

14th Annual Report 2002-03

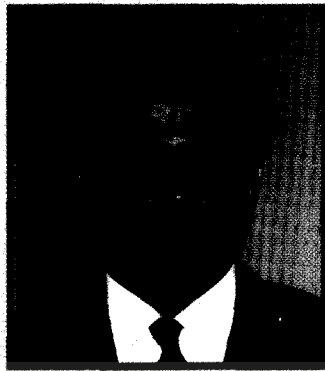


VAIBHAV GEMS LIMITED

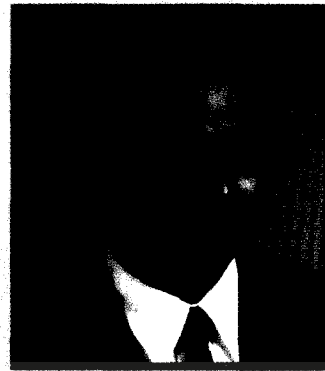
Board of Directors



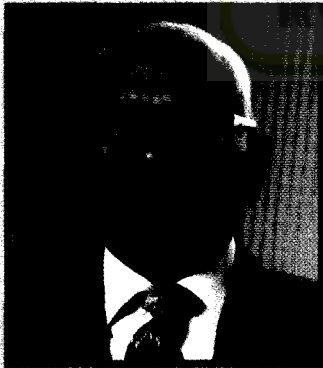
Sunil Agrawal
Chairman



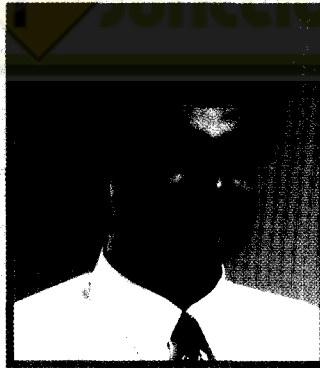
Suresh Punjabi
Director



Nirmal Kumar Bardiya
Director



Anandi Lal Roongta
Director



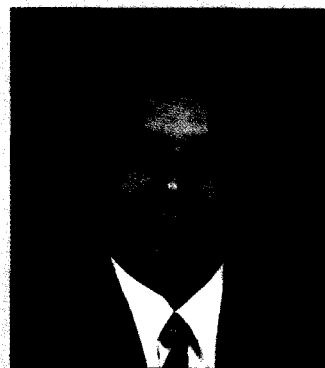
Rajiv Jain
Director



Sanjeev Agrawal
Director



Ikramullah
Executive Director



Rahimullah
Managing Director

The Mission

Strive to be the best in our individual endeavors and make our organisation the best in the industry by

- Exceeding Customer Expectations
- Commitment
- Positive Attitude
- Honesty
- Team Work



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Company Secretary
Ashish Jain

Auditors
B. Khosla & Co., Jaipur

Registrars & Share Transfers Agent
Karvy Consultants Ltd., Hyderabad

Registered Office :
K-6B, Adarsh Nagar, Fateh Tiba, Jaipur-302 004
Tel. : 0141-2601020 • Fax : 0141-2603228

Plants :
K-6B, Adarsh Nagar, Fateh Tiba, Jaipur-302 004
Tel. : 0141-2601030 • Fax : 0141-2602010

E-68, EPIP, RIICO Ind. Area, Sitapura, Jaipur-303 905
Tel. : 0141-2770648 • Fax : 0141-277 0510

14TH ANNUAL GENERAL MEETING

Date	: 19 August, 2003
Day	: Tuesday
Time	: 10.00 AM
Place	: K-6B, Adarsh Nagar Fateh Tiba, Jaipur
Book Closure	: 16 to 19 August, 2003 (both days inclusive)



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MILESTONES ...

