

14th Annual Report

2004-2005

Report

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SHIMOGA TECHNOLOGIES LIMITED

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**SHIMOGA TECHNOLOGIES LIMITED**

BOARD OF DIRECTORS**S.SURESH***Chairman & Managing Director***B.R.SRINIVASA MURTHY***Director***SHAILAJA SURESH***Director***M.S. RANGANATH***Director (appointed w.e.f. September 16, 2004)***COMPANY SECRETARY****S. SRINIVASAN****AUDITORS**

**H.R.SUDARSHAN,
H.R.SUDARSHAN & ASSOCIATES,
Chartered Accountants,
No.102, Byrasandra Main Road,
Jayanagar 1st Block East,
Bangalore- 560 011.**

BANKERS

**BANK OF INDIA
Corporate Banking Branch
Bangalore - 560 025**

**REGISTRAR AND
TRANSFER AGENTS**

**CAMEO CORPORATE SERVICES LIMITED,
'Subramanian Building' No.1,
Club House Road,
Chennai-600 002**

REGISTERED OFFICE

**Lakshmaiah Complex,
No.9, 12th Cross,
Ganganagar, Bellary Road,
Bangalore - 560 024**

WORKS

**PLOT NOS. N 12& 13,
Industrial Estate,
Sagar Road,
Shimoga - 577 204.**



SHIMOGA TECHNOLOGIES LIMITED

A DECADE AT GLANCE

FINANCIAL POSITION

(Rs. in lakhs)

Particulars	1995	1996	1997	1998	1999	2000	2001	2002	2004	2005
Share Capital	432.00	432.00	432.00	432.00	432.00	432.00	432.00	432.00	432.00	432.00
Reserves	21.14	-	-	-	-	-	-	-	-	-
Secured Loans	292.78	414.74	455.01	505.93	552.76	618.36	743.98	871.52	529.29	494.80
Unsecured Loans	0.30	0.98	0.52	18.16	13.26	9.30	7.63	-	665.11	965.83
Current Liabilities	52.07	17.36	25.96	22.47	28.48	24.77	46.71	210.47	113.31	84.18
TOTAL	798.29	865.08	913.49	978.56	1026.50	1084.43	1230.32	1513.99	1739.71	1976.81
Gross Block	280.61	298.93	429.26	532.38	542.94	561.20	580.37	582.85	583.80	602.14
Capital Work in Progress	142.91	236.36	141.57	167.62	154.71	114.70	186.46	9.10	0.00	1.64
Depreciation	24.08	36.43	52.68	83.47	115.65	55.84	0.00	37.95	270.33	305.65
Net Block	399.44	498.87	518.15	616.53	581.99	502.34	395.91	360.45	313.47	298.13
Current Assets	330.70	290.63	330.07	267.14	317.71	340.32	278.11	345.08	215.82	196.66
Miscellaneous Expenditure	68.15	56.88	52.17	43.65	35.13	35.13	18.09	10.07	2.49	0.76
Accumulated Losses	0.00	18.70	13.10	51.24	91.67	206.64	538.21	798.39	1207.93	1481.26
TOTAL	798.29	865.08	913.49	978.56	1026.50	1084.43	1230.32	1513.99	1739.71	1976.81
Net Worth	384.99	356.42	366.73	337.11	305.20	190.23	-124.30	-376.46	-778.42	-1050.02
Net worth per rupee of share	0.89	0.83	0.85	0.78	0.71	0.44	-0.29	-0.87	-1.80	-2.43
Capital Employed	678.07	772.14	822.26	861.20	871.22	817.89	627.31	495.06	415.98	410.62
Debt-Equity Ratio	0.70	1.00	1.10	1.20	1.30	1.40	1.70	2.00	2.80	3.38

