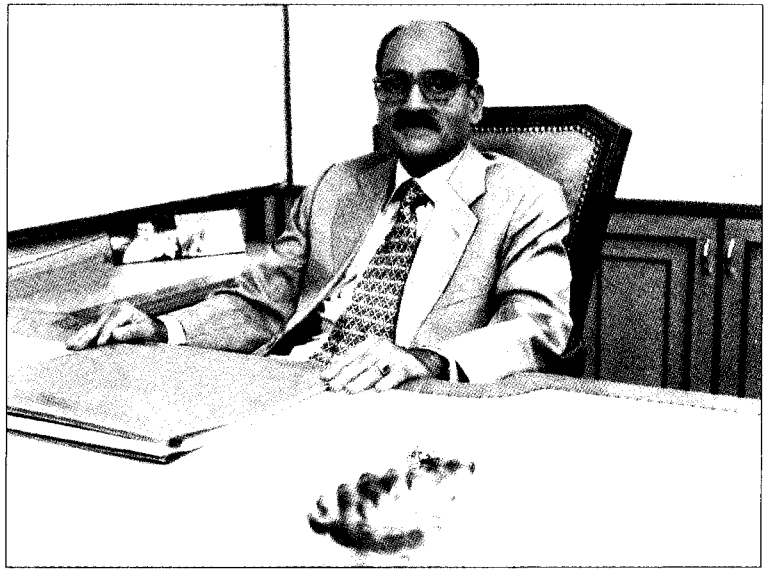


ANNUAL REPORT 2005-06



MAHAVIR SPINNING MILLS LIMITED

Indian Textile Industry- new perspective



The removal of quotas from January 2005 has been a watershed event for the global textile industry. The global trade in textile and clothing has been constrained in the past through an intricate system of quota restrictions and trade preferences. The quota system essentially restricted the volume of exports from countries like India. With the integration of Agreement on Textiles and Clothing in the WTO, a truly multilateral framework for the textile business is emerging.

The global trade in textile and clothing is expected to increase by about 60 per cent over the coming five years. The trade will also have qualitative gains as the highest value added products have been left to the final stage of integration.

Indian textile Industry is fast gearing itself to take advantage of the dismantling of quotas. Government policies have also become supportive of the Industry's efforts to scale up operation by creating a level playing field and rationalisation of Tax Structure.

Mahavir Spinning Mills Limited has been preparing for post-ATC scenario during the last five years. The manufacturing capacities have been augmented. The operations have become more vertically integrated. More value added products have been launched. The Group operations are backed by strong IT backbone giving us advantage of better customer service and better control. The Group has identified fabric business as the key driver of growth. With the proposed investments in the spinning and fabric business, the group is all set for the next phase of growth.

I look forward to the support of all stakeholders in building Mahavir Spinning Mills Limited as a truly global Textile Company.

With best wishes,

(SHRI PAUL OSWAL)

Chairman & Managing Director

Mahavir Spinning Mills Limited

BOARD OF DIRECTORS

SH. SHRI PAUL OSWAL — Chairman & Managing Director
 SH. AJAY KUMAR CHAKRABORTY — (Nominee of ICICI Bank Ltd.)
 SH. VINOD KUMAR SAXENA — (Nominee of IDBI)
 DR. TRILOKI NATH KAPOOR
 SH. PRAFULL ANUBHAI
 SH. SURINDER KUMAR BANSAL
 SH. SUBASH KHANCHAND BIJLANI
 SH. SACHIT JAIN — Executive Director
 SMT. SUCHITA JAIN — Executive Director
 SH. DARSHAN LAL SHARMA — President & Executive Director

CORPORATE GENERAL MANAGER

(FINANCE, ACCOUNTS & MIS)
 SH. NEERAJ JAIN

COMPANY SECRETARY

SH. VIPIN GUPTA

AUDITORS

M/s S.C. VASUDEVA & CO.,
 CHARTERED ACCOUNTANTS,
 NEW DELHI

BANKERS

STATE BANK OF PATIALA, ALLAHABAD BANK
 ICICI BANK LTD., PUNJAB NATIONAL BANK
 STATE BANK OF INDIA, BANK OF BARODA
 CORPORATION BANK, BANK OF AMERICA
 UNION BANK OF INDIA, CANARA BANK
 STANDERED CHARTERED BANK,
 BANQUE NATIONALE DE PARIS

REGISTRAR & TRANSFER AGENT

ALANKIT ASSIGNMENTS LIMITED, NEW DELHI

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Mahavir Spinning Mills Limited

REGISTERED & CORPORATE OFFICE

CHANDIGARH ROAD, LUDHIANA-141 010.

