

Vardhman Textiles Limited

(Formerly known as 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
 SMT. SHAKUN OSWAL
 SH. SACHIT JAIN — Executive Director
 SH. DARSHAN LAL SHARMA — President & Executive Director

CHIEF FINANCIAL OFFICER

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
 STANDARD CHARTERED BANK,
 BANQUE NATIONALE DE PARIS

REGISTRAR & TRANSFER AGENT

ALANKIT ASSIGNMENTS LIMITED, NEW DELHI

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Vardhman

Vardhman Textiles Limited

(Formerly known as 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

ANANT SPINNING MILLS,

MANDIDEEP

ARIHANT SPINNING MILLS,

MALERKOTLA

ARISHT SPINNING MILLS, BADDI

AURO SPINNING MILLS, BADDI

AURO DYEING , BADDI

AURO WEAVING MILLS, BADDI

AURO TEXTILES, BADDI

MAHAVIR SPINNING MILLS

(Gassed Mercerised Yarn Unit),

HOSHIARPUR

MAHAVIR SPINNING MILLS,

(Sewing Thread Unit I),

HOSHIARPUR

MAHAVIR SPINNING MILLS,

(Sewing Thread, Unit-II),

LUDHIANA

MAHAVIR SPINNING MILLS,

(Sewing Thread Unit III),

PERUNDURAI

MAHAVIR SPINNING MILLS

(Textile Division) BADDI

VARDHMAN SPINNING MILLS,

BADDI

VARDHMAN SPINNING AND GENERAL MILLS,

(UNIT-I & II), LUDHIANA

VARDHMAN SPECIAL STEELS, LUDHIANA

VARDHMAN FABRICS,

BUDHNI

VARDHMAN YARNS,

SATLAPUR

BRANCHES

- 30 & 33, Shri Krishna Centre, 1st Floor, Near Mithakhali Six Road, Navrang Pura, Ahmedabad-380 009
- Building No. 101 & 102, JB Kaval, KHB Colony, Nandini Layout Post, Yeswantpur, Bangalore-560 022
- S.C.O. 1,2 & 3 Sector-17 B, Chandigarh- 160017
- D8, Industrial Estate, Guindy, Chennai 600 032
- 450/1, G.K. Industrial Estate, Arcot Road, Alaparkkam, Porpur, Chennai-600 116
- 36/2303, D & K, Ammankovil Road, Ernakulam (Cochin)-682 035
- Plot No. 543H, Pace City - II, Sector 37, Gurgaon
- 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, Sangam Bhawan, Vijay Path, Tilak Nagar, Jaipur-302 004
- H.No. 23, Ambedkar Lane, Buta Nagar Paloura, Teh. & Distt. Jammu
- 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
- Plot No. 60, Sector 1, Parwanoo
- 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

Vardhman Textiles Limited

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NOTICE

NOTICE is hereby given that the THIRTY FOURTH ANNUAL GENERAL MEETING of Vardhman Textiles Limited will be held on Saturday, the 18th day of August, 2007 at 3.30 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, 2007, Profit and Loss Account for the year ended on that date, together with Report of Auditors and Directors thereon.
2. a). To appoint a Director in place of Mr. S.K Bansal, 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. S.K Bijlani, 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.
3. To appoint Auditors for the year 2007-2008 and to fix their remuneration.

SPECIAL BUSINESS:

4. To Consider and if thought fit, to pass with or without modification(s), 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 the sitting fee payable to the Directors from Rs. 8,000/- and Rs. 5,000/- per Meeting to Rs. 10,000/- and Rs. 6,000/- per Meeting for attending the Board Meeting and Committee Meeting respectively."
5. To Consider and if thought fit, to pass with or without modification(s), the following resolutions as Ordinary Resolutions :-
a) "RESOLVED THAT Mrs. Shakun Oswal, who was appointed as an Additional Director by the Board of Directors under Section 260 of the Companies Act, 1956 and hold office upto the date of this Annual General Meeting and in respect of whom the Company has received a notice under section 257 of the Companies Act, 1956, be and is hereby appointed a Director of the Company, liable to retire by rotation, under the Articles of Association of the Company."
b) "RESOLVED THAT Mr. A.K Purwar, who was appointed as an Additional Director by the Board of Directors under Section 260 of the Companies Act, 1956 and hold office upto the date of this Annual General Meeting and in respect of whom the Company has received a notice under section 257 of the Companies Act, 1956, be and is hereby appointed a Director of the Company, liable to retire by rotation, under the Articles of Association of the Company."