FINANCIAL PERFORMANCE

Sales	674.13	321.68	433.00	415.87	506.56	431.74	350.87	446.17	805.63	856.74
Other Income	3.76	1.91	5.70	23.54	1.39	0.92	5.04	0.12	0.45	0.42
Increase/Decrease in Stocks	-10.33	18.62	9.88	5.87	-1.66	-47.80	-0.46	12.70	-7.87	-2.18
Total Income	667.56	342.21	448.58	445.28	506.29	384.86	355.45	456.99	798.21	854.98
Manufacturing Expenses	504.33	277.91	342.75	317.68	377.62	343.03	316.21	351.69	700.83	774.02
Administrative Expenses	67.99	43.20	37.58	36.60	29.54	54.91	53.44	36.22	55.29	38.15
Financial Charges	60.21	38.60	38.29	88.90	97.83	96.22	128.92	128.64	272.12	274.54
Provision for doubtful debts/Advances	-	-	-	-	-	-	-	-	71.87	0.93
Miscellaneous Expenditure	11.57	7.70	8.11	8.52	8.52	-	51.43	8.01	9.00	1.73
Depreciation	15.87	13.75	16.25	30.79	32.18	-	37.64	37.95	47.91	38.47
Cash Profit	35.03	-17.50	29.96	2.10	1.30	-109.30	-143.12	-57.56	-239.03	-231.73
Profit/Loss after Depreciation and provision	7.59	-38.95	5.60	-37.21	-39.40	-109.30	-232.19	-103.52	-358.81	-272.86
Prior period adjustments	-1.73	-0.90	-	-0.94	-1.02	-5.68	-99.37	1.20	-50.73	0.46
Profit/Loss before taxation	5.86	-39.85	5.60	-38.15	-40.42	-114.98	-331.56	-260.17	-409.54	-273.32
Tax Provision	-	-	-	-	-	-	-	-	-	-
Profit after Tax	5.86	-39.85	5.60	-38.15	-40.42	-114.98	-331.56	-260.17	-409.54	-273.32

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NOTICE

Notice is hereby given that **Fourteenth Annual General Meeting of Shimoga Technologies Limited** will be held on Wednesday, the 28th September, 2005 at 10.00A.M at The Century Club, No.1, Seshadri Road (Cubbon Park), Bangalore -01 to transact the following Business:

ORDINARY BUSINESS:

1. To Receive and adopt the Director's report and audited Profit and Loss Account for the year ended March 31, 2005 and the Balance Sheet as at that date.
2. To appoint a director in the place of Sri. S. Suresh, who retires by rotation and being eligible, offers himself for reappointment.
3. To appoint Mr. H.R. Sudarshan, Proprietor, M/s.H.R.Sudarshan & Associates, Chartered Accountants, Bangalore, as Auditors to hold office from the conclusion of this Annual General Meeting until the conclusion of the next Annual General Meeting and to authorize the Board to fix their remuneration.

SPECIAL BUSINESS :

4. To consider and if thought fit, to pass with or without modification, the following resolution as Ordinary Resolution.

"RESOLVED that Mr. M.S. Ranganath, who was appointed as Additional Director by the Board during the year be and is hereby appointed as Director of the company."

By order of the Board

For **SHIMOGA TECHNOLOGIES LIMITED**

Place : Bangalore
Date : 30-07-2005.

S.Suresh
Managing Director

Regd. Office :
Lakshmaiah Complex,
No.9, 12th Cross,
Ganganagar, Bellary Road,
Bangalore - 560 024.

NOTES :

1. A member entitled to attend and vote is entitled to appoint a proxy to attend and vote instead of himself and the proxy need not be a member of the company. The instrument appointing proxy should, however, be deposited at the Registered office of the company not less than forty eight hours before the commencement of meeting.
2. The relative explanatory statement pursuant to Section 173(2) of the Companies Act, 1956, pertaining to special business contained in the Notice is annexed hereto.
3. Share Holders are requested to bring their Copy of the Annual Report along with them to the Meeting since extra copies will not be supplied at the meeting.
4. Members / Proxies should fill the Attendance slip for attending the meeting.
5. Members who hold shares in Dematerialized form are requested to write their Client ID and DP numbers and those who hold shares in physical form are requested to write their Folio Number in the Attendance slip for attending the meeting.
6. As per Companies Act, 1956, a Shareholder may nominate in the prescribed manner a person to whom his shares in the Company shall vest in the event of death (Form 2B of Companies (Central Govt.'s) General Rules & Forms). In the case of Joint holding, Joint holders may together nominate a person to whom shares shall Vest in the event of death of all the Joint Holders. Share Holders are requested to avail the facility.
7. Members are requested to intimate immediately any change in their address to the Registrar and Transfer Agents of the Company.
8. **Appointment of Directors:**
At the ensuing Annual General Meeting, Sri.S.Suresh retires by rotation and being eligible offers himself for reappointment. Sri. S. Suresh



SHIMOGA TECHNOLOGIES LIMITED

will be appointed as a director liable to retire by rotation. The information or details to be provided for the aforesaid Director under Corporate Governance Code are as under:

Sri. S. Suresh :

He is a Metallurgical Engineer and also the Promoter Director of the Company and the Company expects to get benefited to a great extent with Sri. S. Suresh's vast experience and hence your Directors recommend the resolution for your approval.