Phones : (0161) 2228943-48

Fax : (0161) 2601048 & 2602710.

E-mail: secretarial.lud@vardhman.com

Web site: www.vardhman.com

WORKS

NANT SPINNING MILLS,

1ANDIDEEP

RIHANT SPINNING MILLS,

1ALERKOTLA

RISHT SPINNING MILLS, BADDI

URO SPINNING MILLS, BADDI

URO DYEING , BADDI

URO WEAVING MILLS, BADDI

URO TEXTILES, BADDI

MAHAVIR SPINNING MILLS LIMITED,

HOSHIARPUR

MAHAVIR SPINNING MILLS LIMITED,

Gassed Mercerised Yarn Unit),

HOSHIARPUR

MAHAVIR SPINNING MILLS LIMITED,

(Sewing Thread, Unit-II),

LUDHIANA

MAHAVIR SPINNING MILLS LIMITED,

(Dyeing & Finishing-Perundurai Unit),

PERUNDURAI

MAHAVIR SPINING MILLS

(Textile Division) BADDI

VARDHMAN SPINNING AND GENERAL MILLS,

(UNIT-I & II), LUDHIANA

VARDHMAN SPECIAL STEELS, LUDHIANA

VARDHMAN SPINNING AND GENERAL MILLS,

(100% EOU), BADDI

BRANCHES

- 30 & 33, Shri Krishna Centre,
1st Floor, Near Mithakhali Six Road,
Navrang Pura, Ahmedabad-380 009
- No. 15, H. Siddiah Road,
Bangalore-560 027
- S.C.O. 1,2 & 3 Sector-17 B,
Chandigarh- 160017
- D8, Industrial Estate
Guindy, Chennai 600 032
- 36/2303, D & K, Ammankovil Road,
Ernakulam (Cochin)-682 035
- 832, Phase-V, Udyog Vihar,
Gurgaon-122 016
- 3-6-270/2, Himayat Nagar,
Opp. Telugu Academy, Hyderabad-580 029
- Plot No.141, Pipila Road,
A.B. Road, Indore-452 017
- B-34, Saggam Bhawan,
Vijay Path, Tilak Nagar, Jaipur-302 004
- 84/55, G.T. Road, Near Zarib Chowki, Near Bankey
Bihari Dham Banquet Hall, Kanpur-208 003
- P-22, 3rd Floor, Flat No. 6,
C.I.T. Road, Scheme-IV, Kolkata-700 014
- 55, Canal East Road,
Belighatta, Kolkata-700 085
- Chandigarh Road, Ludhiana-141 010
- 314, Solaris-II, Opp. L&T Gate No. 6,
Saki Vihar Road, Andheri (East),
Mumbai-400 072
- Solaris-II, Universal Industrial Estate,
Gala Number G-7 To G-14 & B-12 to B-14,
Saki Vihar Road, Andheri (East), Mumbai-400 072
- C-40 & 42, Okhla Industrial Area, Phase-II,
New Delhi-110 020
- 212, Deen Dayal Upadhyaya Marg,
Urdu Ghar, 1st Floor, New Delhi-110 002
- 5th Floor Plot No. 19, Sagar Plaza Building,
Laxmi Nagar, District Centre, New Delhi-110092
- 310, Surya Kiran Building,
19, Kasturba Gandhi Marg, New Delhi-110001
- B-47, Sector-6,
Noida-201 301
- Mezzanine Floor, Abhishek Plaza,
Exhibition Road, Patna-800 001
- Realty Warehousing,
Gat No. 2323/1, Wagholi, Pune-411 014
- Jyoti Sangam Lane, Upper Bazar
Ranchi-834 001
- No-40-LRG Layout, Narayan Knitting Mills Compound,
Kongu Nagar Extension, Tirupur-641 607
- 377-B, Muthuswami Industrial Complex,
Palladam Road, Tirupur

