



RICH A KNITS LIMITED
ANNUAL REPORT 2006

**RICHA KNITS LIMITED****ANNUAL REPORT 2005 - 2006****Board of Directors**

Mr. Subhash Gupta	Chairman
Mr. Sushil Gupta	Managing Director
Mr. Sandeep Gupta	Jt. Managing Director
Mr. Manish Gupta	Director
Mr. Neeraj Bajaj	Independent Director
Mr. S C Gupta	Independent Director

Auditors

Tayal & Co.
Chartered Accountants, Faridabad

Bankers

Indian Overseas Bank

Registered Office

Plot No - 5, Sector-7,
IMT, Manesar
Gurgaon-122050, (Haryana), India
Website : www.richaknits.com,
E mail : richa@richaknits.com
Ph. : 91-124-4175800

Works

1. I-16, DLF Industrial Area,
Faridabad-121003, (Haryana), India
2. Plot No 5, Sector-7,
IMT Manesar
Gurgaon-122050, (Haryana), India
3. Plot No 4, Sector-7,
IMT Manesar
Gurgaon-122050, (Haryana), India

Company Secretary

Mr. Sanjeev Sharma

Audit Committee

Mr. Neeraj Bajaj Chairman
Mr. S C Gupta
Mr. Sandeep Gupta

Remuneration Committee

Mr. Neeraj Bajaj
Mr. S C Gupta
Mr. Subhash Gupta

Shareholders/Investors Grievance Committee

Mr. Neeraj Bajaj
Mr. S C Gupta
Mr. Subhash Gupta
Mr. Sanjeev Sharma Compliance Officer

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**RICHA KNITS LIMITED****ANNUAL REPORT 2005 - 2006****CHAIRMAN'S LETTER*****ANOTHER EVER HIGHEST MILESTONE***

Dear Shareholders

It has been my privilege to have provided leadership to your company. It is our vision to make Richa, the India's most valuable corporations through world class performance. This difficult strategy has led us to choose multiple drivers of growth by matching proven internal capabilities with emerging market opportunities. It is a matter of great satisfaction and deep pride that this year also the company has shown a growth of 63% in sales along with a remarkable increase in profit figures thereby increasing shareholders value.

In spite of the general apprehensions that the ride from quota regime to non quota regime may not be all that smooth, but it has opened the doors of competitiveness, which in turn has given birth to quality goods, a way to new investments, less priced goods to the customers having the world class features, product varieties, opportunities. No doubt this year was very competitive due to phasing out of Multi Fiber Arrangements, but your company has converted the challenges into opportunities, strengthened ourselves even much more to phase out easily the new challenges in coming future.

This year the company has also achieved another milestone of highest sales of Rs 4051.19 Lac as compared to previous year of Rs 2452.13 Lac, a growth of 63%, increase in profits before tax from Rs 139.86 Lac to Rs 526.45 Lac, a growth of 276%. This only due to the company has faced the challenges, the way it had thought, taken the benefits of post quota regime, economies of scale. It only the above figures that the company has further started its workings on a new project. It is wrong to say new project, in fact a world class new project, almost all machines with latest technology, latest plans, a dream plant for the company.

Your company has always kept in mind the social purposes while pursuing the business objectives. It's the spirit of commitment that the company is here. Quality of human resources, their unmatched commitment, support of the Board, trust of the customers, honesty of all of ours, government supportive policies has led your company into one of known personality in the industry. It has been my rare privilege for me to have led your company over these eventful years, a period that has witnessed transformational change.

I seek your continued support in our efforts to take your company to new heights in the future.

Your sincerely

Sd/-

Subhash Gupta

Chairman

**RICHA KNITS LIMITED****ANNUAL REPORT 2005 - 2006****DIRECTORS' REPORT****TO THE MEMBERS OF
RICHA KNITS LIMITED**

Your Directors present the Twelfth Annual Report and the audited statement of accounts for the year ended 31st March 2006

Financial Results	(Rs. in Lacs)	
	Year ended 31.03.2006	Year ended 31.03.2005
Sales / Jobwork	4051.19	2490.98
Other Income	50.31	50.78
Profit before Depreciation and Tax	619.03	242.54
Depreciation	92.58	102.68
Profit before Provision for I. Tax but after Depreciation	526.45	139.86
Profit after Tax	481.45	122.06
Appropriations	69.07	34.17
Adjustment for last years	131.98	-
Balance carried to Balance Sheet	544.36	87.89

Company has successfully commissioned its expansion plans at IMT of knitting and Manufacturing of garments.

CURRENT YEAR & FUTURE PROSPECTS:

By far the single most important development in the global textile trade in the post world war – II era will undoubtedly be the complete elimination of the quotas from the year 2005. As the global textile trade inches towards a regime without any quantitative restrictions, it had opened the new era of unrestricted export growth, after a prolonged period of protection. Your Directors perception during last year that efficient producers will gain from the elimination of quotas, and your company will perform better in the coming years had come true and your company had shown the exemplary growth. Your Directors hope that with the implementations of new ambitious project, your company will reach to a different league & will enjoy the good future with impressed result.