Resolution placed before the members for their approval.

EXPLANATORY STATEMENT PURSUANT TO SECTION 173(3) OF THE COMPANIES ACT 1956

SPECIAL BUSINESS: Item No. 4

The Board of Directors of the company co-opted Mr. M.S. Ranganath as an additional director of the company with effect from 16th September, 2004 as per Section 260 of the Companies Act, 1956. Mr. M.S. Ranganath holds office until the conclusion of this annual General Meeting. The Board recommends his appointment as a director and liable to retire by rotation.

Mr. M.S. Ranganath is a Fellow Member of the Institute of Chartered Accountants of India and has had rich experience in Finance and vast knowledge in general management. The Board is of opinion that Mr. M.S. Ranganath's appointment to the Board is essential in the present circumstances and will therefore be in the interest of the Company.

The Company has received a notice from a member of the company as per the provisions of Section 257 of the Companies Act, 1956, signifying his intention to propose Mr. M.S. Ranganath as a candidate for appointment as a Director of the company at this Annual General Meeting.

Mr. M.S. Ranganath is interested in the resolution at item No.4 of the Notice since it relates to his appointment.

By order of the Board

For **SHIMOGA TECHNOLOGIES LIMITED**

Place : Bangalore
Date : 30-07-2005.

S.Suresh
Managing Director

Regd. Office :
Lakshmaiah Complex,
No.9, 12th Cross,
Ganganagar, Bellary Road,
Bangalore - 560 024.

FOURTEENTH ANNUAL REPORT 2005**DIRECTORS' REPORT**

Your Directors have pleasure in presenting the Fourteenth Annual Report and the Audited Accounts for the year ended 31st March 2005.

FINANCIAL RESULTS:

The Financial performance of the Company during the year is as follows:

(Rs. In Lakhs)

Particulars	2004-05 12 Months	2003-2004 15 Months
Sales	856.74	805.63
Profit/(Loss) Before Depreciation And Financial Charges	41.88	(29.78)
Financial Charges	274.54	272.12
Loss after Financial Charges	(232.66)	(301.90)
Depreciation	38.47	47.91
Miscellaneous Expenditure Written off	1.73	9.00
Loss after Depreciation and Miscellaneous Expenditure Written off	(272.86)	(358.81)
Prior period and Extraordinary Items	0.47	50.73
Net Loss	(273.33)	(409.54)
Loss Brought forward from Previous year	(1207.93)	(798.39)
Accumulated Loss	(1481.26)	(1207.93)

PERFORMANCE:

The Company has recorded a gross income of Rs. 856.74 Lakhs during the year 2004-05 as against Rs. 805.63 Lakhs during the fifteen months period January 2003 to March 2004. However, the cost of raw materials which is a major component of expenses, has increased considerably and had its impact on the financials of the company. Also, the sale price could not be increased due to stiff

competitive market and as a result the Gross profit came down. However, the overall loss of Rs.273.33 Lakhs is due to heavy financial charges and Interest payable to financial institutions.

The margin pressures continue to be significant. This is largely due to commodity prices continuing to rule high during the entire year. The fierce competition in the market has made it difficult to pass on the price increase to our customers. However, your Company continues to work diligently in improving productivity, reducing waste, value engineering its products and finding alternate sources to offset the pressures on margins.

DIVIDEND:

Since the company has incurred losses during the year under review, your Directors regret their inability to recommend dividend for the year ending 31st March, 2005.

DIRECTORS:

Sri. S. Suresh, Managing Director retires by rotation and is eligible for reappointment.

Mr.M.S. Ranganath was appointed as Additional Director by your Board of Directors on 16th September, 2004. In terms of Section 260 of the Companies Act, 1956, Mr.M.S. Ranganath holds office until the conclusion of the ensuing Annual General Meeting. Notice has been received from a Member proposing Mr. M.S. Ranganath's name for the office of Director.

The Board recommends the resolution for appointment of Mr. M.S.Ranganath as Director, as set out in Item 4 of the Notice convening the Annual General Meeting.

The Board informs with regret the sudden demise of Sri.B.R. Srinivasa Murthy, the Director of the Company on 27-04-2005 and offers its condolence to the bereaved family. The Board also records with gratitude the yeoman services rendered by him during his tenure as a Director of the Company.

