

STOVEC

Annual Report

1999-2000



STOVEC INDUSTRIES LIMITED

Attention Shareholders

Shareholders are requested to address correspondence relating to transfer of shares to :

Intime Spectrum Registry (Pvt.) Ltd.,
260, Shanti Industrial Estate,
Sarojini Naidu Road, Mulund (W),
Mumbai 400 080

Investor Relations Centre :

Intime Spectrum Registry (Pvt.) Ltd.,
Dawar House, 2nd Floor,
197, D. N. Road, Near Central Camera,
Fort, Mumbai.

DIRECTORS

Atul Bhagwati — Chairman
Dirk W. Joustra
Adriaan W. Veenman
Alfred J. van Efferen
Henricus van de Mortel
Arvid Manneke
Prakash K. Bhagwati — Managing Director
P. S. K. Iyengar
Marco Philippus A. Wadia (From 21.5.1999)
Girish C. Sharedalal
Udipi V. Rao
**Jayant C. Vakil (Alternate Director to Messrs Dirk W. Joustra,
Alfred J. van Efferen & Arvid Manneke)**

COMPANY SECRETARY

Suresh Thakur Desai

AUDITORS

N. A. Shah Associates
Chartered Accountants

REGISTRARS & SHARE TRANSFER AGENTS

Intime Spectrum Registry Pvt. Ltd.,
260, Shanti Industrial Estate, Sarojini Naidu Road,
Mulund (West), Mumbai - 400 080.

LEGAL ADVISORS

Tyabji Dayabhai

BANKERS

The Karur Vysya Bank Limited

WORKS

**Screens Division, Industrial Machinery Division &
Graphics Division**
Nandolia Industrial Development Corporation,
Near Lambha Village, Post Narol 382 405, District Ahmedabad.

REGISTERED OFFICE

43, Dr. V. B. Gandhi Marg, Fort, Mumbai - 400 023.

STOVEC INDUSTRIES LIMITED**NOTICE**

NOTICE is hereby given that the TWENTY-SIXTH ANNUAL GENERAL MEETING of the Members of STOVEC INDUSTRIES LIMITED will be held on Thursday, the 14th September, 2000 at 3.30 P.M. at M. C. GHIA HALL, 18/20, KAIKHUSHRU DUBASH MARG, MUMBAI - 400 001 to transact the following business :

ORDINARY BUSINESS

1. To receive, consider and adopt the Audited Balance Sheet and Profit and Loss Account for the year ended 31st March, 2000 and the Report of the Directors and Auditors thereon.
2. To declare dividend on equity shares.
3. To appoint Auditors to hold Office from the conclusion of this Meeting until the conclusion of the next Annual General Meeting and to fix their remuneration.

SPECIAL BUSINESS

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

“Resolved That pursuant to the provisions of Sections 198, 269 and 309 and other applicable provisions, if any, of the Companies Act, 1956 and Schedule XIII to the said Act, the Company hereby approves the appointment of and the remuneration payable to Mr. Prakash K. Bhagwati as the Managing Director of the Company for a period of five years with effect from 1st March, 2000 in accordance with the terms and conditions set out in the agreement submitted to this Meeting and for the purpose of identification, signed by the Chairman, thereof, which Agreement is specifically approved and ratified with liberty to the Board of Directors of the Company to alter and vary the terms and conditions of re-appointment and/or agreement in such manner as may be deemed fit by the Board of Directors and acceptable to Mr. Prakash K. Bhagwati, provided however, that the remuneration payable to Mr. Prakash Bhagwati shall be within the limits set out in Schedule XIII to the Companies Act, 1956, and/or laws/guidelines in force from time to time.

Resolved Further That in the event of any loss, absence or inadequacy of profit in any financial year of the Company during Mr. Prakash Bhagwati's term of office as Managing Director, the remuneration payable shall be based on the effective capital of the Company as set out in Section II of Part II of Schedule XIII of the Companies Act, 1956.

Registered Office :

43, Dr. V. B. Gandhi Marg,
Fort, Mumbai 400 023.
Dated : 25th May, 2000

By Order of the Board

SURESH THAKUR DESAI
Company Secretary

NOTES:

1. An Explanatory Statement pursuant to Section 173(2) of the Companies Act, 1956 is annexed hereto.
2. A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF AND THE PROXY NEED NOT BE A MEMBER OF THE COMPANY.
3. Instruments of Proxy for use at the above Meeting must be lodged at the Registered Office of the Company not later than 48 hours before the time fixed for the Meeting.
4. The Register of Members and Share Transfer Books of the Company will remain closed from Tuesday, the 5th September, 2000 to Thursday, the 14th September, 2000, both days inclusive.
5. The practice of distribution of copies of Annual Report at the Annual General Meeting has been discontinued in view of the high cost of paper and printing. Members are, therefore, requested to carry their copies of Annual Report to the Meeting.
6. Members desiring any information as regards the Accounts are requested to write to the Company at least 7 days before the Annual General Meeting, so as to enable the Management to keep the information ready.
7. Members are requested to notify immediately any change of address to the Company.
8. As required under Section 205A of the Companies Act, 1956 and Unpaid Dividend Account (Transfer to General Revenue Account of Central Government) Rules, 1978, the Company has transferred a sum of Rs.22,556/- which remained unpaid out of the dividend declared for the year 1995-96.