Mahavir Spinning Mills Limited

NOTICE

NOTICE is hereby given that the THIRTY-THIRD ANNUAL GENERAL MEETING of the members of the Company will be held on Saturday, the 26th day of August, 2006 at 3.00 p.m. at the Registered Office of the Company situated at Chandigarh Road, Ludhiana, to transact the following business :-

ORDINARY BUSINESS:

1. To receive, consider and adopt the Audited Balance Sheet as at 31st March, 2006, Profit and Loss Account for the year ended on that date, together with Reports of Auditors and Directors thereon.
2. To declare Dividend.
3. a) To appoint a Director in place of Dr. T.N. Kapoor, who retires by rotation in accordance with Article 108 of the Articles of Association of the Company and being eligible, offers himself for re-appointment.
- b) To appoint a Director in place of Mr. Sachit Jain, who retires by rotation in accordance with Article 108 of the Articles of Association of the Company and being eligible, offers himself for re-appointment.
4. To appoint Auditors for the year 2006-2007 and to fix their remuneration.

SPECIAL BUSINESS:

5. To consider and if thought fit, to pass with or without modifications, the following resolution as a Special Resolution:-

"RESOLVED THAT pursuant to the provisions of Section 21 and all other applicable provisions, if any, of the Companies Act, 1956 and subject to the approval of the Central Government, if any, the name of the Company be and is hereby changed from 'Mahavir Spinning Mills Limited' to 'Vardhman Textiles Limited'.

RESOLVED FURTHER THAT the name 'Mahavir Spinning Mills Limited', wherever occurs in the Memorandum and Articles of Association of the Company, be substituted by the new name 'Vardhman Textiles Limited'.

RESOLVED FURTHER THAT the Board of Directors be and is hereby authorised to take such steps as may be necessary to give effect to this resolution".

6. To consider and if thought fit, to pass with or without modification, the following resolution as a Special Resolution:-

"RESOLVED THAT pursuant to the provisions of Section 309, 310 and other applicable provisions, if any, of the Companies Act, 1956, approval of the Members of the Company be and is hereby given to the enhancement of sitting fee payable to the Directors from Rs. 4,000/- and Rs. 3,000/- per meeting to Rs. 8,000/- and Rs. 5,000/- per meeting for attending the Board Meeting and Committee Meeting respectively."

BY ORDER OF THE BOARD

PLACE : LUDHIANA
DATED : 22nd July, 2006

(VIPIN GUPTA)
COMPANY SECRETARY

NOTES:

1. A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE ON A POLL INSTEAD OF HIMSELF/HERSELF AND SUCH PROXY NEED NOT BE A MEMBER OF THE COMPANY. THE PROXY, IN ORDER TO BE EFFECTIVE, MUST BE RECEIVED BY THE COMPANY NOT LESS THAN 48 HOURS BEFORE THE MEETING. THE BLANK PROXY FORM IS ENCLOSED.
2. Explanatory statement pursuant to Section 173(2) of the Companies Act 1956, in respect of item nos. 5 & 6 of the notice is annexed hereto and the information pursuant to Corporate Governance Clause of the Listing Agreement(s) regarding the directors seeking re-appointment in the Annual General Meeting as proposed in the Notice is also being annexed hereto separately and both form part of the Notice.
3. **The Register of Members and the Share Transfer Books of the Company shall remain closed from 1st August, 2006 to 26th August, 2006 (both days inclusive).**
4. The Dividend declared, if any, will be paid to those Members whose names appear in the Register of Members of the Company as on the last date of book closure i.e. 26th August, 2006. However, in respect of the shares held in electronic form, the dividend will be paid on the basis of beneficial ownership as at the end of the 31st day of July, 2006, as per details to be furnished by Depositories for this purpose.
5. Members holding shares in physical mode are requested to notify the change in their addresses, if any, at the earliest to the Registrar & Transfer Agent. However Members, holding shares in electronic mode may notify the change in their addresses, if any, to their respective Depository Participants.
6. Members desiring any information as regards Accounts are requested to write to the Company at its Registered Office at least 10 days before the date of Annual General Meeting so as to enable the management to keep the information ready.
7. The copies of relevant documents can be inspected at the Registered Office of the Company on any working day between 10.30 A.M. to 12.30 P.M.
8. Members are requested to bring their copy of Annual Report alongwith them to the Annual General Meeting.
9. Members holding shares in the same/identical name(s) under different folios are requested to apply for consolidation of such folios and send relevant share certificates to the Registrar and Transfer Agent.

