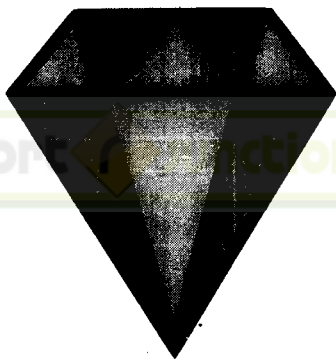


14th Annual Report 2002-03



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Sri Vajra Granites Limited

Sri Vajra Granites Limited



BOARD OF DIRECTORS : Sarvasri

V.N. Nadkarni, Chairman

L. Hanumanth Reddy

G.S.R. Murthy (Nominee of APIDC–upto 16-07-2002)

B.N. Reporter (Expired on 07-07-2003)

Y. Kesava Krishna, Additional Director

Mathesh Reddy Kami Reddy, Additional Director

G. V. Venkata Reddy, Additional Director

M. Chandra Bhushan, Executive Director

A. Hanimi Reddy, Managing Director

SECRETARY:

S. Suryanarayana

REGISTERED OFFICE :

6-3-456/23, 2nd Floor,
Dwarakapuri Colony,
Punjagutta,
Hyderabad - 500 082.

WORKS :

Basvapuri Village,
Bhikanoor Mandal,
Kamareddy Taluq,
Nizamabad District,
Andhra Pradesh.

BANKERS:

State Bank of India,
Industrial Finance Branch,
Rajbhavan Road, Somajiguda,
Hyderabad – 500 082.

Bank of Baroda,
Masab Tank Branch,
Banjara Hills,
Hyderabad - 500 034.

AUDITORS :

I. Sudhaker & Co.,
Chartered Accountants,
Flat No. 204, Amrutha Ville,
Rajbhavan Road,
Hyderabad - 500 082.



NOTICE :

To

All the Members,

Notice is hereby given that the 14th Annual General Meeting of Sri Vajra Granites Limited will be held on Friday 26th December, 2003 at 11.30 A.M. at Sri Sagi Ramakrishnam Raju Community Hall, Madhuranagar, Hyderabad-500 038 to transact the following items :

ORDINARY BUSINESS:

1. To consider, approve and adopt the Audited Profit & Loss Account for the year ended 31st March, 2003 and the Balance Sheet as at that date, together with the Directors' and Auditors' Reports thereon:

2. To appoint a Director in place of Sri A. Hanimi Reddy who retires by rotation and being eligible offers himself for reappointment.

3. To re-appointment Auditors, M/s. I. Sudhaker & Co., Chartered Accounts, 204 Amrutha Ville, Rajbhavan Road, Somajiguda, Hyderabad, A.P. to hold office from conclusion of the 14th Annual General Meeting until the conclusion of the 15th Annual General Meeting and authorise the Board of Directors to determine their remuneration in addition to the payment for their other services and reimbursement of actual out of pocket expenses, if any.

SPECIAL BUSINESS:

4. Appointment of Sri A. Hanimi Reddy as the Managing Director of the Company.

To consider and if thought fit, to pass with or without modifications the following Ordinary Resolution:

"FURTHER RESOLVED that pursuant to the provisions of Sections 198, 269, 309, 310 and 311 and such other applicable provisions and sections if any of the Companies Act, 1956, read with Schedule XIII, Sri A. Hanimi Reddy whose present term of office as the Managing Director of the company expires by 20.02.2004, be and is hereby reappointed as Managing Director of the Company for a further period of 5 years subject to the approval of the company at its general meeting, with effect from the date of its approval of this resolution at the 14th Annual General Meeting on the terms & conditions as stipulated below:

Remuneration payable to him: His salary be fixed initially at Rs.24,000/- per month in the time scale of Rs.24,000 — 6,300 – 49,200 i.e. carrying an increment of Rs.6,300/- per annum.