EXPLANATORY STATEMENT PURSUANT TO SECTION 173(2) OF THE COMPANIES ACT, 1956**Item No. 4**

Mr. Prakash K. Bhagwati has been the Managing Director of the Company since 1st March, 1990. He was re-appointed as Managing Director for a period of five years from 1st March, 1995. He has shouldered the responsibilities of managing the affairs of the Company for the last five years. Mr. Prakash Bhagwati is an M.E., M.S. (Mech.). His experience and knowledge has helped the Company to a great extent and his reappointment will further contribute to the progress and prosperity of the Company. The Board of Directors at their meeting held on 21st January, 2000 has appointed him for a further period of five years with effect from 1st March, 2000 subject to the approval of the Shareholders in General Meeting.

The terms of the remuneration payable to Mr. Prakash Bhagwati are as follows :-

Remuneration and Terms of Appointment

- 1. Salary** : Rs.75,000/- per month in the scale of 75,000-5,000-100,000. Within this the Board of Directors may fix the administrative ceiling.
- 2. Commission** : 1.5% of the net profits of the company, subject to the maximum of Rupees One Million in any one year.
- 3. House Rent Allowance** : 50% of the salary.
- 4. Gas, Electricity & Fuel** : At Actuals. Perquisites to be valued as per Income Tax Rules.

In addition, the Managing Director shall be entitled to the following benefits :

1. Company's contribution to the Provident Fund as per the Rules of the Employees Provident Fund Act, 1952.
2. Company's contribution towards the Superannuation Fund as per the Rules of the Company, which together with P.F. contribution shall not exceed 27% of the salary or such other percentage as may be laid down from time to time under the Income Tax Act, 1961 and Rules framed thereunder.
3. Gratuity at the rate of one half month's salary for every completed year of service.
4. Leave Travel Assistance : Leave Travel Assistance for self and family once a year up to one month's salary incurred in accordance with the rules of the Company.
5. Medical reimbursement of actual expenses for himself and his family including hospitalisation, nursing home and surgical charges incurred in India or abroad.
6. Medical check-up fees reimbursement at actuals.
7. The Managing Director shall be provided with a car with driver. Expenses for any private use shall be borne by the Managing Director and free use of telephone at the residence provided that charges for long distance personal calls, shall be borne by the Managing Director.
8. Club Fees: Fees of maximum two clubs excluding admission and life membership fees.
9. Personal Accident Insurance : Premium not to exceed Rs.4,000 per annum.

STOVEC INDUSTRIES LIMITED

He will be entitled to all leave benefits as applicable to the Senior Executives of the Company, including accumulation and encashment of unavailed leave.

The above remuneration shall not exceed five percent of the net profits, which shall be determined in accordance with the provisions of Sections 198 and 309 of the Companies Act. In the event of absence or inadequacy of profits the above remuneration shall be payable as a minimum remuneration up to the limits permissible under Section II of Part II of Schedule XIII of the Companies Act, 1956.

10. If at any time the office of the Managing Director is determined before the expiry of his term of office, the Managing Director shall be entitled to compensation for loss of office in accordance with and subject to the restrictions laid down in Section 318 of the Companies Act, 1956.

He shall not be liable to retire by rotation so long as he continues to hold office as Managing Director.

An abstract of the terms of appointment and remuneration payable to Mr. Prakash Bhagwati has already been circulated to Shareholders as required under Section 302 of the Act on 27th January, 2000. A copy of the Agreement entered with the Managing Director is available for inspection by the Members of the Company at the Registered Office of the Company on any working day between 3.00 p.m. and 5.00 p.m.

None of the Directors of the Company is interested in this Resolution except Mr. Prakash K. Bhagwati in so far as it pertains to his appointment and Mr. Atul Bhagwati may be regarded as concerned or interested in the appointment since he is the brother of Mr. Prakash Bhagwati.