**RICHA RICHAKNITS LIMITED****ANNUAL REPORT 2005 - 2006****ENERGY CONSERVATION, TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE EARNING AND OUTGO:**

There is nothing to disclose regarding conservation of energy and technology absorption in view of the activities of the company. There are foreign exchange earnings of Rs.683.93 lacs and outgo of Rs.241.54 lacs.

FIXED DEPOSITS:

Company has not accepted deposits from the public during the year.

EMPLOYEES' RELATION:

Relation between the workers & the management is cordial & no dispute had taken place throughout the year.

DISCLOSURE U/S 217(2A) OF THE COMPANIES ACT, 1956:

There was no employee during the year who was in receipt of remuneration of Rs. 24,00,000/- per year if employed throughout the year or Rs. 2,00,000/-p.m if employed for the part of the year.

DIVIDEND:

Your Directors do not recommend any dividend for the year 2005-06 keeping in view the need of expansion and modernization of the manufacturing facility in order to meet the competition after post quota regime.

DIRECTORS

In accordance with the provisions of Section 256 of the Companies Act, 1956, Mr. Subhash Gupta and Mr. Neeraj Bajaj are liable to retire by rotation at the ensuing Annual General Meeting. Both are eligible for re-appointment and offer themselves for re-appointment.

AUDITORS:

The present auditors of your company M/s Tayal & Co., Chartered Accountants, Faridabad hold office until the conclusion of this Annual General Meeting and being eligible offer themselves for re-appointment.

DIRECTORS' RESPONSIBILITY STATEMENT:

Pursuant to the requirement under Section 217(2AA) of the Companies Act, 1956 with respect to Directors' Responsibility Statement, it is hereby confirmed that:-

- a) In preparation of annual accounts the applicable Accounting Standards have been followed alongwith proper explanation relating to material departures.

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- b) Directors have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true & 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.
- c) Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956, for safe guarding the assets of the Company and for preventing and detecting fraud and other irregularities.
- d) Directors have prepared the annual accounts for the financial year ended 31st March, 2006 on a going concern basis.

AUDIT COMMITTEE

i) Terms, composition, names of members and chairman

The Company had constituted an Audit Committee in the financial year 2005-06. Presently three Directors are members of the Committee and two out of them are independent / non-executive and one is executive Director.

The basic terms of reference of the Committee include the following:

1. Reviewing the adequacy of internal control systems and internal audit reports and compliance thereof.
2. Oversight of the Company's financial reporting process and the disclosure of its financial information to ensure that the financial statements are correct, sufficient and credible.
3. Recommending the appointment of external auditors and fixation of their audit fees and also approval for payment of any other services.
4. Reviewing with the management, the quarterly and annual financial statements before submission to the Board.

Mr. Neeraj Bajaj (Independent/Non-Executive Director) is the Chairman of the Audit Committee, Mr. Subhash Chand Gupta (Independent/Non-Executive Director) and Mr. Sandeep Gupta (Executive Director) are the members of the Audit Committee.

ii) No. of Audit Committee Meetings

The Audit Committee met only once during the year 2005-06 on 20th March, 2006

S.No.	Name of Director	Status	Meeting Attended
1.	Mr. Neeraj Bajaj	Chairman	1
2.	Mr. Subhash Chand Gupta	Member	1
3.	Mr. Sandeep Gupta	Member	1

**RICHA KNITS LIMITED****ANNUAL REPORT 2005 - 2006****ACKNOWLEDGEMENT:**

The Directors place on record their sincere appreciation of the unstated co-operation received during the year under review from the Central Government, the Haryana Government, Financial Institutions, Banks and specially Indian Overseas Bank, Shareholders, Executives and Employees at all levels and look forward to their continued support and co-operation.

By order of the Board.**Subhash Gupta
(Chairman)**

Place : Gurgaon

Date : June 13, 2006


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MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY OVERVIEW:

With exports of domestic textiles worth US\$ 16 billion and Apparel worth US \$ 30 billion in 2005, the Indian textile industry is amongst the largest across the globe employing 35 million people directly & a similar number indirectly. The sector witnessed a giant leap of 19% in the year 2005. Exports to US & EU increased by 27% & 18% respectively strengthen India's position as the second largest gainer after China.

2006 has been positive with most of the major buyers increasing their sourcing from India & major Indian companies experiencing healthy growth in their top & bottom lines. On account of increasing exports and bright prospects for the future, most of the major industries players have announced increased investment for building capacities. Investments in this sector in India increased by 71% to reach US \$ 4.1 billion in 2005.

As the industry across the globe changes gears, India witnesses a host of development & challenges after the quota phase out.

Government of India has also come forward to support the industry and following initiatives were announced during the Budget 2006-07 for the Industry:

- Increased allocation under TUFS by US \$ 23 million.
- Allocation of US \$ 43 million to the schemes for integrated Textile Parks.
- Decrease in custom duty from 15% to 10% on textile machinery and raw material like DTA, PTA, MEG and caprolactum.
- Reduction in custom duty on Naptha from 10% to 5%.
- Reduction in excise duty on all man made fiber yarn and filament yarn from 16% to 8%.
- Increased provision for handloom sector.