CERTIFICATION - ISO 9001 : 2000

The Board of Directors are pleased to inform you that the Company has been awarded the ISO 9001 : 2000 7.3 (Design and Development) this year by the



SHIMOGA TECHNOLOGIES LIMITED

KEMA Quality B.V., Member of the International Network for Management System Assessment and Certification "IQNET".

FIXED DEPOSITS:

The Company has not accepted any fixed deposits during the year under report.

AUDITORS:

The Company's Auditors, Mr. H.R. Sudarshan, Proprietor of M/s. H.R. Sudarshan & Associates, Chartered Accountants, Bangalore retire at the conclusion of this ensuing Annual General Meeting and are eligible for re-appointment.

PARTICULARS OF EMPLOYEES:

There are no employees who are in receipt of remuneration in excess of the limits specified under Section 217 (2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975, as amended.

ENERGY, TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE EARNINGS AND OUTGO:

Energy:

The particulars of energy conservation in accordance with Companies (Disclosure of Particulars in the Report of Board of Directors), Rules 1988, are annexed in Form A.

Technology absorption:

There are no items to disclose under this head.

Foreign Exchange Earnings and Outgo:

There are no earnings or outgo in Foreign Exchange during the year under review.

Related Party Disclosures :

As regards Related Party Disclosures, one of the directors of the Company is related to a director of M/s. Bhagavathi Enterprises Limited, a closely held public company under the Companies Act, 1956. However, there are no common directors and no shareholders holding 2% of the paid up capital of either of the companies. There are no materially significant related party transactions made by the

Company with promoters, Directors or Management etc., that may have potential conflict with the interest of the company at large. However this disclosure is made only as a matter of prudence.

De-listing of Securities:

The de-listing of securities from Bangalore and Madras Stock Exchanges is in process

AUDITORS QUALIFICATIONS :

Regarding Auditors qualifications, the Directors state as follows:

1. Internal Audit System :

The Company has in place effective internal control systems in all spheres of activities. These ensure optimal use of Company's resources. The Company's internal audit department conducts regular audits of various operational and financial matters. Efforts are being made to strengthen the Internal Audit for the coming years.

2. As per item No.4 of VI a of the auditor's report management has taken steps to find strategic partners.
3. Though the confirmation of balances was sought from debtors and creditors, we have not received confirmation from a few creditors & debtors.
4. As regards item No.ix(a) of the Auditor's Report, as per the records of the Company the Provident Fund and Employees State Insurance have been deposited within the grace period allowed by the said authorities.
5. The Case pending before debt recovery tribunal is only a contingent liability and hence it is duly disclosed in the Notes to Accounts.
6. Regarding Sales tax, we have preferred an appeal stating that the Company is struggling for its existence and also when the BIFR is taking positive steps for the revival of the unit, the Commercial Tax Authorities are taking coercive steps for recovery of the arrears of tax etc., The Company has obtained a stay from the Honourable High Court of Karnataka against the

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recovery proceedings and the notice of penalty issued by the sales tax authorities. Hence, no provision has been made for the penalty proposed.

DIRECTORS RESPONSIBILITY STATEMENT:

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

- (a) in the preparation of the annual accounts the applicable accounting standards have been followed along with proper explanations relating to material departures;
- (b) the directors have selected such accounting policies and applied them consistently and made judgements and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the company as at 31st March, 2005 and of the Loss for the year ended on that date;
- (c) the 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 safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities; and
- (d) the Directors have prepared the annual accounts on a 'going concern' basis even though the net-worth has been eroded on account of heavy interest burden and provision for doubtful debts and advances, taking into account management's assessment of revival of business, infusion of

capital through strategic investment / further issue of capital.

CORPORATE GOVERNANCE REPORT:

The Company has taken adequate steps to ensure that all mandatory provisions of Corporate Governance as prescribed under the Listing Agreements of the Stock Exchanges on which the Company is listed are complied with. A separate section on Corporate Governance and a Certificate from the Auditors of the Company regarding compliance of conditions of Corporate Governance as stipulated under Clause 49 of the Listing Agreement with the Stock Exchange, forms part of the Annual Report.

PERSONNEL:

Your Directors wish to place on record, their sincere appreciation to the employees at all levels for their dedication and hard work.

ACKNOWLEDGEMENTS:

The Directors wish to thank the Company's Bankers, Financial Institutions, Government Authorities, Customers and the Suppliers for their unstinted support extended to the Company and also place on record the continued support extended by the employees at all levels to the Company's operations during the year.