• 1980	Launching of Vaibhav Enterprises.
• 1984-85	Vaibhav Enterprises received 1st of its Highest Export Awards by GJEPC in Coloured Gemstones (Semi-Precious) Category.
• 1986-87	Highest Export Award by GJEPC in Coloured Gemstones (Semi-Precious) Category.
• 1989	Incorporation of Vaibhav Gems Limited, (VGL) on May, 8th, 1989.
• 1992-93	Highest Export Award by GJEPC in Coloured Gemstones (Semi-Precious) Category.
• 1994	VGL takes over Vaibhav Enterprises as a running concern in July, 1994.
• 1994-95	Highest Export Award by GJEPC in the Coloured Gemstones (Semi-Precious) Category.
• 1994-95	The State Award for Export Excellence by the Government of Rajasthan.
• 1995-96	Highest Export Award by GJEPC in the Coloured Gemstones Category.
• 1996-97	Maiden Public Issue of Rs. 709.50 Lacs which was over subscribed 1.85 times.
• 1996-97	Set-up a Studded Gold Jewellery manufacturing unit.
• 1996-97	Highest Export Award by GJEPC in the Coloured Gemstones Category.
• 1996-97	Export Company Award by the Institute of Marketing & Management, New Delhi.
• 1997-98	Highest Export Award by GJEPC in the Coloured Gemstones Category.
• 1998-99	Highest Export Award by GJEPC in the Coloured Gemstones Category.
• 1999-2000	Highest Export Award by GJEPC in Coloured Gemstones Category & Second Highest Export Award in Studded Gold Jewellery (DTA) Category.
• 1999-2000	Set-up a 100% EOU status at EPIP, Sitapura.
• 2000-01	Highest Export Award by GJEPC in Coloured Gemstones Category & Second Highest Export Award in Studded Gold Jewellery (DTA) Category.
• 2001-02	Highest Export Award by GJEPC in Coloured Gemstones Category.
• 2002-03	Crossed Rs. 100 crore landmark in Export Turnover.

GJEPC : The Gem and Jewellery Export Promotion Council, Sponsored by Ministry of Commerce, Government of India.



DIRECTOR'S REPORT

Dear Members,

Your Directors are pleased to present their 14th Annual Report on the state of your Company's affairs together with the audited accounts for the year ended March 31, 2003.

FINANCIAL HIGHLIGHTS

(Rs. in Lacs)

	2002-03	2001-02
Sales and Other Income	10,101.82	9,071.92
Less : Cost of Sales	9,315.81	8,426.41
Operating Profit/PBDIT	786.01	645.51
Less : Interest	108.15	134.88
Less : Depreciation & Amortisation	71.00	76.58
Profit before taxes	606.86	434.05
Less : Provision for Taxes	29.08	32.08
Profit after taxes	577.78	401.97
Add/(Less) : Prior period adjustments	6.98	(1.02)
Net Profit for the year	584.76	400.95
Add : Balance brought forward from the previous year	2,370.74	2,265.00
Total available for appropriations	2,955.50	2,665.95
Appropriations :		
Proposed Dividend	168.97	145.21
Tax on Dividend	21.64	-
General Reserve	150.00	150.00
Total	340.61	295.21
Balance to be carried forward	2,614.89	2,370.74

DIVIDEND

The Board of Directors signified its intention to recommend a dividend of Rs. 1.50 (15%) per Equity Share for the financial year 2002-2003, at the time of issuing Bonus Shares, keeping in view the dividend of Rs. 2.75 paid for the year 2001-2002 on pre-bonus Capital. Later the Budget 2003 has imposed dividend distribution tax of 12.5% and a surcharge of 2.5% thereon.

Your Directors are pleased to recommend a dividend of Rs. 1.60 (16%) per Equity Share for the year 2002-2003. Actual payout considering the dividend distribution tax and surcharge shall be Rs. 1.805 per Equity Share as compared to Rs. 1.375 per Equity Share (adjusted to 1:1 Bonus Issue) of the previous year.

YEAR IN RETROSPECT

The gems & jewellery exports of India has registered a credible performance despite uncertainties like Iraq

war, which had an adverse effect on the already slowed down economy of US.