Perquisites: Per annum shall be restricted to an amount equivalent to the annual salary

Housing: Expenditure by the Company on hiring furnished accommodation shall be subject to a ceiling of 60% of the salary, over and above the 10% payable by the Managing Director. If the Company does not provide accommodation to him, the HRA will be paid as above by the Company to the Managing Director. However if the accommodation in the company-owned house is provided, 10% of the salary of the Managing Director shall be deducted by the Company.

Explanation: The expenditure incurred by the Company on his behalf on gas, electricity, water furnishings etc shall be valued as per the Income Tax rules, 1962, subject to a ceiling of 10% of the salary of the Managing Director.

Reimbursement of Medical Expenses : incurred for self and family is subject to a ceiling of one month's salary in a year or three months' salary over a period of three years.

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Leave Travel Concession: Travel expenses incurred in this regard for self and family, once in a year, will be allowed in accordance with the Rules of the Company.

Club Fees: Allowed is subject to a maximum of the fee payable to two clubs. No admission and life membership fees will be paid.

Personal Accident Insurance: The premium is not to exceed Rs. 4,000/- per annum

Company's Contribution towards Provident Fund: Should be as per the Rules of the Company / Statutory limit laid down in the P.F. Act.

Company's Contribution towards Superannuation Fund: Should be as per the rules of the Company but it should not, together with the Company's contribution to Provident Fund, exceed 25% of salary. However the same shall not be included in the computation of the ceiling on perquisites to the extent these either singly or put together are not taxable under the Income Tax Act.

Gratuity: Shall not exceed half a month salary for each completed year of service.

Car for use on company's business and telephone at residence: Will not be considered as perquisites. However, personal long distance calls and use of car for private purposes are to be billed to his account by the Company.

Leave:

Privilege Leave: Is allowed with full pay and allowances as per the Rules of the Company. However, encashment of the leave at the end of the tenure will not be included in the computation of ceiling and perquisites.

He will also be entitled to **casual leave** and **sick leave** as per the leave Rules of the Company.

Notwithstanding anything herein, where in any financial year during the currency of the tenure of the Managing Director the Company has no profits or its profits are inadequate also, the company will pay him remuneration and perquisites as specified above.

2. The company shall reimburse the **entertainment, travelling and other expenses** incurred by him for the business of the company.

3. Managing Director shall, subject to the supervision and control of the Board of Directors, carryout such duties as may be entrusted to him. He shall also perform such other duties and services as, may from time to time, be delegated to him by the Board of Directors.

Sri A. Hanimi Reddy being an interested Director did not participate either in the above deliberations or the decision.

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. A proxy need not be a member of the company. Proxies in order to be effective must be received by the company not less than 48 hours before the commencement of the meeting.**
2. The Register of Members and Share Transfer Books of the Company will remain closed from 18th December, 2003 to 26th December, 2003 (bdi).
3. Members are requested to notify immediately the change, if any, in their address, to the Company's Registered Office at Hyderabad, quoting their Registered Folio.



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4. Pursuant to Section 109A of the Companies Act, 1956 shareholders are entitled to make nominations in respect of shares held by them. Shareholders desirous of making nominations are requested to send their requests to the Company in Form No.28 in duplicate (which will be made available on request).
5. As an austerity measure, copies of the Annual Report will not be distributed at the Annual General Meeting, Members are requested to bring their copies along with them to the meeting.

ANNEXURE TO THE NOTICE:

Details of Directors retiring by rotation and seeking reappointment as at item no.3 of the Notice (pursuant to Clause 49 of the Listing Agreement)

Sri A. Hanimi Reddy was born on 10.12.1944. He is an Engineering Graduate from Osmania University, Hyderabad, A.P. He was first appointed as your Company's Director on 21.02.1994 and is being reappointed from time to time since then. As the Chief Executive of your company, he is well versed with the granite industry, installation and operation of the related plant & machinery and guiding the company's operations in all its aspects. His sharp intellect, keen insight and logical analysis of various issues relating to the granite industry have provided valuable inputs in improving the performance of your Company.

