



VAIBHAV GEMS LIMITED

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Annual Report 2007 - 08

FORWARD LOOKING 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 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 and 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.



Board of Directors

- | | |
|---------------------------|---------------------|
| ❖ Sunil Agrawal | - Chairman |
| ❖ Suresh Punjabi | - Director |
| ❖ Rahimullah | - Managing Director |
| ❖ Nirmal Kumar Bardiya | - Director |
| ❖ Anandi Lal Roongta | - Director |
| ❖ Mitha Lal Mehta | - Director |
| ❖ Surendra Singh Bhandari | - Director |
| ❖ Pulak Chandan Prasad | - Director |
| ❖ Sanjeev Agrawal | - Director |
| ❖ Ikramullah | - Director |

Company Secretary

- ❖ Mukesh Khetan

Statutory Auditors

- ❖ Haribhakti & Co., Mumbai
- ❖ B. Khosla & Co., Jaipur

Registrar & Share Transfer Agents

- ❖ Karvy Computershare (P) Limited
17-24, Vittal Rao Nagar, Madhapur
Hyderabad-500 081

Bankers

- ❖ Punjab National Bank, Jaipur
- ❖ State Bank of Bikaner & Jaipur, Jaipur
- ❖ Union Bank of India, Jaipur
- ❖ IDBI Bank, Jaipur

Registered Office

- ❖ K-6B, Fateh Tiba, Adarsh Nagar, Jaipur-302004
Tel: 91-141-2601020; Fax: 91-141-2603228/2010

Corporate Office

- ❖ E-68, EPIP, Sitapura, Jaipur-302022
Tel: 91-141-2770648; Fax: 91-141-2770510

Our Vision

To be the most preferred global jewellery company for all stakeholders worldwide

Our Mission

Mission B14X

We aim to be a company with a billion dollar turnover by the year 2014 with 10 per cent profit margin.

Our Core Values

I will serve my customers with passion.

I will keep my word.

I will be respectful to all.

I will always help my team.

I will keep an open mind and improve everyday.

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CHAIRMAN'S MESSAGE

Dear Shareholders,

Our Father of Nation, Mahatma Gandhi said, “a small body of determined spirits fired by an unquenchable faith in their mission can alter the course of history”.

Very true! Yet another eventful year for the Company, with newer areas explored. Although, financially, this year was tough for us, but still we grew stronger, and it gave us newer dimensions to look at things.

The global economy experienced several critical challenges in terms of large and continuing global imbalances on account of rising oil prices, rising gold prices, severe credit squeeze, heightened global economic and political issues etc. This has led the company to be more focused on its core areas. Your Company rationalized the operations at various locations including US and Bangkok. Our TV Channels and Online Operations in UK and Germany are performing well and are expected to do better this year. Our 19 stores at various locations of US, Mexico, and Caribbean Islands are also doing well.

The coming year will be challenging. We will be focused, committed to our mission and on our feet to achieve our goal. Difficult times also provide opportunities for those who can grab them. We will continue in our pursuit of delivering value to our customers through innovation and distinct business models

What the human mind can conceive and believe, it can definitely achieve. The secret of success of an enterprise is steadfast constancy of purpose. The challenge before Vaibhav is to capture economies with scale and scope, by judiciously identifying them. We cannot afford to manage from the present to the future. We will have to manage the present from the future - a sort of working back from the desired end-states. Our success will be based on our ability to balance between the need for continuous

improvement in all ongoing operations and the need for gainful growth. We have to ensure that Vaibhav remains an agile yet robust firm even during fragile times.

The coming year would be the year of consolidation. The Company is planning to consolidate operations across the group. The Company will be focused on its core competencies. TV Market has emerged as one such kind of competency with being end-to-end vertically integrated and bringing in value and scope for the customers and company's rapid growth.

Vaibhav has always and will always create value for its stakeholders. It has always strived to build committed relations with all its stakeholders.