Registered Office :

43, Dr. V. B. Gandhi Marg,
Fort, Mumbai 400 023.
Dated : 25th May, 2000

By Order of the Board

SURESH THAKUR DESAI
Company Secretary

DIRECTORS' REPORT TO THE MEMBERS

Your Directors have pleasure in presenting to you the 26th Annual Report of your Company together with the audited Balance Sheet and Profit & Loss Account for the year ended 31st March, 2000.

FINANCIAL RESULTS

The results of operations during the year ended 31st March, 2000 were as follows :-

| | Current Year 31st March, 2000 Rupees | Previous Year 31st March, 1999 Rupees |
|---|---|--|
| Sales and Services | 405,327,474 | 329,282,406 |
| Other Income | 6,978,113 | 9,446,849 |
| Total | 412,305,587 | 338,729,255 |
| Total Expenditure | 353,418,109 | 323,918,620 |
| (Increase)/Decrease in Stocks | (1,998,565) | 28,331,876 |
| Gross Profit before Interest & Brokerage, Depreciation and Extraordinary items | 60,886,043 | 22,052,623 |
| Less: Interest & Brokerage | 13,725,278 | 18,985,838 |
| Gross Profit after Interest & Brokerage but before Depreciation and Extraordinary items | 47,160,765 | 3,066,785 |
| Less: Depreciation | 16,608,038 | 16,588,026 |
| Gross Profit/(Loss) after Depreciation but before Extraordinary Items | 30,552,727 | (13,521,241) |
| Add: Extraordinary Items (Income) | — | 6,365,000 |
| Gross Profit/(Loss) after Extraordinary Items but before taxation | 30,552,727 | (7,156,241) |
| Provision for Taxation for the year | 3,533,840 | — |
| PROFIT AFTER TAXATION AVAILABLE FOR APPROPRIATION, WHICH IS APPROPRIATED AS UNDER: | 27,018,887 | (7,156,241) |
| Interim Dividend on Equity Shares @ 25% (Previous Year — Nil) | 5,220,040 | — |
| Tax on Distributed Profits (Previous Year — Nil) | 574,204 | — |
| Amount transferred to General Reserve | 12,200,000 | — |
| BALANCE CARRIED TO BALANCE SHEET | 9,024,643 | (7,156,241) |

DIVIDEND

In view of the profitability for the year ended 31st March, 2000, the Company has paid an Interim Dividend of 25% to those Members whose names appeared in the Register of Members as on 20th May, 2000. No further dividend is recommended and the Directors suggest that the interim dividend may be treated as the final dividend. Your Company has thus returned to dividend list.

COMPANY'S OVERALL PERFORMANCE

During the year under review the Company's sales turnover has increased by 23% from Rs.329.282 million in 1998-99 to Rs.405.328 million.

As a result of the increased sales and efforts made by the Company to reduce the cost by effective restructuring and reduction in interest costs, the Company has been able to record profit before tax of Rs.30.552 million as against the loss of Rs.7.156 million in the previous year and net profit after tax of Rs.27.019 million.

The Company's export earnings during the year were Rs.10.682 million.

STOVEC INDUSTRIES LIMITED

DIVISIONWISE PERFORMANCE**SCREENS DIVISION**

During the year under review your Company sold screens, chemicals, etc., worth Rs.123.273 million as against Rs.120.324 million in the previous year, showing a marginal increase of Rs.2.5%.

INDUSTRIAL MACHINERY DIVISION

During the year under review this division registered a turnover of Rs.39.788 million recording an increase of 25.7% over the previous year's turnover of Rs.30.061 million.

GRAPHICS DIVISION

This year the Company has merged the business of Graphics Divisions Unit I and II. The total turnover of the Graphics Divisions increased to Rs.242.267 million from Rs.178.896 million in the previous year, registering an increase of around 36%.

FUTURE OUTLOOK

The Company expects to register better performance during the ensuing year. The Company is now concentrating on its core strength. Since the Industrial outlook is improving the Company expects to continue its march to progress in the future.

DIRECTORATE

The Board of Directors have re-appointed Mr. Prakash K. Bhagwati as the Managing Director for a period of five years from 1st March, 2000. A separate resolution is proposed to approve his re-appointment and payment of remuneration. Mr. Prakash K. Bhagwati has played a very important role in restructuring the Company, cutting costs and bringing the Company back to profitability. The Board, therefore, recommends the Members to approve the said resolution.

CORPORATE GOVERNANCE

The Stock Exchanges of Mumbai and Ahmedabad have both adopted the report of the Committee on Corporate Governance and amended Clause 49 of the Listing Agreement. Although as per the Schedule of Implementation mentioned by both these Exchanges, the Company does not come under the mandatory requirement of Corporate Governance, the Company is broadly complying with the requirements.