He has no association whatsoever, either as a Director or Chairman on the Committees of any other Companies.

Explanatory Statement on item no.4, pursuant to Section 173(2) of the Companies Act, 1956.

Sri A. Hanimi Reddy's present appointment, as the Managing Director of the company earlier made by the Shareholders, expires by 20th February 2004. Therefore, the Board recommends that he be reappointed as Managing Director for a further period of five years effective from the date of 14th Annual General Meeting of the Company

The terms and conditions of his reappointment as Managing Director are already set out in the notice under item no.4

None of the directors except Sri A. Hanimi Reddy is interested in the related resolution. It is therefore for your approval now.

By order of the Board of Directors
For SRI VAJRA GRANITES LIMITED.

Hyderabad
Date : 27th October, 2003

Sd/-
(S. SURYANARAYANA)
Company Secretary

Sri Vajra Granites Limited



DIRECTORS' REPORT

To
The Members,
Sri Vajra Granites Ltd.

Your Directors have pleasure in presenting their 14th Annual Report along with the Audited Balance Sheet as on and the Profit & Loss Account for the year ended 31.03.2003.

FINANCIAL RESULTS:

Following is a comparative statement of the financial results of your company for the accounting years 2001-2002 and 2002-2003

(Rs. in lacs)

	Year ended 31.03.2003	Year ended 31.03.2002
Sales and other Income	1356.12	1020.06
Profit / (-Loss) Before Depreciation & Int. & Fin. Charges	93.86	38.59
Less : Depreciation	-77.68	-77.68
Interest	<u>-18.08</u>	<u>-96.21</u>
		<u>-173.89</u>
Profit/(- Loss) before taxation :	-1.90	-135.30
Less : Provision for taxation	---	---
Profit/(-Loss) for the year	-1.90	-135.30
Adjustments relating to previous year	-4.91	-0.86
Profit.(- Loss) brought forward from Previous year	-971.16	-835.00
Surplus / (- Deficit) Carried to Balance sheet	-977.97	-971.16

OPERATING RESULTS:

Your Company's total revenue for the fiscal 2002-03 at Rs.1356.12 lakhs registered an increase of Rs.336.06 lakhs i.e. by 32.94% over that of the fiscal 2001-02 and fell short of the Break Even Point (BEP) or No Loss - No Profit mark by a mere Rs.27.45 lakhs. The corresponding figures of Profit Before Depreciation & Interest for the fiscals 2002-03 and 2001-02 stand at Rs.93.86 lakhs and Rs.38.59 lakhs respectively — posting an increase by Rs.55.27 lakhs i.e. by 243% during the year 2002-03 over that of its immediate previous year. All the same, the year under report ends up with a loss of Rs.1.90 lakhs

The accumulated losses of the company as on 31.03.2003 aggregate to Rs.977.97 lakhs.

MATERIAL FINANCIAL CHANGES AND COMMITMENTS

Now, pursuant to the provisions of section 217(1) (d) of the Companies Act, 1956, hereunder we acquaint you with certain material financial changes and commitments as well, (which arose between the close of the Accounting year 2002-03 and as on the date of this report) since they materially affect the financial structure of your company.

You were aware that your company was declared sick on 19.07.2001 by the Hon'ble BIFR. Following the same, a Comprehensive Rehabilitation Proposal was submitted to the BIFR for the revival of our company, integrating therein, inter alia, the One Time Settlement Agreements (OTS) concluded with all the Secured Creditors of the Company, viz the IDBI, IFCI, ICICI & SBI. As on date, from out of the contributions brought in mainly by the Promoter-Directors and their friends and relatives by way of unsecured loans and to a small extent from the resources internally generated your company could successfully discharge all its obligations in entirety, under the said OTS Agreements. We could also obtain No Due Certificates from all the said Financial Institutions (FIs). Further this fact was duly acknowledged by the said four Secured Creditors also at the BIFR's hearing held on 01.09.2003. Thereupon, the BIFR was pleased to



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sanction, mutatis mutandis, the Revival and Rehabilitation Scheme of your Company pending with it.

