

ANNUAL REPORT 2000-2001.



SURAT TEXTILE MILLS LIMITED.

BOARD OF DIRECTORS

M. R. MOMAYA

Wholetime Director

S. M. VIG

S. N. GOUR

Y. C. PAPAIYA

M. PARAMESWARAN

Nominee of Unit Trust of India

AUDITORSNATVARLAL VEPARI & CO.,
Chartered Accountants**COST AUDITORS**P. M. NANABHOY & CO.,
Mumbai.**BANKERS**

DENA BANK

REGISTERED OFFICEGarden Mills' Complex,
Sahara Gate,
Surat 395010.**PLANTS**

- i. Varachha Road,
Surat.
- ii. Village Vareli, Taluka Palsana,
Dist. Surat.
- iii. Village Jolva, Taluka Palsana,
Dist. Surat.
- iv. Village Khadoli, Silvassa,
Dadra & Nagar Haveli (UT)

**REGISTRARS &
TRANSFER AGENTS**MCS LIMITED,
Neelam Apartment,
88, Sampatrao Colony,
Behind Federation Bldg., Alkapuri,
Baroda 390005.
Phone : 0265 - 339397
Fax : 0265 - 341639**FIFTY-FIFTH ANNUAL GENERAL MEETING**On Saturday, 29th December, 2001, At 10.30 A.M.
At Garden Mills Complex, Sahara Gate, Surat 395010

Notice calling Extra-ordinary General Meeting of the members of the Company, scheduled on Saturday, 29th December, 2001, immediately after the conclusion of the Annual General Meeting, is attached at the centrefold of this Annual Report.

NOTICE

Notice is hereby given that the Fifty-fifth Annual General Meeting of the Members of Surat Textile Mills Limited will be held on Saturday, 29th December, 2001 at 10.30 a.m. at the Registered office of the Company at Garden Mills' Complex, Sahara Gate, Surat 395010 to transact the following business:

ORDINARY BUSINESS:

1. To receive, consider and adopt the Audited Balance Sheet as at and the Profit & Loss Account for the year ended 31st March, 2001 and the reports of the Directors and Auditors thereon;
2. To appoint Auditors to hold office from the conclusion of this Annual General Meeting until the conclusion of the next Annual General Meeting and to authorise the Board of Directors to fix their remuneration and for this purpose to pass the following resolution as a **Special Resolution**.

"RESOLVED THAT pursuant to the Provisions of Section 224A and other applicable provisions, if any, of the Companies Act, 1956, Messrs Natvarlal Vepari & Co., the retiring Auditors, be and are hereby re-appointed as Auditors of the Company to hold office from the conclusion of this Meeting until the conclusion of the next Annual General Meeting of the Company, at a remuneration to be mutually decided by the Board in consultation with the said Auditors."

SPECIAL BUSINESS:

3. To consider and, if thought fit, to pass, with or without modification(s), the following resolution as an **Ordinary Resolution**.

"RESOLVED THAT Mr. S. M. Vig, who was appointed as an Additional Director of the Company and who holds office upto the date of the forthcoming Annual General Meeting of the Company under Section 260 of the Companies Act, 1956, be and is hereby appointed as a Director of the Company and shall be liable to retire by rotation."

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

"RESOLVED THAT Mr. S. N. Gour, who was appointed as an Additional Director of the Company and who holds office upto the date of the forthcoming Annual General Meeting of the Company under Section 260 of the Companies Act, 1956, be and is hereby appointed as a Director of the Company and shall be liable to retire by rotation."

5. To consider and, if thought fit, to pass, with or without modification/s, the following resolution as an **Ordinary Resolution**.

"RESOLVED THAT Mr. Y. C. Papaiya, who was appointed as an Additional Director of the Company and who holds office upto the date of the forthcoming Annual General Meeting of the Company under Section 260 of the Companies Act, 1956, be and is hereby appointed as a Director of the Company and shall be liable to retire by rotation."

6. To consider, and if thought fit, to pass with or without modification(s) the following Resolution as an **Ordinary Resolution**:

"RESOLVED THAT Mr. M. R. Momaya, who was appointed as an Additional Director of the Company with effect from October 23, 2000 and who holds office upto the date of the forthcoming Annual General Meeting of the Company under Section 260 of the Companies Act, 1956, be and is hereby appointed as a Director of the Company and shall be liable to retire by rotation.

RESOLVED FURTHER THAT pursuant to the provisions of Section 198, 269, 309, 311 read with Schedule XIII and other applicable provisions of the Companies Act, 1956, (including any statutory modification or re-enactment thereof, for the time being in force), and on the basis of remuneration as may be approved by the Board from time to time subject to the limits prescribed under the Act, and also subject to such approval as may be necessary, the approval of the Members be and is hereby accorded to the appointment of Mr. M. R. Momaya as Managing Director designated as Wholtime Director of the Company for a period of five years with effect from 11th December, 2000 and to his receiving remuneration, benefits and amenities upon the terms and conditions contained in the agreement entered into between the Company and the Managing Director, an extract of which is set out in the Explanatory Statement attached to this notice, which agreement is hereby specifically approved with liberty to the Board of Directors to alter and vary the terms and conditions of the said appointment and / or remuneration and / or agreement as may be agreed to between the Board of Directors and Mr. M. R. Momaya, but so as not to exceed the limits specified in Schedule XIII read with Section 198, 309 and other applicable provisions, if any, or any amendments thereto or re-enactments thereof.

RESOLVED FURTHER THAT in the event of inadequacy or absence of profits in any financial year, during his tenure as Managing Director, the Board of Directors may determine the remuneration payable to Mr. M. R. Momaya within the limits stated in Section II of Part II of Schedule XIII to the Companies Act, 1956.

RESOLVED FURTHER THAT in the event of any statutory amendment(s) or modification(s) or relaxation by the Central Government to Schedule XIII to the Companies Act, 1956, the Board of Directors be and is hereby authorised to vary or increase the remuneration, including the salary, commission, perquisites and other allowances, within such prescribed limit or ceiling and the aforesaid resolution be suitably amended to give effect to such modification, relaxation or variation.

RESOLVED FURTHER THAT the Board of Directors be and is hereby authorised to do all such acts, deeds, matters and things as may be considered necessary, usual, proper or expedient to give effect to the aforesaid resolution."

NOTES:

- (1) The relevant Explanatory Statement pursuant to Section 173(2) of the Companies Act, 1956 in respect of business under item No.3, 4, 5 and 6 set out above, is hereto annexed.
- (2) A MEMBER ENTITLED TO ATTEND AND VOTE IS ENTITLED TO APPOINT A PROXY OR PROXIES TO ATTEND AND VOTE INSTEAD OF HIMSELF AND A PROXY NEED NOT BE A MEMBER.
- (3) Proxy in order to be effective must be received at the Registered Office of the Company, not less than 48 hours before the commencement of the meeting.
- (4) All documents referred to in the accompanying Notice and Explanatory Statement are open for inspection at the Registered Office of the Company during office hours on all working days between 11.00 a.m. and 1.00 p.m. upto the date of the Annual General Meeting.
- (5) The Register of Members and Share Transfer Book will remain closed from Thursday, 20th December, 2001 to Saturday, 29th December, 2001 (both days inclusive).
- (6) The members are requested to notify immediately any change of address to their DPs in respect of their electronic share accounts, and to the Company's Share Department in respect of their share folios, if any.
- (7) Pursuant to Section 205 of the Companies Act, 1956, all unclaimed / unpaid dividends upto the financial year 1994-95 have been transferred to the General Revenue Account of the Central Government.

Shareholders, who have not yet claimed their dividend warrants for the said period, are requested to claim the amount from the Registrar of Companies - Gujarat, Opp. Rupal Park Flats, Near Ankur Bus Stand, Naranpura, Ahmedabad 380013 by submitting an application in prescribed form.
- (8) Members are hereby informed that dividends which remain unclaimed / unencashed over a period of 7 years have to be transferred by the Company to the Investor Education &

Protection Fund constituted by the Central Government under Sec. 205(A) and 205(C) of the Companies Act, 1956.

The Shareholders are therefore advised to send all the unencashed dividend warrants to the Registered Office of the Company for revalidation and encash them before the due date for transfer to the Central Government.

- (9) Members are requested to affix their signature at the space provided for the attendance sheet annexed to the Proxy Form and hand over the slip at the entrance to the place of the meeting.
- (10) Members / Proxies are requested to bring the copy of their Annual Report alongwith them.
- (11) Members, who are holding shares in multiple folios and in identical name(s) or joint accounts in the same order, are requested to send all the share certificate(s) to the Registrar & Transfer Agents, M/s. MCS Limited, for consolidation of all such Shareholdings into one folio to facilitate better service. The Certificates after consolidation will be returned by Registered Post.
- (12) The Company's securities are listed at the following Stock Exchanges:
The Stock Exchange, Ahmedabad
(Regional Stock Exchange)
Kamdhenu Complex, Opp. Sahajanand College,
Panjarapole, Ahmedabad 380015.
The Stock Exchange, Mumbai
Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai 400001.
The Company has paid annual listing fees to each of the above Stock Exchanges for the financial year 2001-02.

By Order of the Board of Directors

M. R. MOMAYA

Wholetime Director

Surat, October 29, 2001

Regd. Office:
Garden Mills Complex,
Sahara Gate, Surat 395010.

EXPLANATORY STATEMENT**Pursuant to Section 173 of the Companies Act, 1956****ITEM NO. 2**

Section 224A of the Companies Act, 1956, provides, inter alia that in the case of a Company in which not less than 25% of the subscribed share capital is held, either singly or in combination by public financial institutions or any Government or nationalised banks or any other financial institutions referred to therein, the appointment or re-appointment of Auditors shall be made by a special resolution.

Since, the combined shareholding of IDBI and UTI in the Company exceeds 25% of the subscribed share capital of the Company, the re-appointment of M/s Natvarlal Vepari & Co., Chartered Accountants, as Auditor of the Company is proposed by a special resolution.

As required under Section 224 of the Act, a certificate has been

obtained from them to the effect that their appointment, if made, will be in accordance with the limits specified in Section 224(1B) of the Act. The Shareholders' approval is also being sought to authorise the Board of Directors to determine the remuneration payable to the Auditors in consultation with them.

The Board recommends their re-appointment.

None of the Directors of the Company is concerned or interested in the resolutions.

ITEM NO. 3 TO 5

The Board of Directors appointed Mr. S. M. Vig, Mr. S. N. Gour and Mr. Y. C. Papaiya as Additional Directors of the Company w.e.f. 23rd October, 2000.

Mr. S. M. Vig is having vast experience and in depth knowledge of the textile industry. He is a technocrat and an entrepreneur par excellence. He is also involved in the major policy making

EXPLANATORY STATEMENT

(Contd.)

decisions for the division engaged in the activity of manufacturing PFY yarn.

Mr. S. N. Gour is an Engineer and possesses expertise in the field of Cotton and Synthetic textile industry. Mr. Gour is closely involved with the Group and heading a team of qualified persons under him. He is also involved in the day to day activities relating to production side in respect of the division headed by him.

Mr. Yogesh Papaiya is a Fellow Member of the Institute of Chartered Accountants of India and a practicing Chartered Accountant having an experience of about 20 years in the field of Finance Accounts and Audit. Mr. Yogesh Papaiya is associated with the Group as Consultant and rendering his professional expertise to other leading companies also. The services of Mr. Yogesh Papaiya would be very much relevant as an independent member of audit committee also.

Under Section 260 of the Companies Act, 1956, Mr. S. M. Vig, Mr. S. N. Gour and Mr. Y. C. Papaiya hold office as Directors upto the date of the forthcoming Annual General Meeting.

Notices under Section 257 of the Companies Act, 1956, have been received from some members signifying their intention to propose the appointment of Mr. S. M. Vig, Mr. S. N. Gour and Mr. Y. C. Papaiya as Directors of the Company. In view of the vast experience in their respective fields, it is desirable to appoint them as Directors of the Company.

The Directors recommend their appointments to the Board of the Company.

In respect of Resolutions set out at item Nos. 3, 4 and 5 of the accompanying Notice, Mr. S. M. Vig, Mr. S. N. Gour and Mr. Y. C. Papaiya respectively be regarded as concerned or interested as these resolutions pertain to their appointment as Directors.

None of the other Directors of the Company is in any way, concerned or interested in the aforesaid resolutions.

ITEM NO. 6

The Board of Directors at its meeting held on 23rd October, 2000 appointed Mr. M. R. Momaya as an Additional Director of the Company. Under Section 260 of the Companies Act, 1956, Mr. M. R. Momaya holds office as Director upto the date of the forthcoming Annual General Meeting.

Mr. Momaya is a qualified Engineer having wide experience in the textile industry. He was associated with one of the most reputed textile company of Surat for about 30 years and at present rendering his services as Consultant Engineer. Mr. Momaya is also involved with the various activities of the Company since a long time and have contributed to a large extent.

Notices under Section 257 of the Companies Act, 1956, have been received from some members signifying their intention to propose the appointment of Mr. M. R. Momaya as Director of the Company.

In view of Mr. Momaya having vast experience of the Indian Textile industry in depth knowledge of the relevant field, the Board of Directors at their meeting held on 13th January, 2001 considered and appointed Mr. M. R. Momaya as Managing Director designated as Wholetime Director of the Company for a period of five years w.e.f. 11th December, 2000, subject to the approval of Members at the General Meeting.

The remuneration and perquisites of Mr. Momaya is considered reasonable having regard to the qualification, experience and expertise and the value which he is expected to add to the business of the Company. The terms of the appointment and remuneration payable to the aforesaid director, are in strict conformity with Schedule XIII to the Companies Act, 1956.

The abstract of the terms and conditions contained in the agreement is as follows:

(a) Salary of upto Rs.50,000/- (Rupees Fifty Thousand only) per month.

(b) Commission :

In addition to salary, perquisites and other allowances, commission be paid to the Managing Director, based on the net profits of the Company computed in the manner laid down in Section 198(1) of the Companies Act, 1956. Such commission shall be of such percentage and of such amount as the Board of Directors of the Company may determine keeping in view of the performance of the Company in respect of each financial year, however, total remuneration including perquisites shall not exceed 5% of the net profits.

(c) Perquisites :

In addition to the salary and commission as above, he will also be entitled to the following perquisites as may be determined by the Board of Directors :-

Fully furnished accommodation or House Rent allowance in lieu thereof, gas, electricity, water, Leave Travel Concession, Medical reimbursement, Club Fees, Personal accident insurance, Car with driver and Telephone at residence.

The Managing Director designated as Wholetime Director shall also be eligible to the following benefits:

(1) Contribution to provident fund, superannuation fund or annuity fund to the extent these either singly or put together are not taxable under the Income Tax Act, 1961.

(2) Gratuity payable at a rate not exceeding half a month's salary for each completed year of service.

(3) Encashment of leave at the end of the tenure.

The Board recommends the Resolution as set out in the Item No.6 of the Notice to the Members for their approval.

None of the Directors except Mr. M. R. Momaya is concerned or interested in the said Resolution.

The terms of appointment and remuneration as referred above be treated as an abstract of the terms of contract for appointment of Mr. M. R. Momaya as Managing Director designated as Wholetime Director under the provisions of Section 302 of the Companies Act, 1956.

By Order of the Board of Directors

M. R. MOMAYA
Wholetime Director

Surat, October 29, 2001

Regd. Office:
Garden Mills' Complex,
Sahara Gate, Surat 395010.



DIRECTORS' REPORT

To the Members of

SURAT TEXTILE MILLS LIMITED

The Directors hereby present their fifty-fifth Annual Report on the business and operations of the Company and the Financial Accounts for the year ended March 31, 2001.

FINANCIAL RESULTS

	(Rs. in Lacs)	
	2000-2001	1999-2000
Total Income	21200.42	16561.11
Profit before Interest, Depreciation & Tax	209.54	310.06
Less: Financial Charges (Net)	83.83	295.21
Profit before Depreciation	125.71	14.85
Less: Depreciation	918.38	909.59
Profit / (Loss) for the year	(792.67)	(894.74)
Add: Balance brought forward from Previous year	(2964.87)	(2070.13)
Balance carried to Balance Sheet	(3757.54)	(2964.87)

REVIEW OF OPERATIONS

During the year under review the total production of Polyester Filament Yarn and Polyester Chips were 9900 MT (Pre. Year 6584 MT) and 26218 MT (Pre. Year 20186 MT), higher by about 50% and 30% respectively compared to the previous year. The production of Spun Yarn also increased from 2298 MT to 2730 MT in the current year showing the growth of about 19%. The total turnover for the year Rs. 211.29 Crores was also higher by 28% compared to Rs. 164.76 Crores achieved in the previous year.

The profitability was adversely affected due to overall competitive business conditions and the increase in cost of major inputs which could not be entirely passed on to the customers.

On account of continued recessionary conditions, prevailing in the textile industry, the Company incurred further losses. Due to inadequacy of profits, your Directors regret their inability to propose any dividend for the year under review.

The Textile industry is witnessing tremendous oversupply situation with the domestic and international consumption showing low growth. In spite of these adverse conditions, the Company could achieve the turnover of Rs.211.29 Crores during the year under review.

The Company had submitted its proposal for restructuring of outstanding debts to the Lending Institutions, in view of the losses being incurred by the Company, however, the institutions have not responded to these proposals and have filed a suit against the Company in the Debt Recovery Tribunal.

The Company is taking steps to ensure that all its plants remain operational and trying to check the losses.

DIRECTORS

With a view to further strengthen the Board with professionals having experience in the textile industry, Mr. M. R. Momaya, Mr. S. M. Vig, Mr. S. N. Gour and Mr. Y. C. Papaiya, were appointed as additional directors of the company with effect from 23.10.2000. Mr. Momaya has been appointed as the Managing Director designated as Wholtime Director of the Company with effect from 11.12.2000.

As per the provisions of the Companies Act, 1956, Mr. M. R. Momaya, Mr. S. M. Vig, Mr. S. N. Gour and Mr. Y. C. Papaiya, hold office upto the date of the ensuing Annual General Meeting of the Company but are eligible for re-appointment. The requisite resolutions pertaining to their re-appointments as detailed in items No.3 to 6 of the Notice and the relevant Explanatory Statements are commended to the Shareholders.

During the year under review, Mr. Praful A. Shah resigned as Chairman and as a Member of the Board of Directors of the Company. The Board of Directors places on record its deep appreciation of the invaluable contributions made by him from time to time. Mr. Rajen P. Shah, Mr. Sanjay S. Shah, Mr. S. J. Bhesania, Mr. Harshad F. Shah and Mr. A. N. Jariwala, Directors of the Company, also resigned from the Board of your Company. The Industrial Development Bank of India (IDBI) also withdrew its Nominee on the Board. Your Board wish to place on record its appreciation for their guidance and support during the tenure of their office as Directors of the Company.

AUDIT COMMITTEE

Keeping in view the provisions of Section 292(A) of the Companies Act, 1956, as amended, and in compliance with the Clause 49 of the Listing Agreement with the Stock Exchange(s), the Board at its meeting held on 28th June, 2001 has constituted an Audit Committee consisting of Non-Executive Directors, which will assist the Board in fulfilling the responsibility towards shareholders relating to Corporate Governance.

The terms of reference of the Audit Committee are as per the guidelines set out in the Listing Agreement with the Stock

DIRECTORS' REPORT

(Contd.)

judgements and estimates have been made for the preparation of the accounts are reasonable and prudent so as to give a true and fair view of the state of the affairs of the Company at the end of the financial year and of the profit or loss of the Company for the year under review;

- (3) The Company has taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies act, 1956 and taken steps to safeguard the assets of the Company and to prevent and detect fraud and other irregularities;
- (4) The Annual Accounts have been prepared on going concern basis.

CORPORATE GOVERNANCE

The Securities & Exchange Board of India (SEBI) has introduced a Code of Corporate Governance (Code) by way of amendment to the Listing Agreements with the Stock Exchanges. As per the implementation schedule, your

Company is taking all necessary steps to comply with the relevant provisions, within financial year 2001-2002.

COST AUDIT

Pursuant to the directives of the Central Government under the provisions of Section 233-B of the Companies Act, 1956, qualified Cost Auditors have been appointed to conduct the cost audit relating to Textiles for the year ended 31st March, 2001.

ACKNOWLEDGEMENTS

Your Directors place on record their appreciation for the co-operation and the support extended by the Financial Institutions, Bankers, Customers, Suppliers and Shareholders of the Company.

By Order of the Board of Directors

Surat, October 29, 2001

M. R. MOMAYA
Wholtime Director

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ANNEXURE “A”
to the Directors' Report

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

I. CONSERVATION OF ENERGY

- a. Energy Conservation Measure taken:
- Optimisation of thermic fluid heaters operation by putting one on continuous base load and one on swing for variable load.

Various other proposals for reducing energy

consumption are also under study.

- b. Impact of above measures for reduction of energy consumption and consequent impact on the cost of production:
- Resulting in fuel saving.
- c. Total energy consumption and energy consumption per unit of production as per Form “A” as per annexure to the Rules.

FORM “A” Form for Disclosure of Particulars with respect to Conservation of Energy		
	2000-01	1999-2000
A. Power And Fuel Consumption :		
1. Electricity		
a. Purchased Unit in lacs	309.15	240.83
Total amount Rs. in Lacs.	1421.40	1035.79
Rate / Unit Rs.	4.60	4.30
b. Own Generation		
i. Through Diesel Generator		
Units in lacs	23.33	43.22
Units per Ltr. of Diesel Oil	2.61	3.38
Cost/Unit Rs.	4.41	3.45
ii. Through Steam turbine/Generator		
Units	NIL	NIL
Units per Ltr. Of fuel oil / gas	NIL	NIL
Cost/Unit Rs.	NIL	NIL
2. Coal/Lignite for Generation of Steam		
Quantity (M.T.)	NIL	NIL
Total Cost Rs. in lacs	NIL	NIL
Average rate Rs./ M.T.	NIL	NIL
3. Furnace Oil		
Quantity (K.Lts.)	5842	5734
Total Amount Rs. in Lacs	565.62	397.77
Average rate Rs./ Lts.	9.68	6.94
4. Others/Internal generation		
Quantity	NIL	NIL
Total Cost	NIL	NIL
Rate / Unit Rs.	NIL	NIL
B. Consumption Per Unit of Production :		
Product Details	SPUN YARN	SPUN YARN
Unit	Kg.	Kg.
Electricity (Unit) *	6.10	6.96
Product Details	PFY	PFY
Unit	Kg.	Kg.
Electricity (Unit) *	1.20	1.27
Product Details	CHIPS	CHIPS
Unit	Kg.	Kg.
Electricity (Unit) *	0.18	0.20
Furnace Oil	NIL	NIL
Coal / Lignite (Kg.)	NIL	NIL
Others	NIL	NIL

* The variation in consumption of Electricity per unit of production is due to changes in product mix.

ANNEXURE "A"

to the Directors' Report (Contd.)

II. TECHNOLOGY ABSORPTION, ADAPTATION AND INNOVATION**Research and Development**

1. Specific areas in which R & D carried out by the Company :
 - Optimisation of process, winding parameters etc.
 - Optimisation of catalyst and additive.
 - Development of returnable jumbo box packing.
2. Benefits derived as a result of the above efforts :
 - Reduction in breakages / waste in POY
 - Reduction in costs.
3. Future Plan of Action :
 - The Company is committed to upgrading its Research & Development Facilities wherever required to meet the challenges.
4. Expenditure on R & D :
 - The Company, from time to time incurs capital expenditure, exposes itself to better technology and keeps itself abreast of technological improvements world over.

Technology Absorption, Adaptation and Innovation

1. Efforts in brief, made towards absorption, adaptation and innovation :
 - Modifications of process and products are carried out from time to time to suit market requirements and to improve operational efficiency.

2. Benefits derived as a result of the above efforts :

- Better quality of yarn will be produced at low costs.

3. Particulars of Technology Imported :

- The technology used by the Company is indigenously developed and no technology has been imported.

III. FOREIGN EXCHANGE EARNINGS AND OUTGO

Details relating to foreign exchange earnings and outgo are given in Note No.15 of Schedule 13 annexed to the accounts.

IV. PROJECTIONS VS. ACTUAL PERFORMANCE

As per Clause 43 of the Listing Agreement:

(Rs. in Lacs)

Particulars	Projections	Actual
Total Income	23230.00	21200.42
Gross Profit/(Loss) before Interest, Depreciation & Tax	7323.00	209.54
Net Profit / (Loss)	2224.00	(792.67)

The performance of the Company was affected due to the recessionary market conditions and unremunerative price realisations, prevailing in the textile industry in general and the segment in which the Company is operating, in particular.

By Order of the Board of Directors

Surat, October 29, 2001

M. R. MOMAYA
Wholtime Director

AUDITORS' REPORT

TO THE MEMBERS OF
SURAT TEXTILE MILLS LIMITED

We have audited the attached Balance Sheet of **SURAT TEXTILE MILLS LIMITED**, as at 31st March, 2001 and the Profit and Loss Account of the Company for the year ended on that date, annexed thereto.

We report that –

- 1) As required by the Manufacturing and Other Companies (Auditors' Report) Order, 1988, issued by the Company Law Board in terms of Section 227(4-A) of the Companies Act, 1956, we annex hereto **Annexure 'A'** on the matters specified in paragraph 4 and 5 of the said order.
- 2) Further to our comments in Annexure referred to in Para (1) above
 - a) We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purpose of our audit.
 - b) In our opinion, proper books of accounts as required by law have been kept by the Company so far as appears from our examination of the books.
 - c) The Balance Sheet and Profit and Loss Account dealt with by the report are in agreement with the books of account.
 - d) In our opinion, the Balance Sheet and the Profit & Loss account complies with the mandatory Accounting Standards referred to in section 211(3C) of the Companies Act, 1956, except as stated in paragraph e (i) & (ii) below:
 - e) Attention is invited to:

- (i) **Note 1(d) of Schedule 13, the Company has not made provision to recognize diminution in the value of long term investments amounting to Rs.1204.05 Lacs. This is contrary to the accounting practice recommended in AS-13 issued by the Institute of Chartered Accountants of India. Consequently loss for the year is understated by that amount.**

- (ii) **Note 3(i) of Schedule 13, the Company has not provided for the future payment of Gratuity amounting to Rs.40.83 lacs since the same is accounted for on cash basis. The Company has also not carried out any actuarial valuation of gratuity liability. This is contrary to the provisions of section 209(3) of the Companies Act, 1956 and accounting practice recommended in AS-15 issued by the Institute of Chartered Accountants of India. Consequently loss for the year is understated by that amount.**

- (iii) **Note 5 of Schedule 13, the Company has made no provision for interest on Secured Redeemable Debentures amounting to Rs.1611.71 lacs (including overdue interest Rs.612.48 lacs) and interest on term loan of Rs.189 lacs for the year. Consequently loss for the year is understated by same amount.**

- f) **Directors of the company are not capable of being appointed as director(s) of any other public company(ies) by virtue of the provisions of Section 274(1)(g).**

- 3) Subject to the matters referred to above, in our opinion and to the best of our information and according to the explanations given to us, the said accounts give the information required by the Companies Act, 1956 in the manner so required and give a true and fair view:

- (i) in the case of the Balance Sheet of the Company of the state of affairs of the Company as on 31st March, 2001 and,
- (ii) in the case of the Profit and Loss Account of the Loss of the Company for the year ended on that date.

For NATVARLAL VEPARI & CO.,
Chartered Accountants.

Place : Surat
Date : October 29, 2001

R. N. VEPARI
Partner

ANNEXURE

to the Auditors' Report

Annexure 'A' Referred To Paragraph (1) of our Report of even date.

1. The Company has maintained proper record to show full particulars including quantitative details and situation of fixed assets. We are informed that these assets have been physically verified by the management during the year at reasonable intervals. On the basis of explanations given to

us, no material discrepancies were noticed on such verification.

2. None of the fixed assets have been revalued during the year.
3. Physical verification was conducted by the management at reasonable intervals during the year in respect of finished goods, raw materials, stores and spare parts.