BY ORDER OF THE BOARD

PLACE : LUDHIANA
DATED : 28th May, 2007

(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. The information pursuant to Corporate Governance Clause of the Listing Agreement(s) regarding the directors seeking appointment/re-appointment in the Annual General Meeting as proposed in Item No. 2(a) & 2(b) and Item No. 5(a) & 5(b) of the Notice is also being annexed hereto separately and forms part of the Notice.
3. **The Register of Members and the Share Transfer Books of the Company shall remain closed from 17th August, 2007 to 18th August, 2007.**
4. The Members holding shares in physical mode are requested to notify the change in their address, if any, at the earliest to the Registrar & Transfer Agent/Company. However members, holding shares in electronic mode may notify the change in their address, if any, to their respective Depository Participants.
5. 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.
6. 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.
7. Members are requested to bring their copy of Annual Report alongwith them to the Annual General Meeting.
8. 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 Company/Registrar and Transfer Agent.

BY ORDER OF THE BOARD

PLACE : LUDHIANA
DATED : 28th May, 2007

(VIPIN GUPTA)
COMPANY SECRETARY



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ANNEXURE TO THE NOTICE :

EXPLANATORY STATEMENT PURSUANT TO SECTION 173(2) OF THE COMPANIES ACT, 1956:

ITEM NO. 4 OF THE SPECIAL BUSINESS

Article 96 of the Articles of Association of your Company provides for the 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 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 Committee of Directors.

Keeping in view the contribution made by Directors in framing the progressive policies and giving their valuable guidance / suggestions from time to time to the Company, the Board of Directors in its meeting held on 28th May, 2007 had enhanced the sitting fees from Rs. 8,000/- to Rs. 10,000/- and from Rs. 5,000/- to Rs. 6,000/- for attending the meeting of Board of Directors and Committee of Directors respectively.

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

ITEM NO. 5 (a) & (b) OF THE SPECIAL BUSINESS :

(a) Mrs Suchita Jain had resigned from the Board of Directors of the Company. The Board of Directors appointed Mrs Shakun Oswal as an Additional Director on the Board of the Company pursuant to Article 105 of the Articles of Association of the Company and section 260 of Companies Act 1956, Mrs. Shakun Oswal is also on the Board of Vardhman Holdings Limited and various other Investment

Companies. The Company has received a notice from one of the members of the Company u/s 257 of the Companies Act, 1956, together with the requisite deposit, proposing the candidature of Mrs. Shakun Oswal as a Director of the Company.

None of the Directors except Mrs. Shakun Oswal, the appointee herself, and Sh S.P Oswal and Sh Sachit Jain, being relatives of Mrs. Shakun Oswal, is concerned or interested in this resolution.

(b) The Board of Directors in its meeting held on 28.05.2007 had appointed Mr. A.K Purwar as Additional Director on the Board of the Company pursuant to Article 105 of the Articles of Association of the Company and section 260 of Companies Act 1956, w.e.f. 01.06.2007. Mr. Purwar is an eminent Banker and was the Chairman of the State Bank of India and its associate Banks upto May 31st, 2006. He has a rich experience of more than 36 years. The Company has received a notice from one of the members of the Company u/s 257 of the Companies Act, 1956, together with the requisite deposit, proposing the candidature of Mr. A.K. Purwar as a Director of the Company.

Non of the Directors except Mr. A.K. Purwar, the appointee himself is concerned or interested in this resolution.