However full benefits arising out of the Rehabilitation Scheme sanctioned as above (before finalizing which a notice has already been published in that regard in the leading dailies by the BIFR on June 7, 2003) could be quantified and availed of by your company only after successful completion of the Rehabilitation Scheme i.e. by the end of the Accounting year 2004-05.

COMMITMENTS:

Following the due discharge of the commitments made by the Promoter – Directors of your company in terms of the Rehabilitation Scheme, they are to be allotted by the Board of Directors with equity shares of Rs.100 lakhs, by increasing the paid up Share Capital of the company. This is in part settlement of the amounts brought in in cash by them (and their Friends and Associates) by way of Un-Secured Loans as required under the said Scheme now finally sanctioned by the BIFR. As and when the allotment is so done, the present paid up capital of your company, at Rs.435.94 lakhs, goes up correspondingly.

DISCLOSURES:

A) UNDER COMPANIES ACT, 1956

Deposits: The Company has not accepted any deposits from the public during the year 2002-2003.

Particulars of employees: There is no employee in the Company whose particulars are required to be given pursuant to section 217(2A) of the Companies Act, 1956.

AUDITORS :

M/s. I Sudhaker & Co., Chartered Accountants retire at the ensuing Annual General Meeting and being eligible have indicated their availability for re-appointment for the year 2003-2004.

Directors responsibility statement: Pursuant to Section 217(2AA) of the Act, your Directors confirm the following:

- **That in the preparation of the Annual Accounts for the year ended March 31, 2003, the applicable accounting standards have been followed along with proper explanation relating to material departures if any.**
- **That the Directors have selected such accounting policies and applied them consistently and made judgment and estimates that are 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 that period.**
- **That the Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Act, for safeguarding the assets of the Company and for preventing and detecting frauds and other irregularities.**
- **That the directors have prepared the annual accounts on a going concern basis.**

B) UNDER THE LISTING AGREEMENT:

- a) **Clause 32: Cash Flow Statement:** In due compliance of the clause, a Cash Flow Statement prepared in accordance with the requirements prescribed by SEBI is appended to this Annual Report.

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- b) Clause 42A: Stock Exchange Particulars:** Your Company's securities have been listed with the Hyderabad Stock Exchange and the Mumbai Stock Exchange. The Annual listing fees have been duly paid to these Stock Exchanges.
- c) Clause 49 as to the Corporate Governance:** Became operative for your company from January 2003 only, since the Company's paid up capital is above Rs.3.00 crores but below Rs.10.00 crores only.

The required report on the 'Management Discussions and Analysis', 'Corporate Governance' and the Certificate regarding due compliance with these requirements are furnished separately forming part of this Annual Report.

Under Sub-Clause V of Clause 49 of the Listing Agreement:

MANAGEMENT DISCUSSION AND ANALYSIS

a) Industry structure and developments :

In so far as your company's performance during 2002-03 was concerned, total sales in absolute terms rose and amounted to Rs.1354.71 lakhs from that of Rs.1018.78 lakhs in 2001-02 – registering a growth of 33%. Export sales, amounted to Rs.1282.71 lakhs in 2002-03 compared to that of 2001-02 at Rs.911.37 lakhs – registering a growth of 41%.

The world market for granites, especially the U.S.A. market, has not yet fully recovered from the phenomena of the prolonged depression and the holocaust of the September 11th 2001 incident at the World Trade Center. Added to this, the competition, both intra-state and inter-state, is ever mounting up. So the average realization of your company's products is on constant decline.

b) Opportunities & Threats:

India's present exports of granite stones being only 10% of its output, it offers scope for almost a two-fold increase in exports, even to your company. It may be noted that your company could fare fairly well even while it was sick and no adequate working capital facilities were available at its disposal from any sources. Still during the year 2002-03 your company's exports rose by 50% over that of 2001-02. This reflects your company's resilience to bounce back to sound position in spite of odds.