We are relentless in our pursuit of delivering highest quality product to our customers. This has helped us in improving relations with our existing customers and has also helped us to start new relationships. Our approach of taking the responsibility to create value for our customers through various service offerings has helped us create partnerships that have long term potential.

I would like to thank our shareholders, bankers and all other stakeholders for reposing their confidence in us. We would solicit their support and best wishes to steer the Company ahead, in the years to come.

I would also like to thank my co-workers who are the company's most valuable assets and believe that it is their dedication and commitment that will help us achieve our vision.

Regards,

Sunil Agrawal,
Chairman

Vaibhav Gems Limited

BOARD PROFILES

**Mr. SUNIL AGRAWAL**, Chairman

He is a commerce graduate with an MBA from Columbia University. A first generation entrepreneur, he established Vaibhav Enterprises in 1980 with the objective to trade in gemstones. He has travelled widely, and gained an immense knowledge of gemstones and jewellery. He has brought this expertise to bear on the success of the company. He has represented the company at all major international trade shows and jewellery fairs. He is credited with the pioneering commercialization of popular gemstones like Tanzanite.

**Mr. SURESH PUNJABI**, Director

After establishing his gems trading business in Hong Kong, he became well known internationally within the trade. He has widely travelled and has visited the most prominent mines in the world. He possesses an in-depth knowledge of the gemstone industry and its supply chain and the high-end jewellery business.

**Mr. RAHIMULLAH**, Managing Director

Beginning his career in his emerald trading and export business, he has gained considerable experience and knowledge in this field, and has travelled extensively in Africa, Europe and the Far East to source rough stones. He brings with him 34 years of industry experience. His dedication, vision and acumen have been responsible for the company's impressive growth.

**Mr. NIRMAL KUMAR BARDIYA**, Director

One of the most renowned jewellers of Jaipur with a vast experience in the manufacture of coloured gemstones, he is associated with the Company since 2001. He is highly specialised in high volume gemstones and beads, and is one of the leading global players in this segment.

**Mr. ANANDI LAL ROONGTA**, Director

A post-graduate in Economics and Law, he is a retired IAS officer and worked with the government of Rajasthan, the Government of India and various public sector units. He held prestigious positions like Managing Director of the Rajasthan Finance Corporation, Chairman-cum-Managing Director of the Rajasthan State Industrial Development and Investment Corporation Limited and was also the Industry Advisor to the Government of Rajasthan.



Mr. M.L. MEHTA, Director

A retired IAS officer and a renowned public administrator, social activist and human resource developer, he is a gold medalist and a Post Graduate in Physics from the University of Rajasthan, he is a P.G. Diploma Holder in urbanisation from the University of London with merit and a Graduate from the National Defence College in New Delhi. He has served in senior government positions such as the Chief Secretary of the Government of Rajasthan, Additional Secretary of the Ministry of Home Affairs and Director of NABARD. He has won prestigious awards like Indira Gandhi Priyadarshni Vriksha Mitra Award (1986), Acharya Jai Mal Gyan Award (1988) and Mewar Gaurav Award (1994).



Mr. SURENDRA SINGH BHANDARI, Director

One of the senior most Chartered Accountants of Rajasthan and a senior partner of M/s S. Bhandari & Co., he is one of the leading management consultants to various companies in the areas of banking and tax assignments, corporate restructuring, amalgamation and mergers, besides handling audit assignments in various renowned companies and financial institutions. Presently, he is on the Board of Reliance Capital Trustee Co. Ltd., Asian Hotels Ltd and Spectrum Power Generation Ltd.



Mr. PULAK CHANDAN PRASAD, Director

He is the Managing Director and Founder of Nalanda India Fund Limited, Mauritius. He has had eight and a half years of investing experience in India with Warburg Pincus, a leading global private equity firm, where he was Managing Director and Co-Head of India. Before Warburg Pincus, he spent six years at McKinsey in India, South Africa and the US. He joined McKinsey in 1992 after passing out from IIM, Ahmedabad. He also has an engineering degree from IIT, Delhi.