For and on behalf of the Board of Directors

S. SURESH

Chairman and Managing Director

Place: Bangalore

Dated: 30-07-2005.



SHIMOGA TECHNOLOGIES LIMITED

ANNEXURE TO THE DIRECTOR'S REPORT FORM NO.A

DISCLOSURE OF PARTICULARS WITH RESPECT TO CONSERVATION OF ENERGY

	12 months ended 31.03.2005	15 months ended 31.03.2004
A) POWER & FUEL CONSUMPTION		
1. Electricity		
a. Purchased Units	686,834	771,718
Total Amount	3,127,631	3,434,507
Rate/Units	4.55	4.45
b. Own Generation		
i. Through Diesel Oil	10,083	10,806
Units per litre of Diesel	2.80	2.72
Oil Cost/Unit		
ii. Through Steam Turbine		
Generator Units	—	—
Units per litre of		
Fuel/Oil/Gas Cost/Unit	—	—
2. Coal (specify Quality & where used)		
Total Cost	—	—
Average Rate	—	—
3. Furnace Oil		
Quantity (K.Litre)	421.00	481.00
Total Amount	5,539,943	6,267,215
Average Rate	13,159 / KL	13,030 / KL
4. Others/internal generation (Please give details)		
Quantity	—	—
Total Cost	—	—
Rate/Unit	—	—

B. CONSUMPTION PER UNIT OF PRODUCTION

	Standard If any	12 months ended 31.03.2005	15 months ended 31.03.2004
Products (with Details-Unit Electricity)	—	392 Units/MT	424 Units/MT
Coal (Specify Quality)	—	—	—
Furnace Oil	—	237 Ltrs/MT	261 Ltrs/MT

Place: Bangalore
Date: 30-07-2005

For and on Behalf of the Board of Directors

S.SURESH
Chairman & Managing Director

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MANAGEMENT DISCUSSION AND ANALYSIS

Forward-looking Statements :

The report contains certain forward-looking statements, which are based on certain assumptions and expectations of future events. The Company does not guarantee that these assumptions and expectations are accurate or will be realized. The Company's actual results, performance or achievements could thus differ materially from those projected in such forward-looking statements. The Company assumes no responsibility to publicly amend, modify or revise any forward-looking statements on the basis of any subsequent developments.

Opportunities and Threats:

The Company is exploring the possibilities of forward integration by way of catering machined / ready to use components to user industries. Improvement in the outlook for engineering industries and expected increase in the growth of automotive sector will provide good opportunity for Company's products. Company's strong thrust on quality, cost and delivery has given the Company a good reputation with the customers and this is expected to result in enhanced business for the Company. The major perceivable threats are Fluctuation in Steel and Petroleum prices, Foreign Exchange rates, Interest rates, Political stability and Economic scenario.

Industrial Structure and Developments:

Local suppliers of raw-materials like steel, Engineering spare parts and other materials have increased the prices to an all time high level. This has put considerable pressure on the Company's margins. Although the Company is making every effort to improve productivity, reduce waste and various overhead expenses to combat and offset these price increases, certain amount of erosion in margin is expected.

Outlook:

Overall, as our economy is poised for better growth and prospects in coming years, it is expected that the operations of the Company would grow but at a

moderate pace. Having due regard to the negative effects as elaborated above and any external events to the Company, the Company expects to perform satisfactorily during the year 2005-06.

Internal Control Systems and their adequacy:

The Company has a proper and adequate internal control procedure which is supplemented by a well defined programme of Internal Audit.

The Company has in place effective internal control systems in all spheres of activities. These ensure optimal use of Company's resources. The Company's internal audit department conducts regular audits of various operational and financial matters.

Human Resource Development:

The Company conducts regular training programmes both internally and externally for employees at all levels to improve the skills and overall development. Employee relations at all levels continue to remain cordial.

Discussion on Financial performance with respect to operational performance:

During the year under review, your company has fared well as far as operational performance is concerned. It has achieved its break even (Excluding Interest, Depreciation, Provision for bad debts, prior period adjustments and Miscellaneous Expenses written off which are not operational costs) even when the raw material prices have increased considerably. Sales during the year have also increased as compared to previous year. Nevertheless to add that excessive interest payable to financial institutions is one of the main components of indirect expenses which has resulted in net loss.

Uncertainties:

Like other manufacturing industries, the fortunes of your Company are tied with the volatility in raw material prices, products and components. The state of the economy, therefore, influence the turnover and profitability.