Your Company too has achieved a turnover of Rs. 10060 Lacs as compared to Rs. 9049 Lacs of the previous year crossing the Rs. 100 Crore mark for the first time. Turnover of jewellery has increased from Rs. 4132 lacs to Rs. 6847 Lacs. Total production value of gemstone division has also increased from Rs. 5539 Lacs to Rs. 6060 Lacs out of which production worth Rs. 2816 Lacs (Previous year Rs. 731 Lacs) has been used captively for jewellery manufacture.

Net profit of Rs. 578 Lacs as compared to Rs. 402 lacs of the previous year shows an improvement of 44% approximately.

FINANCE

Keeping in view the depreciation in US\$, the Company has switched over to availing the working capital facilities in US\$. This has resulted into a saving of Rs. 27 Lacs approximately in the interest cost.

With a view to reduce the overall cost of working capital funds, the Company has introduced State Bank of Bikaner and Jaipur as a consortium member to take over the share of IDBI Bank Ltd. for the working capital facilities.

EXPANSION

The Company has undertaken a substantial expansion of its manufacturing facilities at its Sitapura EOU unit. For this purpose a new state of art, centrally air-conditioned building having most modern surveillance, security and access control systems is under construction and is likely to be completed by end September 2003. The Company expects to reduce invisible losses considerably and thus resulting into substantial savings.

INCREASE IN SHARE CAPITAL

During the financial year 2002-2003, Company has issued 52,80,300 fully paid Equity Shares of Rs. 10/- each as Bonus Shares in the ratio of 1:1. Due to this, the issued, subscribed and paid up capital of the Company has increased from 5,28,03,000 to Rs. 10,56,06,000 as at 31st March 2003.

AWARDS

The Company has continued to win the coveted GJEPC Export Awards and has won its 8th award in succession in coloured Gems Stones. In jewellery exports, since the Company's exports now falls in EOU/EPZ category, where the competition is from diamond jewellery units of SEEPZ, your Company could not stake its claim in that category.



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PROSPECTS

Your Company has been able to post approximately 22% growth in sales at Rs. 3202 Lacs for the first quarter ended on 30th June 2003 as compared to Rs. 2633 lacs of the corresponding period of the previous year.

The Government of India has announced some concessions and relaxation for the Gems and Jewellery industry in its Budget for year 2003-2004 and in Export and Import policy 2002-2007, which will definitely support the Gems and Jewellery Industry as a whole.

As the Iraq war is over and fear of SARS has subsided considerably, the Company expects to better the results further in the forth-coming periods.

CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE EARNINGS AND OUTGO

Information in accordance with the provisions of 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.

A. CONSERVATION OF ENERGY

The Company has a policy of identifying areas of energy conservation and implements the same immediately. The impact of above measures however cannot be measured objectively.

B. TECHNOLOGICAL ABSORPTION

The Company is having in-house Research and Development Team, continuously working for better and efficient Gems and Jewellery production process and designs. The Company has not imported any technology for its manufacturing process and therefore the question adaptation/absorption does not arise.

C. FOREIGN EXCHANGE EARNINGS & OUTGO

The Company is exporting coloured gemstones and Studded Gold Jewellery. It is continuously focussing on newer markets with bulk demands to avail economies of scale. The Company has very ambitious plans to increase its exports by tapping new markets. The foreign exchange earnings and outgo (FOB basis) of the Company is as follows:

	2002-03	2001-02
	Rupees	Rupees
Earnings	1,00,81,77,107	87,44,86,550
Outgo	52,09,70,288	48,76,71,362

DIRECTORS

Shri Sunil Agrawal, due to his occupations abroad, has expressed his inability to continue as Managing Director and has relinquished the office of Managing Director with effect from July 30, 2002. He continues as Chairman of the Company.

Mr. Rahimullah was appointed as Managing Director by the Board at its meeting held on 30th July 2002 and shareholders approved the appointment at the 13th Annual General Meeting held on 2nd September 2002.