The Company is holding regular meetings of the Board of Directors and the gap between two meetings is normally not more than three months. All important decisions are taken at these meetings. Except the Managing Director, all the Directors are non executive independent directors. There are no shareholders' complaints pending.

AUDITORS

The Company's Statutory Auditors, M/s. N. A. Shah Associates retire at the ensuing Annual General Meeting and are eligible for reappointment. The Board recommends appointment of M/s. N.A. Shah Associates as the statutory auditors of the Company from the conclusion of the 26th Annual General Meeting until the conclusion of the following Annual General Meeting. Members are requested to appoint them as Statutory Auditors of the Company for the current year and to authorise the Board to fix their remuneration in consultation with the Auditors.

AUDITORS' REPORT

As regards the special reference made by the Auditors at paras 5 and 6 of their report, your Directors have to inform you that both the matters have been adequately dealt with in the accounts.

FIXED DEPOSITS

The Fixed Deposits held by the Company as on 31.3.2000 were Rs.23.250 million. There are no overdue deposits except unclaimed deposits of Rs.0.702 million.

EMPLOYEES

The information as per Section 217(2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975 is annexed hereto and forms part of the Report.

CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION & FOREIGN EXCHANGE

The information as per Section 217(1)(e) of the Companies Act, 1956 read with Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 is annexed hereto and forms part of this Report.

ACKNOWLEDGEMENTS

The Board takes this opportunity to express its appreciation of the valuable guidance and technical assistance rendered to your Company by its foreign collaborators, M/s. Stork Screens B.V. and M/s. Stork Brabant B.V., Holland, their Directors and staff.

The Board also appreciates the services rendered by M/s. A.T.E. Enterprises Ltd. as the Sole Selling Agents for the Company's products.

The Board is also grateful to The Karur Vysya Bank Ltd. for the credit facilities sanctioned.

The Board wishes to place on record their sincere appreciation of the devoted services of the workers, staff and executives of the Company who have contributed to the continued progress of the Company.

Finally, the Directors acknowledge with gratitude the confidence, which the members have reposed in them.

For and on behalf of the Board

Mumbai
Dated : 25th May, 2000.

ATUL BHAGWATI
Chairman

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STOUEC INDUSTRIES LIMITED**ANNEXURE TO THE DIRECTORS' REPORT**

Information as per Section 217(1)(e) read with Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 and forming part of the Directors' Report for the year ending 31st March, 2000.

(A) CONSERVATION OF ENERGY**(1) Energy conservation is an on-going process. The following are the steps taken by the Company in the conservation of energy :**

- Continuously maintaining power factor of 0.99.
- Providing better quality of insulation, lowering ceiling heights, installing door closures, double door system to prevent air leakage.
- All controls are equipped with display panels and voltage stabilizers to avoid any major damage.
- Calibrating all tools and testing equipment.
- Better quality of furnace oil (L.D.O.) is used in place of R.F.O. This reduces air pollution, maintenance and break-down of equipment.

(2) Additional investments and proposals, if any, being implemented for reduction of consumption of energy :

The following are the proposed measures to be implemented for reduction of consumption of energy:

- Re-engineering chemical process so that it can be effectively operated at lower temperature.
- Installation of automatic power factor correction device.
- Installation of temperature controllers and recycling of water.
- Stoppage of leakages and improvement of exhaust system.

(3) Impact of the measures at (1) and (2) above for reduction of energy consumption and consequent impact on the cost of production of goods:

- Power consumption has been reduced, which has its impact on the cost of production.
- Diesel and furnace oil consumption has been reduced.
- By availing the incentives given by The Ahmedabad Electricity Company, the Company has been able to increase its production.

(B) TECHNOLOGY ABSORPTION**FORM - B****(1) Specific areas in which (R&D) is carried out by the Company.**

- Alternative routes to achieve same result so as to curb cost.
- Import substitution.
- Better quality of raw materials with favourable terms of payments.

(2) Benefits derived as a result of the above R & D.

- R & D has helped us to reduce costs. Alternative materials and certain corrosive chemicals are tried and replaced.
- Reliable Quality Control testing equipment has improved the quality of our various products.
- Customer satisfaction level has improved.
- Sub-contract work to reduce cost.
- Response time to customer has been reduced.

(3) Future plan of action.

- We will continue our R & D efforts to achieve better results at low cost.
- We will work on the area of cost saving.

(4) Details of R & D Expenditure.

- | | |
|--|--------------------------|
| — Capital Expenditure | Rs. 2,236,393 |
| — Recurring Expenditure | Not separately accounted |
| — Total Expenditure | Rs. 2,236,393 |
| — Total R & D Expenditure as a percentage of the Total Turnover. | 6.9% |