As to the threats facing your company, it may be stated that on price-front, for some time past, it has been facing stiff cutthroat competition both from the huge number of small units — with no or negligible fixed costs burden of their own — as also from a few giant units located in the State. Presently the export market being very much price-elastic, the existing unhealthy price-war is very much likely to continue, if not get intensified. Additionally, our competitor-countries, like China and other South East Asian nations, (which enjoy incentives like concessional sea freight, tax exemption on domestic and export sales, abolition of dead-rent, provision of packing credit and funds for quarry development activities at concessional rates of interest etc; being extended to them by their respective Governments, unlike the case in our country) are placed in a comparatively advantageous position and are having always an edge over us and pose continuing threat for the survival of companies like ours.

c) Segment-wise or product-wise performance:

On the production front, your company is predominantly engaged in the manufacture of polished slabs only. Since it is a 100% Export Oriented Unit with negligible domestic sales, your company's operations constitute only one primary segment i.e. export-sales of polished slabs. Hence no segment-wise reporting is given.

d) Outlook:

Thanks to the OTS deals your company struck with its Secured Creditors and the prompt and on time discharge of the consequential obligations thereunder by your Promoter-Directors,



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we could achieve a 100% liquidation of your company's fixed-cost-bearing long-term liabilities. Consequently, the company's interest-burden as of now gets reduced substantially. In the circumstances, in the absence of any unforeseen contingencies, your company should be back to normalcy in the next few years.

e) Risk and concerns

Granite stone being a natural product it is at times subject to heavy wastages and rejections, at many a stage like during transportation from quarries; processing; while on high seas; on storage in bonded ware houses etc which could suddenly upset the economic viability of the company. Further, your company does not have its own fully developed quarries so that it can have assured uninterrupted and adequate supplies of its raw material requirements. Furthermore, of late the State Government effected a steep hike in the sales tax from the existing 4% to 19.33% on the HSD oil purchases. Added to all these, there is a continuous increase in the cost of the spare parts to be imported from the Euro-Currency-Countries, in that there is a constant appreciation of the Euro Currency visa vis the rupee. Similarly due to the frequent hike being effected both in the cost of the fuel and as also in the rate of sales tax thereon, your company's transport bill is also on constant rise. Paradoxically, our export earnings are getting reduced sizeably as the dollar value visa vis rupee is constantly falling.

f) Internal Control

In our opinion there are adequate internal control procedures commensurate with the size of the company and the nature of its business with regard to the purchase of stores, raw materials, plant and machinery, equipment and other assets and for the sale of goods.

g) Discussion on financial performance with respect to operational performance

During the year under report, your company's production of polished slabs, in physical terms, rose to 49,821 SFT from 37,680 SFT in 2001-02. This accounts for an increase of 12,141 SFT i.e. by over 32%. As to the sales, they jumped to 52,822 SFT during 2002-03 from 35,103 SFT in 2001-02, registering a growth by 17,519 SFT i.e. over 50%. As to the per unit Average Manufacturing Cost (AMC) and the Average Realization (AR) aspects, while the AMC fell to Rs. 2,003 from what it was at Rs.2,254 in 2001-02 i.e. by Rs. 251, the AR fell to Rs. 2,551 from what it was at Rs. 2,764 in 2001-02 i.e. by Rs. 213.

In simple, during 2002-03 the fall in AMC is more than that of the fall in the AR by Rs. 38 per SFT sold — accounting for a direct addition to the per unit contribution to that extent. This could be chiefly achieved through an improved yield obtained per each Cu Mt. of the rough blocks processed during 2002-03. Further, there was an 100% substitution of indigenous spares and stores in place of the imported ones. Added to these, there was a saving in the interest burden alone by over Rs. 78 lakhs. All these factors eventually account for the curtailment and reduction of your company's losses during 2002-03 to a mere nominal Rs.1.90 lakhs compared to the loss of Rs. 135.30 lakhs sustained during 2001-02.

h) Material developments in Human Resources: Details of employment as on 31.03.03.