As per Article 61 of Articles of Association of the Company, Shri Anandi Lal Roongta and Shri Sanjeev Agrawal, retire by rotation at the ensuing Annual General Meeting. Being eligible, they offer themselves for reappointment.

PARTICULARS OF EMPLOYEES

There were no employees in the Company employed throughout the year and in receipt of remuneration more than Rs. 24,00,000/- per annum or employed part of the year and in receipt of remuneration more than Rs. 2,00,000/- per month. As such, disclosure of particulars required in accordance with the provisions of Section 217(2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975 are not applicable.

DIRECTORS' RESPONSIBILITY STATEMENT

Pursuant to the requirement under Section 217 (2AA) of the Companies Act, 1956 with respect of the Directors' responsibility statement, it is hereby confirmed :

- That in the preparation of the annual accounts for the financial year ended March 31, 2003, the applicable accounting standards have been followed along with proper explanation relating to material departure.
- That the directors have adopted such accounting policies and applied them consistently and 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 at the end of the financial year and profit and loss account of the company for that period.
- That the directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956, for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities.



- iv. That the directors have prepared the annual accounts on a going concern basis.

APPRECIATION

Your directors are extremely grateful to the Company's customers, vendors, investors and bankers for their continued support during the year, which enabled the Company to maintain the high level of growth.

Your Director's also place on record their appreciation of the contribution made by employees, at every level. The growth of the Company was possible due to their active support, dedication and solidarity towards the Company.

On behalf of the Board of Directors

Sanjeev Agrawal
Director

Ikramullah
Executive Director

Jaipur, 30th June, 2003

MANAGEMENT DISCUSSION AND ANALYSIS

i. Industry structure and developments

The Indian gems & Jewellery industry has been regarded as one of the largest gems and jewellery industry in the world. In value terms, the country accounts for approximately 55 percent of global polished diamond market and nearly 9 percent of the jewellery market.

The financial year 2002-2003 witnessed various uncertainties in the form of slowdown in the US economy, middle east tensions resulting into Iraq war etc. After reaching Rs. 49.06 in May 2002, the US \$ has been weakening against Rupee and stood at Rs. 46.70 at the end of June 2003, indicating a depreciation of 4.81% over this period.

Gems and Jewellery exports from India in 2002-2003 stood at US\$ 9106 millions as compared to US\$ 7533 millions in 2001-2002, recording an increase of 20.88% in spite of adverse conditions. Export of Coloured gemstones witnessed 5.08% increase to US\$ 192 millions from previous comparable period's US\$ 183 millions. The gold jewellery export rose to US\$ 1512 millions from US\$ 1167 millions in the previous year. The adequate support provided by the Government in Budget and EXIM policy has paved the way for the Indian gems and jewellery industry to look forward for the leadership position in the global market.

ii. Opportunities and threats

The Company enjoys unstinted confidence from its valued customers for providing superior quality products. In order to meet the challenging market realities, your Company has been following the philosophy of providing the highest quality products at most economical prices. Your Company faces the challenge of normal market competition from domestic as well as International companies especially in South Asian countries in its existing business of exporting coloured gemstones and gold studded jewellery. Keeping in view the strong consumer base and expertise acquired, it definitely has a competitive edge.

iii. Segment-wise performance

Production value has shown improvements in both segments. Production value of gemstones has increased from Rs. 5539 lacs to Rs. 6060 lacs (increased by 9.4%) of which Rs. 2816 lacs (previous year Rs. 731 lacs) has been used for Jewellery production. Similarly the turnover of jewellery segment has increased from Rs. 4228 lacs to Rs. 6809 lacs (increased by 61.05%) which includes a value addition of Rs. 3993 lacs (previous year Rs. 3497 Lacs).

The Company has continued its emphasis on increasing exports of Studded Gold Jewellery, as the contribution is higher in this segment. The ratio between Gems and Jewellery, which was 53:47, has changed to 32:68.