Mr. SANJEEV AGRAWAL, Director

A commerce graduate and promoter of Stone Age Limited, engaged in the export of building stones to Far East Asia, USA, Canada and Europe, he has travelled extensively across America and Europe and possesses an in-depth understanding of the market dynamics of these geographies.



Mr. IKRAMULLAH, Director

An authority in the manufacture of emeralds in India, he has gained an extensive experience in the gemstones industry through his family business and also as a result of his extensive global exposure.

Vaibhav Gems Limited

DIRECTOR'S REPORT

Dear Shareholders

Your directors present the 19th Annual Report on the Company's operations and performance together with the audited financial statements for the year ended 31st March 2008.

FINANCIAL HIGHLIGHTS:

(Rupees in Lacs)

Particulars	Standalone	
	2007-08	2006-07
Sales and Other Income	31,398.47	28,269.59
Less : Cost of Sales	28,904.68	25,144.59
Operating Profit/PBDIT	2,493.79	3,125.00
Less : Interest	827.77	368.63
Less : Depreciation & Amortization	175.96	186.53
Profit Before Taxes	1,490.06	2,569.84
Less : Provision for Taxes (Including FBT)	11.78	140.82
Deferred Tax charged	(26.09)	0.45
Net Profit after Tax but before Extra-ordinary Items	1,504.37	2,428.57
Less : Extra- ordinary Items – (Diminution in the value of Investments)	19,911.17	-
Profit after Tax and Extra-ordinary Items	(18,406.80)	2,428.57
Add: Balance brought forward from the previous year	9,257.21	7,011.47
Total Profits available for Appropriations	(9,149.59)	9,440.04
Appropriations :		
Dividend on Preference Share Capital	-	18.33
Proposed Dividend on Equity Shares	-	137.94
Tax on Dividend	-	26.56
General Reserve	-	-
Total	-	182.83
Balance to be carried forward	(9,149.59)	9257.21

DIVIDEND:

Your Directors have not recommended any dividend for the current financial year due to inadequacy of profits.

SUBSIDIARIES:

Your Company has 8 subsidiaries and 10 step down subsidiaries, which are spread across the world covering 5 continents & 14 countries. These subsidiaries are engaged in manufacturing as well as marketing of colored gemstones, diamonds, studded and plain gold, platinum and silver Jewellery. During the year, your Company has closed STS Jewel Gem China Limited, China and 2 Umbrellas. Com Inc., USA, due to minimal operations in these companies.

RETAIL OUTLETS:

In furtherance of our objective and in order to cater the demand of high-end customers at major holiday destinations of the world like Mexico, Alaska, Caribbean Island, your Company is operating 19 Retail Stores at these destinations. This retail drive has helped your Company to enhance its brand value and come closer to the customers. The Company's retail stores are widely recommended by the cruise liners, as one of the best place to shop high-end jewelry. During the year, the sales through these Retail Stores have grown by 39% over the last year.

ON-LINE TV CHANNEL:

Your Company's Jewellery TV Shopping Channels in UK and Germany have performed satisfactorily. Your Company has presence in 17 million households in UK. Your Company has enhanced its presence in Germany by adding 4.2 million households, taking the total reach of this Channel to 12 million households. Looking into the size of the market and growing market share of this segment, your Company has started its 24 hour TV Shopping Channel in USA in April, 07 through its wholly owned subsidiary-The Jewelry Channel Inc., USA (TJC, USA). TJC, USA has, as on date, presence in 28 million households.

These channels can be reached out on the Internet also, at:

United Kingdom: www.tjc.co.uk,

Germany: www.derschmuckkanal.de,

United States of America: www.tjc.tv

MANUFACTURING OPERATIONS:

During the year, your Company has consolidated its manufacturing capacity by scaling down its existing manufacturing operation at Bangkok. Now, your Company operates a compact manufacturing facility at Bangkok, which is cost efficient and market driven. Your Company has started focusing more on the manufacturing/outsourcing in India and China, to support its increased marketing activities.