BY ORDER OF THE BOARD

PLACE : LUDHIANA
DATED : 22nd July, 2006

(VIPIN GUPTA)
COMPANY SECRETARY

**ANNEXURE TO THE NOTICE :****EXPLANATORY STATEMENT PURSUANT TO SECTION 173(2) OF THE COMPANIES ACT, 1956:****ITEM NO. 5 OF THE SPECIAL BUSINESS**

Consequent upon the vesting of textile business of Vardhman Holdings Limited [formerly known as Vardhman Spinning and General Mills Limited (VSGM)] in your Company, pursuant to the Order of Hon'ble Punjab & Haryana High Court, the Members in their Extra-Ordinary General Meeting (EGM) held on 5th March, 2005 had accorded their approval for change of name of the Company from 'Mahavir Spinning Mills Limited' to 'Vardhman Textiles Limited' and authorised the Board of Directors for its implementation. Due to some difficulties, the Board of Directors decided to defer the implementation of the change of name for some time and the decision of the Board was ratified by the Members in their Annual General Meeting held on 27.08.2005 and the Members authorised the Board of Directors to implement the change of name as and when they think fit. Now, the Board of Directors in its meeting held on 20th May, 2006 has decided to change the name of the Company from 'Mahavir Spinning Mills Limited' to 'Vardhman Textiles Limited' and recommended for the fresh approval of the Members in forthcoming Annual General Meeting. Accordingly, your approval is solicited.

MEMORANDUM OF INTEREST :

None of the Directors is concerned or interested in the resolution.

ITEM NO. 6 OF THE SPECIAL BUSINESS :

Article 96 of the Articles of Association of your Company provides for payment of sitting fee to every director for attending a meeting of the Board or its Committee subject to such

maximum fee as may be prescribed by the Central Government from time to time. In terms of Circular No. G.S.R. 580 (E) dated 24.07.2003 issued by the Central Government, your Company can pay a maximum amount of Rs. 20,000/- as sitting fee for each meeting of the Board of Directors or a Committee thereof.

Keeping in view the contribution made by the Directors in framing progressive policies and also giving their valuable guidance/suggestions from time to time to the Company, the Board of Directors in its meeting held on 22nd July, 2006 had enhanced the sitting fee from Rs. 4,000/- to Rs. 8,000/- and from Rs. 3,000/- to Rs. 5000/- per meeting for attending the Board Meeting and Committee Meeting respectively, subject to the consent of the Members in General Meeting. Accordingly, your approval is solicited.

MEMORANDUM OF INTEREST:

Except Mr. S.P. Oswal, Chairman & Managing Director, Mr. V.K. Saxena, Director, Mr. D.L. Sharma, President & Executive Director, Mr. Sachit Jain and Mrs. Suchita Jain, Executive Directors, all other Directors of the Company are concerned or interested in this resolution."

BY ORDER OF THE BOARD

PLACE : LUDHIANA
DATED : 22nd July, 2006

(VIPIN GUPTA)
COMPANY SECRETARY

Information pursuant to Corporate Governance Clause of the Listing Agreement(s) regarding the Directors seeking appointment/re-appointment in the Annual General Meeting

Name of the Director	Sh. Sachit Jain	Sh. T.N. Kapoor
Date of Birth	08.07.1966	02.06.1932
Date of Appointment	13.06.1994*	14.08.1975
Expertise in specific functional area	Business Executive having rich experience of more than 15 years in Textile Industry	Experience of over 52 years as Management Educationist & Advisor having specific expertise in Corporate Management Policy and Financial Management.
Qualification	B.Tech., M.B.A.	M.Com, LL.B. & Ph.D.
Directorships of Other Companies as on 31 st March, 2006	1. Vardhman Holdings Limited 2. Vardhman Acrylics Limited 3. VMT Spinning Company Limited 4. Vardhman Apparels Limited 5. Santon Finance and Investment Company Limited 6. Flamingo Finance and Investment Company Limited 7. Ramaniya Finance and Investment Company Limited 8. Srestha Holdings Limited 9. Vardhman Yarns & Threads Limited	1. Omax Autos Limited 2. Sterling Tools Limited 3. Swaraj Engines Limited 4. Kamla Dials & Devices Limited 5. Modern Steels Limited 6. Haryana Telecom Limited
Chairman/Member of Committees of Other Companies as on 31st March, 2006	Audit Committee 1. VMT Spinning Company Limited (Chairman)	Audit Committee 1. Omax Autos Limited (Member) 2. Sterling Tools Limited (Member) 3. Swaraj Engines Limited (Member) 4. Kamla Dials & Devices Limited (Chairman) 5. Modern Steels Limited (Member) Investor Grievance Committee 1. Omax Autos Limited (Chairman) 2. Sterling Tools Limited (Chairman) 3. Swaraj Engines Limited (Chairman)
No. of Shares held	40,005	Nil

* Appointed as Executive Director w.e.f. 30.03.2005.



Mahavir Spinning Mills Limited

DIRECTORS' REPORT

Dear Members,

The Directors of your Company have pleasure in presenting their 33rd Annual Report on the affairs of the Company together with the Audited Accounts of the Company for the year ended 31st March, 2006.

1. FINANCIAL RESULTS:

The Financial Results for the year are as under :-

PARTICULARS	2005-2006	(Rs. in Lac) 2004-2005
Turnover	195,724.74	193,136.65
Profit before Depreciation, Interest & Tax PBDIT)	39,142.16	31,577.45
Interest & Financial expenses	3,949.03	5,909.47
Profit before Depreciation & Tax (PBDT)	35,193.13	25,667.98
Depreciation	10,133.99	9,700.83
Profit before Tax (PBT)	25,059.14	15,967.15
Provision for Tax	5,700.00	4,760.00
- Current	110.00	-
- Fringe Benefit Tax (FBT)	(374.84)	(841.64)
- Deferred (Net of adjustment)	(7.64)	(27.23)
- Income Tax Adjustment for earlier years	19,631.62	12,076.02
Profit after Tax (PAT)	19,631.62	12,076.02

Appropriations:

Proposed Dividend on:

Equity Shares	2310.78	1,733.09
Corporate Dividend Tax	324.09	243.06
Transfer to General Reserve	16,475.65	11,782.04
Surplus carried to Balance Sheet	5,023.59	3,877.49
	24,134.11	17,635.68
Earnings per share (Rs.) - Basic	33.98	20.90
- Diluted	16.50	9.47
Dividend per share (Rs.)	4.00	4.50

2. MANAGEMENT DISCUSSION AND ANALYSIS REPORT:

a) Textile Business:

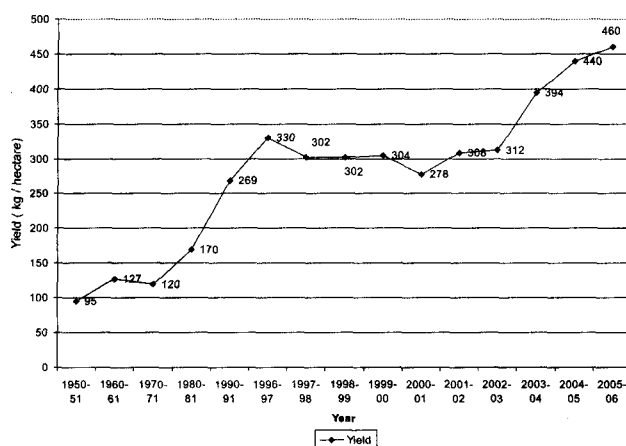
The Indian Textile Industry has passed through a tough operating environment during the last many years. However, the fortune of the Industry is looking up in view of the phasing out of quantitative restrictions and integration of trade in textile and clothing with WTO. The Government has also initiated policy reforms in the textile industry, thus creating a level playing field for organized textile producers like your Company. The trade data indicates impressive growth of textile and clothing exports to major importing countries like USA & European countries. The domestic market has also recorded healthy growth. As a result, the investment environment in the Industry has considerably improved. However, the price pressure both in

domestic and international market continues, leading to lower profit margins. The input costs particularly the power and personnel cost continue to increase at a fast pace. The growing input costs pose a major challenge to our competitiveness. At the same time most of the organised players including your Company have chalked out ambitious growth plans for capacity expansion and additions to the product portfolio.