Total exports have amounted to Rs. 10,018 lacs (Previous Year Rs. 8949 lacs) and Domestic Sales Rs 51.64 lacs (Previous year Rs. 101 lacs). Exports now constitute 99.59% of total sales as against 98.88% of previous year.

Although Employees costs have increased in proportion to the increase in production, the Company has been able to reduce Job work charges and other manufacturing expenses. Stores and consumables are incurred mainly in Jewellery manufacturing and are generally incurred in proportion to production.

The Company has been able to check the controllable costs viz. Bank Charges, Insurance, Post and Telephones. Interest cost has also been reduced by Rs. 27 lacs approximately.

iv. Outlook

The Government of India has announced some concessions to Gems and Jewellery Industry such as:

- Period of utilisation of raw materials prescribed for EOUs increased from 1 year to 3 years.
- Gems and Jewellery EOUs are now being permitted sub-contracting in DTA.



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- Export/Import of all products through post parcel/courier by EOUs allowed.
- EOUs will now allowed to sell all products including Gems and Jewellery through exhibitions and duty free shops set up abroad.
- Foreign bound passengers allowed to carry goods from EOUs to promote trade, tourism and exports.

With the stand off in Iraq and fear of SARS being over, the Industry outlook appears to be positive.

v. *Risks and concerns*

Your Company is engaged in the field of exporting coloured gemstones and gold studded jewellery. This business is entirely dependent on international market and economic conditions, which are subject to change frequently.

Being an Exporter Company, it is also exposed to the risk of foreign exchange fluctuations. However these risks are normal business risks and in the last few years, the Company has built up a strong portfolio of business assets and requisite financial strength to tackle these normal business risks. To address the risk of foreign Exchange fluctuation the Company has balanced the inflow and outflow of foreign exchange with forward contracts and borrowing in foreign currency.

Most of the customers of the Company have a sound financial track record and dealing with the Company for a long time.

The Company has a separate jewellery designing department for jewellery designing according to latest international requirements and for conducting research and development in jewellery designing & techniques.

vi. *Internal control systems and their adequacy*

The Company has an internal control system that is geared towards achieving efficiency in operations, optimum utilisation of resources, effective monitoring and compliances with all applicable laws and regulations. An extensive programme of internal audits, reviews by management and documented policies, guidelines and procedures, supplements the internal control

systems that are designed to ensure reliability of financial and all other records to prepare financial statements and other data, and to maintain accountability of assets.

vii. *Financial*

Traditionally, the Company's financial management has been governed by prudent and conservative policies. In fact, the financial strength of the Company today must be seen in the backdrop of this conservatism of the past, which is essential in an industry characterized by its capital intensive and cyclical nature.

Facilitated by lower inflation, interest rates continued to soften during the year. RBI reduced the bank rate from time to time. At its present level the interest rate is at its lowest since 1973.

viii. *Material developments in human resources/ industrial relations front, including number of people employed*

The growth of a Company depends upon the growth & quality of its human resources. The Company takes immense pride in providing an equal opportunity work environment, and places great emphasis on identifying and nurturing the talent. The company believes in empowering colleagues through greater knowledge, opportunity, responsibility, accountability and reward.

Your Company has moved towards key result area oriented performance appraisal system and a performance linked incentive scheme. It encourages individuals to go beyond the scope of their work, undertake voluntary projects that enable them to learn and contribute innovative ideas in meeting goals of the Company.

It has been the Company endeavour to build a strong relationship with everyone associated with the Company and this object has been achieved.

Your Director's take this opportunity to thank all the employees of the Company for their hard work, dedication and commitment. The enthusiasm and unstinting efforts of the employees is responsible for this rapid growth of the Company.

CAUTIONARY STATEMENT

All statements that address expectations or projections about the future, product development, market position, expenditures and financial results, are forward looking statements. Forward looking statements are based on certain assumptions and expectations of future conditions. The Company cannot guarantee about the accuracy of these assumptions and expectations. Therefore actual performance may differ from the projected performance as there are certain factors affecting the Company's performance such as international market conditions, Government policies & Laws, changes in the economic conditions affecting demand and supply etc. The Company does not take any responsibility to change/modify any forward looking statement on the basis of any subsequent developments or events.