BY ORDER OF THE BOARD

PLACE : LUDHIANA
DATED : 28th May, 2007

(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. S.K. Bansal	Mrs. Shakun Oswal	Mr. A.K Purwar	Sh. S. K. Bijlani
Date of Birth	15.05.1946	18.08.1946	14.05.1946	06.09.1942
Date of Appointment	30.03.2005	28.05.2007	28.05.2007 (w.e.f. 01.06.2007)	30.03.2005
Expertise in specific of more functional area	Practising Chartered Accountant having more than 34 years experience in Audit, Accounts and Taxation	Investment Activities	Eminent Banker having Experience of more than 36 years in Banking	Industrial & Business experience than 30 years & Finance
Qualification	F.C.A.	B.A	M.Com, PGDBA	B.Tech., PGDC In Mgt & Fin.
Directorships of Other Companies as on 31 st March, 2007	1. Marudhar Hotels Pvt. Ltd. 2. Steel Strips Wheels Ltd. 3. Shri Bhavni Power Project Pvt. Ltd.	1. Vardhman Holdings Ltd. 2. Adinath Investment and Trading Company 3. Devakar Investment and Trading Co. Pvt. Ltd. 4. Ramaniya Finance and Investment Co. Ltd. 5. Flamingo Finance and Investment Co. Ltd. 6. Srestha Holdings Limited 7. Santon Finance and Investment Co. Ltd. 8. Pradeep Mercantile Co. Pvt. Ltd. 9. Plaza Trading Co. Pvt. Ltd. 10. Vardhman Textile Processors pvt. Ltd. 11. Marshal Investment & Trading Co. Pvt. Ltd. 12. Sharda Investment & Trading Co. Pvt. Ltd.	1. Indiareit Fund Advisors Pvt. Ltd.	1. Magnus Engineers Private Limited 2. Punjab Information & Communication Technology Corporation Limited 3. Chandigarh Industrial & Tourism Development Corporation Ltd.
Chairman/ Member of Committees of Other Companies as on 31 st March, 2007	Audit Committee 1. Steel Strips Wheels Ltd. (Member)	—	—	—
No. of Shares Held	Nil	1,53,583	Nil	Nil

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DIRECTORS' REPORT

Dear Members,

The Directors of your Company have pleasure in presenting their 34th Annual Report on the affairs of the Company together with the Audited Accounts of the Company for the year ended, 31st March, 2007.

1. FINANCIAL RESULTS:

The Financial Results for the year are as under :-

PARTICULARS	2006-2007	(Rs. in Lac) 2005-2006
Turnover	215,009.02	195,724.74
Profit before Depreciation, Interest & Tax (PBDIT)	38,290.82	39,142.16
Interest & Financial expenses	3,769.50	3,949.03
Profit before Depreciation & Tax (PBDT)	34,521.32	35,193.13
Depreciation	11,944.53	10,133.99
Profit before Tax (PBT)	22,576.79	25,059.14
Provision for Tax		
- Current	5,017.00	5,700.00
- Fringe Benefit Tax	100.00	110.00
- Deferred (Net of adjustment)	294.77	(374.84)
- Income Tax Adjustment for earlier years	(5.06)	(7.64)
Profit after Tax (PAT)	17,170.08	19,631.62
Add: Debenture Redemption Reserve	625.00	625.00
Balance brought forward	5,023.59	3,877.49
Balance available for appropriation	22,818.67	24,134.11
Appropriations:		
Interim Dividend on:		
- Equity Shares	2,310.78	—
- Corporate Dividend Tax	324.09	2,634.87
Proposed Dividend on:		
- Equity Shares	—	2,310.78
- Corporate Dividend Tax	—	324.09
Transfer to General Reserve	15,000.00	16,475.65
Surplus carried to Balance Sheet	5,183.80	5,023.59
	22,818.67	24,134.11
Earnings per share (Rs.)		
- Basic	29.72	33.98
- Diluted	16.56	16.50
Dividend per share (Rs.)	4.00	4.00

2. MANAGEMENT DISCUSSION AND ANALYSIS REPORT:

a) Textile Business:

The global textile industry is undergoing growth, restructuring and relocation in the wake of dismantling of restrictions on the movement of textile products across the world. The industry is growing at a rapid pace in countries like China, India, Pakistan, Bangladesh, Srilanka and East European countries. China has emerged the largest global player in the international textile business with a turnover of about \$280 bn, of which exports alone accounted for \$146 bn in 2006.

