW

Your Company achieved satisfactory results in the first three quarters and maintained the steady progress it had made in the last few years. However in the last quarter, the operations of the Company were adversely affected as a result of temporary closure of the Porbander Division on February 21, 2006 following a directive of the Gujarat Pollution Control Board. The Company appealed to the Hon'ble High Court of Gujarat to grant relief and the Hon'ble Court heard the submissions and kindly allowed resumption of industrial activity. The plant resumed operations on April 6, 2006. On account of the close down the Abrasives Grains Division incurred losses.

The gross turnover of your Company for the year under review was Rs. 185.08 crore as compared to Rs. 168.50 crore for the preceding year. The Gross profit for the year under review was Rs. 22.26 crore and the net profit Rs. 15.74 crore as against Rs. 27.01 crore and Rs. 20.60 crore respectively of the previous year. The Company could not contain the increased manufacturing costs especially on account of power and fuel with a corresponding increase in sale price. This coupled with the problem of Porbander plant resulted in the decrease in profit.

The Refractory Division performed well yet again and increased its turnover to Rs. 108.17 crore from Rs. 92.40 crore in the previous year. There was also an increase in the export turnover with an increase in the number of customers in new geographical markets.

The Bonded Abrasives Division which is being disposed of in the current year, also made a steady progress with an 18% growth in revenues.

The Power Division continues to meet the energy needs of the Abrasives Grains Division. However the price of furnace oil, the fuel used by the Plant, increased by about 45-50% over the last one year. This resulted in a substantial increase in cost of power generation by the division.

The Abrasives Grains Division's revenue reduced from Rs. 79.39 crore to Rs. 77.72 crore during the year under review. The furnace oil factor was the main cause of the abnormal increase in cost of production of this Division.

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