COMPANY PERFORMANCE:

It was a **golden year** for the company as we reported impressive performance amidst a challenging economy and industrial environment. All our businesses i.e. Job work, Sales & Exports have performed well with increase in productivity and volumes leading into the mind blowing results for the year.

Over all revenues have grown by an impressive 63% to Rs. 4051.19 lacs while operating profits have soared from Rs. 340.89 lacs to Rs. 771.42 lacs, reflecting a growth of 126% (YOY). Benefiting from economies of scale and removal of quota, pre tax profit (before exceptional items) has jumped 276% to Rs. 526.45 lacs in FY 06. **Net Profit after tax and exceptional items is higher by 400% at Rs. 609.07 lacs in FY 06 as compared to Rs. 122.00 lacs of FY 05.**

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STRATEGIC MOVES:

Our management is also in strong favour of strengthening the industry by technology up gradation, rationalization of cost of production, continuous improvement in quality and adding manageable capabilities for handling larger volumes.

Going by the above strategy your Company had invested Rs. 1376.00 lacs for up gradation and enhancing of the additional capacities in knitting, dyeing and processing during the financial year 06.

As you are aware, your Company, during the year has planned an expansion programme with an aggregate investment of Rs. 6296.65 lacs which includes enhancing existing capacities of knitting by 480 Tpa, dyeing and processing by 3960 Tpa and garment by 1800000 pieces per annum. After the proposed expansion the Company will have knitting capacity of 1458 Tpa, dyeing and processing of 8160 Tpa and garmenting of 27.00 lacs pieces per annum. The new dyeing and processing unit is expected to process finer counts knitted fabric, viscose, modals etc. with superior quality & try to provide the import substitution to our existing Garments Exports. The company has acquired land admeasuring 3.28 hectares at Village Maseet, Tapukara, Distt. Alwar, Rajasthan for the aforesaid project.

The company's above project is appraised by its Bankers i.e Indian Overseas Bank and funded by a Term Loan of Rs. 3300.00 Lacs. To part finance the above project and to list the shares at Bombay Stock Exchange (BSE) the Company has decided to come out with Initial Public Offer (IPO) and have appointed KJMC Global Market (India) Limited as its Lead Mangers to manage the proposed issue. The company's Draft Prospectus related to the IPO has been filed by the Merchant Banker to SEBI for their observations. The Initial Public Offer of your company is expected to be open for public subscription by July 2006 and the new projects are expected to commence operations by April 2007.

For bringing more professionalism and transparency your Company had appointed two independent directors on the Board. Both of them are Chartered Accountants by qualification.

NET TURNOVER:

Net turnover of the company has increased to Rs. 4051.19 lacs in FY 06 which is higher by about 63% from turnover of Rs.2490.97 lacs achieved by the company in last financial year. The same has been due to extensive and dedicated marketing efforts by our sales team and increase in plant capacities during the year. Sales have increased in all the segments and exports contributed 17% of the total turnover registering a growth of 27% in exports sales.

OTHER INCOME:

Other income has reduced marginally from Rs.50.78 lacs to Rs.50.31 lacs despite the increase in export sales but due to reduction in Export Incentives by Government of India.



OPERATING PROFIT:

The PBIDT is up by 126% to Rs.771.42 lacs, which is double the proportion of sales growth. The major factors attributing to it is the less consumption of raw materials because of savings in water & power due to deployment of better technology, better relation of prices due to larger volume handling capabilities and less selling & distribution expenses due to removal of Quota. (Selling & Distribution expenses had reduced by 15% to Rs.145.36 lacs despite the sales increase of 63 %.)

FINANCIAL EXPENSES:

Financial expenses increased by 55% to Rs.152.41 lacs due to increase in utilization of working capital and term loan. Increase in facilities had happened due to increase in turn over and investment in fixed assets for up gradation of technology.

DEPRECIATION:

Depreciation for the year has decreased by 10% to Rs. 92.57 lacs in FY 06 due to the change in method to SLM from WDV. The same had been keeping in view the better and increased life of the fixed assets resulting out of selection of internationally acclaimed vendors and following the more stringent norms of procurements.

NET PROFIT:

The net profit after total taxes but before exceptional items is higher by 400% to Rs. 609.07 lacs in FY 06. The same is the result of better operating profits, better higher sales growth, change in depreciation method to SLM from WDV and low taxes due to various Government incentives.

INTER CONTROL SYSTEM

The company has in place adequate systems of internal control commensurate with its size and the nature of its operations. These have been designed to provide reasonable assurance with regard to recording and providing reliable financial and operational information, complying with applicable statutes, safeguarding assets from unauthorized use or losses, executing transactions with proper authorization and ensuring compliance of corporate policies.

The company has a well-defined delegation of power with authority limits for approving revenue as well as capital expenditure. Process for formulating and reviewing annual and long term business plans has been laid down in line with international practice and planning and conduct of the internal audit is oriented towards the review of controls in the management of risks and opportunities in the Company's activities. The internal audit reviews the adequacy of internal controls and checks in the system and covers all significant areas of Company's operations. Safeguarding of assets and their protection against unauthorized use are also a part of this exercise.