<u>Managerial</u>	<u>Skilled</u>	<u>Unskilled</u>	<u>Total</u>
7	52	61	120

CHANGES IN THE BOARD OF DIRECTORS:

Following the withdrawal of one Director each by the APIDC and the Financial Institutions during the year 2001-02 itself and these two vacancies remaining unfilled even till January, 2003, (the operative time limit for implementation of the Corporate Governance Clause), your Company's Board of Directors by that time was left with only five Directors i.e. three Non Executive Directors (of whom one is a Promoter) one Executive Director and one Managing Director.

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In the circumstances, solely with a view to enable your company to constitute the Audit Committee and as also to ensure an optimum combination of the Executive Directors and Non-Executive Directors on your Board of Directors, so that we are in tune with the norms in these regards as laid down in the Corporate Governance Clause, three Additional Directors were co-opted by appointment of Sarvasri Y. Kesava Krishna, a Chartered Accountant; Mr Mathesh Reddy Kami Reddy, also a Chartered Accountant and G.V.Venkat Reddy, a Retired Government official. However, these three Directors hold office only till the conclusion of the ensuing 14th Annual General Meeting

Lastly, it is with profound sorrow we announce the sad demise of Sri B. N. Reporter on 07.07.2003. He had been associated with your company as Director for the past 13 years and contributed a great deal for the enrichment of its operations. The Board places on record its deep appreciation of the invaluable services rendered by him to the company

INDUSTRIAL RELATIONS:

Industrial relations remained cordial during the year.

ACKNOWLEDGEMENT :

Your Directors thank the Government authorities, IDBI, ICICI, IFCI, State Bank of India, customers and suppliers for their kind co-operation, interest and support. The Directors also place on record their appreciation to all the employees for their dedicated service during the year.

CORPORATE GOVERNANCE REPORT

1. Company's philosophy on code of governance

Your Company's code of Corporate Governance Philosophy is based on, as it were, on the panch-sheel of 1) An effective independent Board and its various committees and 2) Separation of the Board's supervision role from the executive management 3) Transparency of its management systems, 4) Prompt compliance with all the regulatory provisions of the Corporate Laws, Stock Exchanges, SEBI etc, both in letter and spirit and 5) Enhancement of value for all the stake-holders i.e. customers, creditors, employees, share-holders, society and the government at large in a fair manner. In pursuance of these objectives, your Board of Directors is constituted with five Independent-and-outside-Directors and three Promoter-Directors (two Executive and one Non-Executive). While the Executive Directors, with their intimate knowledge of the basics and intricacies of the Company's business form the core element, the Outside-Independent-Non Executive Directors (majority of whom are either professionals of high repute and/or Chartered Accountants) bring in their experience and expertise and lend a touch of objectivity and impartiality to the decisions taken by the Board. Further, the Board and each of its committees are chaired only by Independent and Professional individuals so as to oversee objectively all the critical areas of your company's operations. Thus it provides both for an effective leadership and as also the checks and balances which an effective governance demands.

2. Board of Directors

a) Composition

The composition of your Board of Directors, as on 31.03.2003, is an ideal one, in that it consists of two Executive Directors (EDs) and six Non Executive Directors (NEDs), totaling to eight members. Of the six NEDs, five are Independent Directors the other one being a Promoter-Director.

The company has a Non Executive Chairman. Its number of Independent-Directors works out to more than 62% (as against the required $33\frac{1}{3}\%$) of the total number of Directors. Further, none of the Directors of the Board serves as a member of more than ten committees or as Chairman of more than five committees. The company thus meets