The global fibre consumption is growing at about 3.5 per cent per annum with synthetic fibres dominating the total fibre consumption. The global fibre consumption increased from 52.7 million tons in the year 2000 to 68.7 million tons in 2006. Of this synthetic fibres accounted for 40.8 million tons. It is worth mentioning here that the cotton fibre consumption has recorded impressive growth during the recent years.

The global trade in textile and clothing recorded growth of about 7 per cent in 2005 at \$479 bn compared to \$453 bn a year ago. The textile trade recorded a growth of 5 per cent while clothing grew faster at 7 per cent. A large part of the



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increase in trade was captured by China, which is almost 25 per cent. China has also chalked out an ambitious plan to increase its market share to about 50 per cent in the coming years. According to study conducted by Technopak, the world trade in textile and clothing is expected to grow to \$805 billion by 2015.

Though India enjoyed strong position in world trade of Textiles in early 80's but we lost ground between this period by the reason of fiscal policies of reservations in the small scale sector. During this period, China took advantage by modernizing and expanding at fast speed and has emerged to capture more than 20% of world trade. Whereas India is still occupying about 4% of the world trade.

The government introduced TUF scheme in 1999 in order to increase investment for modernizing and expanding of certain sectors of Textile Industry. In 2004, government brought in a major change in fiscal policy by bringing a level playing field among the different sectors of the Industry. This has given a fillip to investment in Textile Industry and offtake of loans under TUF picked up in a massive way during the last three years. The investment need to continue for next 5 years if we have to reach a level where we are not seen as a minisule player vis –a vis China and that is the reason that the Finance Minister in his budget speech in 2007 extended the TUF scheme for another 5 years.

Your Company has taken full advantage of the scheme by launching expansion and modernization of its capacities. The implementation is going on and this will enable the Company to serve various products, to provide good service to its customers by supplying materials like Yarns, Fabrics, Threads to enable the garmentors to acquire a cutting edge in competitiveness.

The Indian textile industry has been growing at 8-10 per cent in recent years. The growth of textile industry has become more volatile in the wake of growing production centres like Cambodia and Vietnam. Further considering sensitivity to prices and competitive conditions, the country's relative market share undergoes major changes. For example, the exports from India recorded a growth of about 20 per cent during 2004 and 2005 but during the last year, the exports recorded a meagre growth of 7 per cent.

Relocation, Consolidation and Collaboration are expected to characterize the textile industry in next few years. At the same time a few large textile conglomerates would emerge. The Indian textile has seen rapid integration with the global

textile industry in terms of alliance and acquisitions.

In view of global forces mentioned above, the competencies required in the textile industry are rapidly changing with cost, services and innovation as the key drivers. The competition in textile industry would further intensify and the survivors would be the one who understand the directional change and build better competencies.

Outlook on opportunities

The fundamental growth drivers remain strong. There would be growing opportunities in the international market and the domestic market. The mill fibre consumption has reached a level of 6.4 mn tons which shows significant growth in the last three years. The consumption is growing in response to growing per capita income, population and strong retail push.

Besides the growth opportunities in the World market consequent to opening of the world trade in 2005, there exists immense opportunities due to increased consumption that is expected to take place due to growing income. It is estimated by Technopak in its projection upto 2015 that Domestic Economy will grow from USD 20-25 Million to USD 50-55 Million. In order to reach that level, the country has to achieve much bigger capacities in all sectors of textile production. Your Company has already planned expansion of 2.9 lac spindles at Satlapur and Budhni in Madhya Pradesh. Partial capacity of 34,800 spindles has already been commissioned. The balance capacity is likely to go on stream during the year 2007-2008.

The fabric capacity in existing facility has already been increased to 54 million meter. Our new plant at Budhni will create a capacity of 40 million meters of processed fabric to start with. The provision has also been made to increase the capacity by 20 mn meters. The fabric facility in Budhni shall also be coming up in the year 2007-2008.

It has also been our continuous endeavour that we diversify the products so that the Company can offer to the buyers more and more value added products.

b) Steel Business

The steel division of the Company has focused 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 and looking at the growth trend in the automobile sector, it is expected that the steel business of the Company should perform well in the coming years.

c) Financial Analysis and Review of Operations:

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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. 215,009.02 lac as compared to Rs. 195,724.74 lac showing an increase of 9.85 % over the previous year turnover. The export of the Company increased from Rs. 36,741.54 lac to Rs. 43,401.84 lac, showing an increase of 18.13% over the previous year owing to enhanced production and better product/market penetration. The businesswise performance is as under:-

- i) **Yarn:** The production of yarn increased from 77,967 MT to 87,476 MT during 2006-2007. The sales revenue of yarn increased from Rs. 92,619.62 lac to Rs. 102,873.31 lac during the year under review
- ii) **Sewing Thread:** During the year, the production of Sewing Thread was 8783 MT as against 8129 MT in the previous year. The sales revenue of Sewing Thread Division decreased from Rs.32,281.52 lacs to Rs. 29,634.83 lacs mainly because of change in accounting system of discounts allowed on sales which were earlier given through credit notes, and now reduced from the invoice value it self.
- iii) **Steel:** During the year, the production of Steel Ingots/Billets has been 88378 MT (Previous year 79452 MT) and that of Rolled Products has been 81537 MT (Previous year 73087 MT). The sales revenue of the division has been Rs. 34,702.19 lac (Previous year Rs.31,850.21 lac.).
- iv) **Fabric:** During the year, the production of processed fabric increased from 32.62 million meters to 36.53 million meter, showing an increase of 11.99 % over the previous year. The sales revenue of processed fabric also increased from Rs. 28,945.39 lac, to Rs 33,239.58 lac. showing an increase of 14.84% over the previous year.

• PROFITABILITY:

The Company earned profit before depreciation, interest and tax of Rs. 38,325.34 lac as against Rs.39,142.16 lac (including extraordinary income of Rs. 2,714 lac) in the previous year. After providing for depreciation of Rs.11,944.53 lac, (Previous year Rs.10,133.99 lac), provision for current tax Rs. 5,017.00 lac (Previous year Rs.5,700.00 lac), provision for deferred tax (net of adjustments), Rs.294.77 lac (previous year Rs.374.84 lac), income tax adjustments for earlier years Rs.(5.06) Previous year Rs.(7.64) lac) and provision for Fringe Benefit Tax of Rs. 100 lac (Previous Year 110 lac) the net profit worked out to Rs.17,170.08 lac as compared to Rs.19,631.62 lac in the previous year.

The fabric business has suffered setback in the current year due to multiplicity of reasons. The expected increase in production could not be achieved because of some internal and external constraints which have substantially been overcome. Because certain commitments with customers could not be properly fulfilled, some extraordinary costs had to be borne by the Company. We are hopeful that this year there could be significant improvement in fabric business.

• RESOURCES UTILISATION:

- i) **Fixed Assets:** The gross fixed assets (including work-in-progress) as at 31st March, 2007 were Rs. 264,933.62 lac as compared to Rs. 185,633.23 lac in the previous year.
- ii) **Current Assets:** Debtors outstanding for more than six months were Rs. 1,058.30 lac as compared to Rs. 1,392.70 lac in the previous year. The net current assets as on 31st March, 2007 were Rs. 1,12,401.66 lac as against Rs. 1,05,010.07 lac in the previous year. Inventory level was at Rs. 69584.82 lac which was more than the previous year level of Rs. 56,899.59 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)	
	2006-2007	2005-2006
Cash & Cash equivalents:		
Beginning of the year	27,154.81	2,272.43
End of the Year	21,673.36	27,154.82
Net cash provided (used) by:		
Operating Activities	19,481.15	23,294.18
Investing Activities	(78,355.81)	(27,171.35)
Financial Activities	53,393.19	28,759.56

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:

The textile business, like other businesses, is



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susceptible to various risks. The primary risk factor is the raw material prices, which is the largest component of cost, as the commodity prices are cyclical in nature. As a result, they exert significant impact on profitability. Fortunately the availability of cotton in the country has improved considerably during the last few years. The Company has significant exports and large project imports. The recent volatility in foreign exchange markets has a bearing on the profitability and the cost of production. The rapid strengthening of the rupee against the dollar is likely to adversely affect the profitability of the company. We are taking all possible measures to mitigate the adverse impact of the movements in the foreign exchange markets. The rate of inflation in the country has gone up in the recent quarters. This has consequences for the cost of inputs used by the Company. Coupled with price increase resistance, the increased input cost tend to reduce profitability. Finally the Company has chalked out major expansion in capacities. The successful installation and stabilization of operations is subject to project execution risk. However, the Company is fully prepared to meet this challenge and execute the projects keeping the down side risk to a minimum.

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 17600 employees.

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

3. SUBSIDIARIES:

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

VMT Spinning Company Limited (VMT):

Business of this subsidiary of the Company which is a Joint Venture with Marubeni Corporation and Toho Rayon Company Limited of Japan remained steady. The sales revenue of the Company increased to Rs. 6,787.49 Lac from Rs.5,939.55 lac. The net profits of the Company increased from Rs.480.66 lac to Rs. 1,139.51 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 a dividend of 9 % for the year 2006-2007.

Vardhman Threads Limited (VTL):

This 100% subsidiary of your Company recorded a sales volume of Rs. 2,228.97 lac as against Rs. 2,137.67 lac, an increase of 4.27 percent. The net profit of the Company is Rs. 655.04 lac as against

Rs. 522.83 lac in the previous year.

Vardhman Yarns & Threads Limited (VYTL):

This 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. BUSINESS RE-ORGANISATION:

The Board of Directors of the Company had approved the Scheme of Arrangement, Re-organisation and Demerger among Vardhman Textiles Limited, Vardhman Threads Limited and Vardhman Yarns & Threads Limited and their respective Shareholders & Creditors with the end intent of consolidating the Thread Business of the Company and that of Vardhman Threads Limited, a 100% subsidiary of the Company. The Petition under Section 391 has been filed in the High Court for the States of Punjab & Haryana at Chandigarh for approval of the above said scheme by the Hon'ble high Court, which was heard on 26th April, 2007. The Hon'ble High Court has issued the necessary directions to convene the Meetings of the Equity Shareholders, Secured & Unsecured Creditors of the Company. The said Meetings are scheduled to be held on 16th June, 2007 at the Regd. Office of the Company.

7. PUBLIC DEPOSITS:

At the end of the year, fixed deposits from the Public were outstanding to the tune of Rs.266.64 lac. Out of these deposits, 20 deposits amounting to Rs. 3.51 lac were due for payment on or before 31st March, 2007 but were not claimed by the depositors. Since then, 2 deposits amounting to Rs. 0.47 lac have either been repaid or renewed and for the balance 18 deposits amounting to Rs.3.04 lac, instructions of the depositors are awaited.

9. DIVIDEND:

The Board of Directors of your Company had declared an interim dividend of Rs. 4 per share, which has been paid in March, 2007. No final dividend has been recommended by the Board.

10. DIRECTORS:

Mr. S.K Bansal & Mr. S.K Bijlani, Directors of the Company, retire by rotation at the conclusion of the forthcoming Annual General Meeting of the Company, pursuant to article 108 of the Articles of Association of the Company and being eligible offer themselves for re appointment. Mrs Suchita Jain resigned from the Board of Directors of the Company w.e.f. 28.05.2007. The Board in its Meeting held on

Vardhman Textiles Limited

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28th May, 2007 appointed Mrs Shakun Oswal as additional Director on the Board of the Company. The Board also appointed Mr. A.K. Purwar, former Chairman of State Bank of India as Additional Director w.e.f. from 1st June, 2007 pursuant to the provisions of Section 260 of the Companies Act, 1956. Notices have been received from members pursuant to section 257 of the Companies Act 1956, together with requisite deposits proposing the candidatures of Mrs. Shakun Oswal and Mr. A.K. Purwar as Directors of the Company. Requisite approval of the members for their appointment is being sought at the ensuing Annual General Meeting.

11. CORPORATE GOVERNANCE:

The Company has in place a system of Corporate Governance. A separate report on Corporate Governance forming part of the Annual Report of the Company is annexed hereto. A certificate from the Auditors of the Company regarding compliance of conditions of Corporate Governance as stipulated under Corporate Governance Clause of the Listing Agreement is annexed to the report on Corporate Governance.

12. AUDITORS:

M/s. S.C. Vasudeva & Company, Chartered Accountants, New Delhi, Auditors of the Company, retire at the conclusion of the forthcoming Annual General Meeting and being eligible, offer themselves for re-appointment.

13. AUDITORS' REPORT:

The Auditors' Report on the Accounts of the Company for the year under review is self-explanatory and requires no comments.

14. COST AUDITORS:

The Board of Directors have re-appointed M/s. Ramanath Iyer & Company, Cost Accountants, New Delhi, as the Cost Auditors of the Company under Section 233B of the Companies Act, 1956, subject to the approval of the Central Government for the year 2007-2008. The Cost Auditors' Report for the financial year 2006-2007 will be forwarded to the Central Government as required under law.

15. STATEMENT OF PARTICULARS OF EMPLOYEES:

A Statement of Particulars of Employees pursuant to the provisions of Section 217(2A) of the Companies Act, 1956, is enclosed and forms part of this report.

16. GROUP:

The Company, inter-alia with the following entities, constitute a 'Group' as defined under the Monopolies and Restrictive Trade Practices Act, 1969:-

- Vardhman Holdings Limited
- Vardhman Threads Limited
- Adinath Investment and Trading Company

- Devakar Investment and Trading Company Private Limited

17. CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION, FOREIGN EXCHANGE EARNINGS AND OUTGO:

Energy conservation continues to be an area of major emphasis in your Company. Efforts are made to optimise the energy cost while carrying out the manufacturing operations. Particulars with respect to conservation of energy and other areas as per Section-217(1) (e) of the Companies Act, 1956, read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988, are annexed hereto and form part of this report.

18. DIRECTORS' RESPONSIBILITY STATEMENT:

Pursuant to Section-217(2AA) of the Companies Act, 1956, the Directors confirm that -

- in the preparation of the annual accounts, the applicable accounting standards have been followed;
- appropriate accounting policies have been selected and applied consistently, and have made judgements and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company as at 31st March, 2007 and of the profit of the Company for the year ended on 31st March, 2007;
- proper and sufficient care has been taken for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956, for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities; and
- the annual accounts have been prepared on a going concern basis.

19. NAME CHANGE:

The name of the Company has been changed from Mahavir Spinning Mills Limited to **Vardhman Textiles Limited w.e.f 5th September, 2006.**

20. ACKNOWLEDGMENT:

Your Directors are pleased to place on record their sincere gratitude to the Government, Financial Institutions, Bankers and Business Constituents for their continued and valuable co-operation and support to the Company. They also take this opportunity to express their deep appreciation for the devoted and sincere services rendered by the employees at all levels of the operations of the Company during the year.

FOR AND ON BEHALF OF THE BOARD

(S.P. OSWAL)

CHAIRMAN &

PLACE : LUDHIANA

DATED : 28th May, 2007

MANAGING DIRECTOR



Vardhman

Vardhman Textiles Limited

(Formerly known as Mahavir Spinning Mills 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 ENDED 31ST MARCH, 2007:

I. CONSERVATION OF ENERGY:

The Company has over the previous years taken several steps to conserve energy wherever possible. This continues to remain thrust area with studies, discussions and analysis being undertaken regularly for further improvements. The Company has put in heat recovery systems, lighting system to channelise heat energy and also condensate recovery system in its boilers. The use of inverters is being explored as well.

The desired information is enclosed herewith

Conservation measure taken, proposed measures being implemented for reduction of consumption of energy and consequent impact thereof on the cost of production of goods:

S. No.	Energy Consumption Measures Taken in 2006-07/proposed and being implemented in 2007-08	Saving In KWH (Lac) /Year 2006-07	Saving In Rs. (Lac) /Year 2006-07	Proposed Saving In KWH (Lac) /Year 2007-08	Proposed Saving In Rs. (Lac) /Year 2007-08
1	Installation Of Electronic Chokes, Cfl, Servo Stabilizer.	3.94	16.37	5.52	23.03
2	Installation Of Vfds, Energy Efficient Motors.	16.57	59.40	12.16	53.68
3	Machine Section Installation of Energy Efficient Motors, Vfds, Optimisation of Motor Loading, Automation of Boiler.	14.38	52.28	40.62	159.84
4	Installation Of Capacitors, High Efficient Pumps, High Efficient Compressors, Operating High Efficiency D.G. Sets.	25.62	356.68	242.92	1,013.49
1	Saving In Husk(ton) /Year Saving In Rs. /Year				
1	Heat Recovery From Compressors,D.G. Sets,.	906	101.87	-	136.40
2	Saving In Water(kl) / Year Saving In Rs. /Year				
2	Heat Recovery, Recovery Of Condensate, Reuse of Used Water.	62700	94.54	-	4.26
	Total Saving In Rs.in Lakh / Year		681.14		1390.70

FORM-A:				B) CONSUMPTION PER UNIT OF PRODUCTION:				
PARTICULARS		UNIT	2006-07	2005-06				
1.	ELECTRICITY:				1.	Yarn (Cotton & Acrylic):		
a)	Purchased:				Electricity	(KWH per Kg)	4.12	4.04
	Units	(KWH in lac)	5207.07	4069.06	Coal	(In per kgs.)	1.70	0.12
	Total amount	(Rs.in lac)	19131.04	15744.54	Husk	(In per kgs.)	2.36	2.70
	Rate per unit	(Rs.)	3.67	3.87	2.	Fabric:		
b)	Own generation through:				Electricity-grey fabric	(KWH/mtr)	0.85	0.85
	Diesel Generator	(KWH in lac)	700.71	1,332.12	Electricity-Processed fabric	(KWH/mtr)	0.50	0.42
	Unit/Ltr. of Diesel	(KWH)	4.04	4.11	Husk	(Kgs/mtr)	1.34	1.14
	Cost per unit	(Rs.)	5.17	4.19	Steam (used for grey Fabric)	(Kgs/mtr)	0.51	0.59
2.	Coal (Used in Boiler):				Steam (used for processed Fabric)	(Kgs/mtr)	6.12	4.96
	Quantity	(MT)	59.46	773.15	3.	Sewing Thread:		
	Total cost	(Rs. in lac)	2.54	33.15	Electricity	(KWH per Kg.)	3.46	3.48
	Average rate	(Rs. per MT)	4,271.64	4,287.65	Diesel	(Ltr per Kg.)	-	0.03
3.	Oil (LDO/HSP/RFO/HPS):				Husk	(Kg. per Kg.)	1.90	1.93
	Quantity	(K.LTRS)	4,643.65	4,439.36	4.	Steel Billets/Ingots:		
	Total Cost	(Rs.in lac)	884.92	781.22	Electricity	(KWH per MT)	879.95	885.50
	Average rate	(Rs. per Litre)	19.06	17.60	Furnace Oil/LDO	(Ltr. per MT)	12.11	11.88
4.	Others (Husk used in Boiler):				5.	Rolled Steel:		
	Total quantity	(MT)	96,126.65	85,790.58	Electricity	(KWH per MT)	72.75	74.53
	Total cost	(Rs.in lac)	2,608.67	1,782.89	Oil (FO/LDO)	(Ltr. per MT)	41.98	40.25
	Average cost	(Rs. per MT)	2,713.78	2,078.19				

II. TECHNOLOGY ABSORPTION:

Efforts made in Technology Absorption are furnished in FORM-B as under :-

A) RESEARCH AND DEVELOPMENT (R&D):

1. Specific areas in which Research & Development is carried out by the Company:

Research & Development is carried out for development of new products and for improvement in the production process and quality of products. The Company has been able to pioneer the launch of new products which have been successful in the market due to its R & D efforts.

2. Benefits derived as a result of R & D:

The Company has been continuously improving the quality of its existing products and entered into new products and also been able to reduce the cost of production.

3. Future Course of action:

Management is committed to strengthen R & D activities further to improve its competitiveness in times to come.