CORPORATE GOVERNANCE

1. PHILOSOPHY ON CODE OF CORPORATE GOVERNANCE

Vaibhav Gems Limited believes that for a Company to succeed on a sustained basis, it must maintain global standards of corporate conduct towards its employees, consumers and society. It has always focused on good corporate governance which is a key driver of sustainable corporate growth and long term value creation for our shareholders.

The Company's philosophy on the Code of Corporate Governance is:

- (i) To ensure that the best possible team is in place at the helm of affairs of the Company;
- (ii) To ensure that the Board retains its objectivity with non-executive directors who are independent and represent the interest of shareholders;
- (iii) To ensure that adequate control systems exist to enable the Board to effectively discharge its responsibilities to the stakeholders;
- (iv) To ensure the fullest commitment of the Management and the Board to the maximization of shareholder value;
- (v) To ensure that the Company follows globally recognized corporate governance practices.

2. BOARD OF DIRECTORS

The composition of the Board of Directors of the Company represents an appropriate mix of executive and independent directors to maintain the independence of the board, and to separate the board functions of Governance and management. To ensure the independence of the board, the members of the Audit committee, Remuneration Committee and the Shareholder's/Investor's Grievance committee are composed entirely of Independent Directors.

During the Financial Year ended on March 31, 2003 the Board of Directors of the Company held 10 meetings of the Board.

The meetings were held on April 22, 2002, April 30, 2002, July 1, 2002, July 30, 2002, August 31, 2002, October 31, 2002, December 9, 2002, December 14, 2002, January 7, 2003, February 26, 2003. The maximum interval between any two meetings was 2 months.

The information required to be given in terms of Annexure 1 to Clause 49 of the Listing Agreement were circulated to all the Directors with Detailed Agenda Notes. The Directors, including the Non-Executive Directors, actively participated at the Board Meetings. All the resolutions were passed unanimously at the Board meetings.

Other details required in terms of Clause 49 of listing Agreement :

Name of the Director	Category	Board meetings attended during the year	Whether attended last AGM	No. of other Director-ship	No. of membership of board committees	No. of Board committees for which chair-person
*Mr. Sunil Agrawal	Chairman and Non-executive Director	4	Yes	3	Nil	Nil
*Mr. Rahimu-llah	Non-independent Managing Director	10	Yes	2	Nil	Nil
Mr. Ikramu-llah	Non-independent Executive Director	10	Yes	1	Nil	Nil
Mr. A.L. Roongta (Retd. IAS)	Independent Non-executive Director	8	Yes	2	3	1
Mr. Nirmal Kumar Bardiya	Independent Non-executive Director	6	Yes	2	2	Nil
Mr. Rajiv Jain	Independent Non-executive Director	7	No	2	1	Nil
Mr. Sanjeev Agrawal	Independent Non-executive Director	7	Yes	3	3	Nil
Mr. Suresh Punjabi	Independent Non-executive Director	0	No	1	3	1

* Mr. Sunil Agrawal vacated the office of Managing Director w.e.f. July 30, 2002 but continued as Chairman.

* Mr. Rahimullah was appointed as Managing Director w.e.f. July 30, 2002. His Appointment was approved by the shareholders at Annual General Meeting held on September 2, 2002.

3. COMMITTEES OF THE BOARD

Audit Committee

Terms of Reference

The terms of reference of the Audit Committee include the following:

- Reviewing the Company's financial reporting process and the disclosure of its financial information
- Recommending the appointment and removal of statutory auditors, fixation of audit fees and also to approve payment for other services.
- Reviewing the quarterly and annual financial statements with primary focus on accounting policies and practices, compliance with accounting standards and legal requirements concerning financial statements.