The Company's main raw material is cotton and cotton yield in the country is amongst the lowest in the world. In the past years, due to the efforts made by the Company alongwith other members of the Textile industry and the Government, the cotton yield has been increasing and the country had back to back bumper cotton crops. In the current financial year too the indications are that the area under cotton cultivation is likely to increase as also the yield so the cotton supply position should remain comfortable.



YEARWISE LINT YIELD of INDIA



It is worth mentioning here that Company has chalked out an Expansion-cum-Modernization Plan of Rs. 2300.00 crore (approx.). This will help us expand capacities in our major businesses of yarn and fabrics. With the proposed expansions, the finished fabric production will increase by 60 million meters per annum. Similarly, the spinning capacity will increase by about 2.5 lac spindles. This will give us an opportunity to serve our customers with larger volumes, wider product portfolio and more sophisticated products. The proposed expansion will put the Company on steady growth path, which will enable us to fulfil expectations of various stakeholders.

b) Steel Business:

The Steel Division of the Company has focus on Alloy and Special Steel. This caters to the demand of Automobile Sector, Forging Industry and Special Steel users in the Capital Goods Industry. The growth in Automobile Sector and Auto Component Sector is likely to create increase in demand for these varieties of Steel. The Steel business has performed well this year but not as well as last year when the Company got the benefit of rising prices and heavy inventory gain.

c) Financial Analysis and Review of Operations:

Your directors are pleased to report performance of the business operations as follows :-

• PRODUCTION & SALES REVIEW:

During the year under review, your company has registered a turnover of Rs. 1,95,724.74 lac as compared to Rs. 1,93,136.65 lac showing a marginal increase over the previous year's turnover. The exports of the Company, however, decreased from Rs. 41,307.55 lac to Rs. 36,741.54 lac, showing a decrease of 11.05% over the previous year. The business-wise performance is as under:-

- i) **Yarn:** The production of yarn increased from 77,525 MT to 77,967 MT during 2005-2006. The sales revenue of yarn decreased from Rs. 99,761.47 lac to Rs. 92,619.62 lac during the year under review.
- ii) **Sewing Thread:** During the year, the production of Sewing Thread was 8129 MT as against 6255 MT in the previous year. The sales revenue of Sewing Thread Division increased from Rs. 25,751.78 lacs to Rs. 32,281.52 lacs.
- iii) **Steel:** During the year, the production of Steel Ingots/Billets has been 79452 MT (Previous year 80866 MT) and that of Rolled Products has been 73087 MT (previous year 75040 MT). The sales revenue of the division has been Rs. 31,850.21 lac (previous year Rs. 31,819.17 lac.).
- iv) **Fabric:** During the year, the production of processed fabric increased from 28.47 million meters to 32.62 million meter, showing an increase of 14.58% over the previous year. The sales revenue of processed fabric also increased from Rs. 25,791.18 lac to Rs. 28,945.39 lac, showing an increase of 12.23% over the previous year.

• PROFITABILITY:

The Company earned profit before depreciation, interest and tax of Rs. 39,142.16 lac as against Rs. 31,577.45 lac in the previous year. After providing for depreciation of Rs. 10,133.99 lac (previous year Rs. 9,700.83 lac), provision for current tax Rs. 5,700.00 lac (previous year Rs. 4,760.00 lac), provision for deferred tax (net of adjustments), Rs. (374.84) lac (previous year Rs. (841.64) lac), income tax adjustments for earlier years Rs. (7.64) lac (previous year Rs. (27.23) lac) & Fringe Benefit Tax of Rs. 110 lacs (previous year nil) the net profit worked out to Rs. 19,631.62 lac as compared to Rs. 12,076.02 lac in the previous year. However, out of this, profit of Rs. 2,716.00 lac was non-recurring being of extra-ordinary nature.

RESOURCES UTILISATION:

- i) **Fixed Assets:** The gross fixed assets (including work-in-progress) as at 31st March, 2006 were Rs. 1,85,633.23 lac as compared to Rs. 1,55,017.69 lac in the previous year.
- ii) **Current Assets:** Debtors outstanding for more than six months were Rs. 1,392.70 lac as compared to Rs. 1,674.68 lac in the previous year. The net current assets as on 31st March, 2006 were Rs. 1,05,010.07 lac as against

Mahavir Spinning Mills Limited

Rs. 72,802.28 lac in the previous year. Inventory level was at Rs. 56,899.59 lac which was more than the previous year level of Rs. 52,693.30 lac.