INCREASE IN SHARE CAPITAL: Issue of GDR/Convertible Warrants

During the year, on 12th October 2007, your Company has issued fresh equity aggregating to Rs 9454.38 lacs through the issue of 4,11,060 Global Depositories Receipt (GDR) on private placement basis to Nalanda India Fund Limited (NIFL), Mauritius. The GDRs were issued at a price of Rs. 2300 per GDR, each GDR convertible into 10 equity shares of Rs 10 each at a premium of Rs 220 per share. These GDRs aggregate about 12.97% of the post issue share capital of the company.

On the same date, your Company had also issued 3,53,320 Convertible Warrants (convertible into equity shares) at a price of Rs 2300 per warrant aggregating, Rs 8126.36 lacs, equally to one of the Promoter Company and NIFL. 10% of the said amount has been received upfront. Each warrant is convertible into 10 equity shares of Rs 10 each at a premium of Rs 220 per share, within a period of 18 months from the date of allotment, on payment of the balance amount.

EMPLOYEE STOCK OPTION PLAN 2006:

During the year, the compensation committee in their meeting held on 27th July 2007, granted 12,000 stock options to its employees under the Employees Stock Option Scheme 2006 (VGL ESOP 2006). The details of the options granted are set out in Annexure I to the Directors' Report.

AWARDS AND RECOGNITION:

Your Company has, once again, been awarded with the coveted **GJEPC Export Award**, the **thirteenth** successive award for being the largest Indian exporter of coloured gemstones.

DIRECTORS:

During the year, on 12th October 2007, your Company has appointed Mr. Pulak Chandan Prasad as an additional director to remain as a Director up to the date of the ensuing Annual General Meeting. Mr. Pulak Prasad is the Managing Director and Founder of Nalanda India Fund Limited, Mauritius. He has had eight and a half years of investing experience in India with Warburg Pincus, a leading global private equity firm, where he was Managing Director and Co-Head of India. Before Warburg Pincus, he spent six years at McKinsey in India, South Africa and the US. He joined McKinsey in 1992, after passing out from IIM, Ahmedabad. He also has an engineering degree from IIT, Delhi.

As per Article 61 of Articles of Association of the Company, Shri Nirmal Kumar Baradiya, and Shri Sanjeev Agrawal, retires by rotation at the ensuing Annual General Meeting. Being eligible, they offer themselves for reappointment.

A brief resume of the above Directors together with the nature of their expertise in specific functional areas and names of companies in which they hold the directorship and the membership/chairmanship of committees of the Board, as stipulated under Clause 49 of the Listing Agreement with the Stock Exchanges, is given as an annexure to the notice of Annual General Meeting.

AUDITORS:

The Joint auditors M/s Haribhakti & Company, Chartered Accountants, Mumbai and M/s B. Khosla & Co., Chartered Accountants, Jaipur retire at the ensuing Annual General Meeting and have confirmed their eligibility and willingness to accept the office, if re-appointed.

Members are requested to consider their re-appointment for financial year ending 31st March 2009 on remuneration to be decided by the Board of Directors of your Company.

CONSOLIDATED FINANCIAL STATEMENTS:

Your directors present the consolidated financial statement, forming the part of the Annual Report. The consolidated financial statements are prepared in accordance with Accounting Standard prescribed by the Institute of Chartered Accountants of India.

PARTICULARS REQUIRED AS PER SECTION 212 OF THE COMPANIES ACT, 1956:

As per section 212 of the Companies Act, 1956, your Company is required to attach the Directors' Report, Balance Sheet and Profit and Loss Account of the subsidiaries with its annual financial statements. Since the audited consolidated financial statements are presented in the Annual Report, your Company had made an application to the Central Government seeking exemption from attaching the Reports and Accounts of its subsidiary companies with the Balance Sheet. The approval for the same has been received. Further, we believe that the consolidated accounts present a full and fair picture of the state of affairs of the Company as a whole and are accepted globally. Accordingly, the Annual Report does not include the financial statements of the subsidiaries. However, as per the terms of the exemption by the Central Government, a statement containing brief financial details of the Company's subsidiaries for the year ended 31st March 2008 is included in the Annual Report. Moreover, the accounts of the subsidiary companies will be made available for inspection to any member of the company at its registered office on any working day during business hours.