• FINANCIAL CONDITIONS & LIQUIDITY:

The Company enjoys a rating of "AA-" and "P1+" from Credit Rating Information Services of India Limited (CRISIL) for long term and short term borrowings respectively. Management believes that the Company's liquidity and capital resources should be sufficient to meet its expected working capital needs and other anticipated cash requirements. The position of liquidity and capital resources of the Company is given below :-

	(Rs. in lac)	
	2005-2006	2004-2005
Cash & Cash equivalents:		
• Beginning of the year	2,272.43	2,673.18
End of the Year	27,154.82	2,272.43
Net cash provided (used) by:		
Operating Activities	23,294.18	31,026.62
Investing Activities	(27,171.35)	(8,501.60)
Financial Activities	28,759.56	(22,925.77)

d) Internal Control System:

The Company has well defined internal control system. The Company takes abundant care to design, review and monitor the working of internal control system. Internal Audit in the organisation is an independent appraisal activity and it measures the efficiency, adequacy and effectiveness of other controls in the organisation. All significant issues are brought to the attention of the Audit Committee of the Board.

e) Management perception of Risk & concern:

We perceive risk on four accounts mainly. First, is the price of the raw material, which is cotton in our case. Having a significant share in value of output, the cotton price has a major impact upon the profitability. It is matter of great satisfaction that the cotton crop in the country has been growing on account of increased productivity and increasing area under cotton cultivation. Through CII, we are also making efforts to impart necessary training to the cotton growers about scientific cotton cultivation practices to improve cotton yield, which has started paying dividends in terms of higher productivity. For instance, during the current year, there is a clear indication of the revival of cotton production in Punjab. Our second risk perception is about the conversion cost especially the energy cost, which is higher than other competing countries like Pakistan, Bangladesh,

China etc. We are adopting energy saving and optimization measures to keep the energy cost under control. Third, with phasing out of quota system, the intensity of competition in the domestic and international market is likely to increase. This will put pressure on product prices and profitability. Fourth, the Company has undertaken a Massive Expansion Plan. Executing this expansion plan and then stabilizing the operations will require a lot of management efforts and so there is the project execution risk. However, the Company is taking all possible steps to see that the potential downside from the risks is reduced.

f) Human Resources/Industrial Relations:

The Company continues to lay emphasis on building and sustaining an excellent organisation climate based on human performance. Performance management is the key word for the Company. During the year, the Company employed over 15,900 employees.

Pursuit of proactive policies for industrial relations has a peaceful and harmonious situation.

3. EXPANSIONS:

During the year under review, the Company has invested Rs. 338.00 crore (approx.) in expansion, modernisation and debottlenecking activities. The new Weaving Unit of 168 looms has been commissioned and now stabilized and will give full year's performance in the current financial year. The expansion in Processing Unit has also been completed and will get stabilized by end of July, 2006 and will give full performance thereafter. There is a delay in expansion at Auro Spinning Mills due to delay in machines coming from the supplier.

NEW M.P. SITES:

Your Company is implementing two new expansions in Madhya Pradesh under the names **Vardhman Yarns**, a Spinning Project and **Vardhman Fabrics**, an Integrated Fabric Project. Both the plants envisage setting up a coal based captive power plant each. Civil work on both the plants has started and is progressing satisfactorily. The Spinning Plant is coming up in phases and part production will start in fourth quarter of this financial year. The Plant will be completed by fourth quarter of 2007-2008. The Fabric production from Vardhman Fabrics will start trial production of part capacity in fourth quarter of 2006-07 and the project is expected to be completed by fourth quarter of 2007-08.

4. VARDHMAN GROUP'S EFFORTS IN COTTON YIELD IMPROVEMENT:

Vardhman Group launched 'Village Adoption Programme' in 2003 for the first time when it adopted 'Nava Pind' on experimental basis. The entire



Mahavir Spinning Mills Limited

Programme was carried out with the help of the specialists from Punjab Agricultural University and the Department of Agriculture, Government of Punjab. There was enormous increase in the yield of the farmers of Nava Pind and this encouraged the adoption of the 10 villages in the subsequent year comprising of the two clusters of 5 villages each. The efforts of the consortium yielded national attention and the programme was huge success as there was tremendous increase in the yield of the cotton crop in the adopted villages.

In the year 2005-06 the number of adopted villages increased to 25 with each cluster comprising 5 villages covering the area of 20,000 acres. The overall yield of the adopted villages was almost 50% higher than the average yield of the state. In the current year, 2006-07 Consortium of the Banks and Mills, led by Vardhman has moved further and has adopted 10 clusters comprising of total 50 villages covering the area of 70,000 acres. The programme has already started and the ground work for making it a success has been completed.

The efforts have resulted in reducing the cost of production of the farmers and thus resulting in the additional profit of more than Rs. 7000 per acre which has increased the standard of living of the farmers in the adopted villages.

Besides the Village adoption programme, Vardhman is also honouring the farmers with the highest yields in the state of Punjab.

5. SUBSIDIARIES:

The Company has following subsidiary companies, the details of profitability of which are given below :-

VMT Spinning Company Limited (VMT):

Business of this subsidiary of the Company which is a Joint Venture Company remained steady. The sales revenue of the Company decreased marginally from Rs. 6,183.08 lac to Rs. 5,939.55 lac. The net profits of the Company, however, increased from Rs. 143.65 lac to Rs. 480.66 lac.

During the year, the Company raised Rs. 34.50 million by issuing 34,50,040 shares on Rights Basis to the existing shareholders of the Company to part finance the expansion project of 18000 spindles undertaken by the Company. After the Rights Issue, the paid up capital of the Company has been increased to Rs. 2,070.02 lac.

Out of the total present paid-up capital of Rs. 2,070.02 lac, your Company holds 73.33%. The Board of Directors of VMT has recommended dividend of 7% for the year 2005-2006.

Vardhman Threads Limited (VTL):

This 100% subsidiary of your Company recorded a sales volume of Rs. 2,137.67 lac as against Rs. 2,121.39 lac in the previous year, an increase of

0.76 per cent. The net profit of the Company is Rs. 522.83 lac as against Rs. 551.19 lac in the previous year showing a decrease of 5.15%.

Vardhman Yarns & Threads Limited (VYTL):

This 100% subsidiary of the Company has not yet started its operations.

A statement under Section 212 of the Companies Act, 1956, relating to the subsidiaries of the Company viz., VMT Spinning Company Limited, Vardhman Threads Limited and Vardhman Yarns & Threads Limited is enclosed herewith together with Annual Reports of the respective Companies.

6. FCCBs ISSUE:

During the year, the Company made an issue of Foreign Currency Convertible Bonds of US\$ 60 million for raising funds for its expansion programme. The FCCBs are having a maturity of 5 years and 1 day and will be converted into equity shares at a price of Rs. 423.25 per share. The FCCBs are Zero Coupon Bonds with a yield to maturity of 6%, calculated on a semi-annual basis, at the end of 5 years and 1 day, if not converted into shares during this period.

7. DEMERGER:

Pursuant to the Scheme of Arrangement and Demerger between Vardhman Holdings Limited (formerly known as Vardhman Spinning and General Mills Limited) (Transferor Company) and Mahavir Spinning Mills Limited (Transferee Company) as sanctioned by Hon'ble Punjab & Haryana High Court vide its Order dated 04.03.2005, the Company allotted 1,27,63,064 equity shares to the shareholders of Transferor Company in the ratio of 8 shares for every 10 shares held in the transferor Company.

8. BONUS:

During the year, your Company allotted 1,92,56,509 equity shares of Rs. 10/- each as Bonus Shares in the ratio of one equity share for every two shares held to the shareholders of the Company. Thus the Equity Capital of the Company stood increased to 5,77,69,527 equity shares of Rs. 10/- each.

9. PUBLIC DEPOSITS:

At the end of the year, fixed deposits from the Public were outstanding to the tune of Rs. 335.56 lac. Out of these deposits, 63 deposits amounting to Rs. 12.23 lac were due for payment on or before 31st March, 2006 but were not claimed by the depositors. Since then, 12 deposits amounting to Rs. 4.32 lac have either been repaid or renewed and for the balance 51 deposits amounting to Rs. 7.91 lac, instructions of the depositors are awaited.

10. DIVIDEND:

The Board of Directors of your Company is pleased to recommend a dividend of 40% on the enhanced Paid-up Equity Share Capital of the Company.