Vaibhav Gems Limited

OUTLOOK:

During 2007-2008, the Indian economy is expected to register a GDP growth of 8.7%*, helped by strong growth in its manufacturing and service sectors. The Indian Gems & Jewellery industry had also witnessed a growth of 22.27%** in the total exports from India during the financial year 2007-08.

The Indian government has also provided an impetus to the booming Gems & Jewellery industry with favorable foreign trade policy for this sector. During the year, Government took following policy initiatives**:

- Lowered the import duty on platinum from US\$ 13.82 per 10 gms to US\$ 5.03.
- The import duty on cut and polished gemstones and rough synthetic stones has been completely scrapped***.
- The import of consumables for metals other than gold and platinum has also been made duty-free up to 2% of FOB value of exports.
- For rejected jewellery, a duty free import entitlement of up to 2% of FOB value of exports is allowed.
- Increased duty-free import of commercial samples of jewellery is allowed up to Rs 3, 00,000.
- Import of gold of 18 carat and above have been allowed under the replenishment scheme.
- Import duty on some categories of gems and jewellery has also been reduced in the 2008-09 budgets. These include duty on Rough Cubic Zirconia from 10% to 5% and on Rough Corals from 10% to 5%.

* Source: <http://www.rbi.org.in>

** Source: <http://www.indiainbusiness.nic.in/>

***Source: Custom Notification No. 56/2008

The continued encouragement provided by the Government of India to the domestic gems and jewelry industry is expected to drive performance in the future also.

INTERNAL CONTROL AND AUDIT:

Your Company has an active Internal Audit Team. It is considered as an independent function. The Internal Auditor reports directly to the Audit Committee of the Board consisting of senior and experienced independent directors as its active members.

The internal audit team independently reviews the internal and financial controls, business processes and the financial transactions and a report is placed to the Audit Committee and appropriate corrective action is being taken. The internal control procedures are well documented and are applied across the entire operations of your Company.

The Internal Audit and the Internal Control procedures adopted in your Company are adequate and commensurate with the size and complexity of its business.

HUMAN RESOURCE DEVELOPMENT:

Your Company takes pride in its highly motivated and trained human resource, which has contributed its best for the Company to achieve newer heights. The total Manpower of the company as on 31st March 2008 was **1320**.

Training and Development are being given paramount importance and during the year 2007-08, a total of **557** employees were imparted In-House Training and **34** employees were deputed for Outside Training Programmes.

SOCIAL RESPONSIBILITY:

Like as always, this year also, your Company, being very well aware of its social responsibility has strived to discharge some of its concern towards the society. During the year, your Company has organized a voluntary **Blood Donation Camp** in the presence of Doctors and Medical practitioners on 20th March 2008 at its registered office for the participation of all its employees and workers. A total of **145** employees participated in the camp.

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 operations of your Company are not energy-intensive. However, significant measures are taken to reduce energy consumption by using energy efficient equipments. We regularly evaluate and use new energy efficient technologies and make necessary investment in these to make our infrastructure more energy-efficient.

B. Technological Absorption

Your Company possesses an in-house research and development wing, which is continuously working towards more efficient jewelry production, improved processes and better designs. Your Company has not imported any technology for its manufacturing process and therefore, the question of adaptation/absorption does not arise.

C. Foreign Exchange Earnings and Outgo

The Company exports coloured gemstones, diamonds and studded gold jewelry. The foreign exchange earnings and outgo (FOB basis) of the Company is as follows: