



NEW GEMS LIMITED



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

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



BOARD OF DIRECTORS

Sunil Agrawal

Chairman

A. L. Roongta

Nirmal Kumar Bardiya

Rajiv Jain

Sanjeev Agrawal

Suresh Punjabi

Directors

Ikramullah

Executive Director

Rahimullah

Managing Director

Company Secretary

Ashwani Dhanawat

Auditors

B. Khosla & Co.

Chartered Accountants

M.I. Road, Jaipur-302 001

Registrars and Share Transfers Agent

Karvy Consultants Limited

108-110, Anukampa Mansion-II

M.I. Road, Jaipur-302 001

Registered Office

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Works

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E-68, EPIP, RIICO Ind. Area, Sitapura, Jaipur-303 905

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DIRECTORS' REPORT

Dear Members,

Your Directors have great pleasure in presenting their 13th Annual Report on the business and operations of your Company together with the audited accounts for the year ended March 31, 2002.

FINANCIAL HIGHLIGHTS

(Rs. in Lacs)

	2001-02	2000-01
Sales and Other Income	9,071.92	7,176.26
Less : Cost of Sales	8,426.41	6,405.63
Operating Profit/PBDIT	645.51	770.63
Less : Interest	134.88	159.34
Less : Depreciation & Extraordinary items	76.58	77.98
Profit before taxes	434.05	533.31
Less : Taxes	32.08	40.00
Profit after taxes	401.97	493.31
Less : Prior period adjustments	1.02	2.28
Add : Balance brought forward from the previous year	2,265.00	1,979.44
Total available for appropriations	2,665.95	2,470.47
Appropriations :		
Proposed Dividend	145.21	132.01
Tax on Dividend	-	13.46
General Reserve	150.00	60.00
Total	295.21	205.47
Balance to be carried forward	2,370.74	2,265.00

DIVIDEND

To ensure sustained, stable and fair return on shareholders investments in the Company, your Directors are pleased to recommend a dividend of Rs. 2.75 per equity share of Rs. 10 each for the year as compared to Rs. 2.50 in the previous year.

YEAR IN RETROSPECT

The bygone year has been the very traumatic year in the world's geo-political history. September 11 marked the emergence of the ugly face of global terrorism followed by attack on Indian Parliament on December 13. Travel restrictions imposed by various countries on account of tension prevailed across the Western borders of the country also had a negative impact on exports.

United States of America has been the major buyer for this industry with a share of more than 35% of total Exports. Economic slowdown in that economy, which had set in at the end of the year 2000, was further aggravated by the events of September 11,

2001 and had a great impact on Gems and Jewellery exports from India. Exports of Gems and Jewellery from India during the financial year 2001-2002 stood at US \$ 7531.29 millions as compared to US\$ 7757.50 millions in 2000-2001.

Despite this, your Company is able to achieve a sales turnover of Rs. 9072 Lacs in the financial year 2001-2002 as compared to Rs. 7176 Lacs in 2000-2001. However due to fluctuations in prices of high valued coloured gemstones and due to shift in consumer preference towards low priced gemstones, the net profit have declined from Rs. 493 Lacs in the year 2000-2001 to Rs. 402 Lacs in the year 2001-2002.

FINANCE

During the year, the Company has repaid in full the Term Loans it availed from IFCI Ltd. for setting up the Jewellery manufacturing unit. There is no change in the Working Capital Borrowings during the period under review.

CAPITAL EXPENDITURE

During the year, the Company increased its capacities at 100% EOU and has added a sum of Rs. 86.76 Lacs to Gross Fixed Assets. This has been financed by Internal Accruals.

AWARDS

The Company has continued to win the coveted GJEPC Export Awards and has won its 7th award in succession in coloured Gems Stones and 2nd in succession in Studded Gold Jewellery for its exports during the year 2000-01.

YEAR IN PROSPECT

The outlook for the current year appears very encouraging. US economy has started showing growth. Tensions prevailed at the western borders of the country has eased out. Travel restrictions to this sub-continent imposed by various countries has been lifted. Customer confidence has been restored in high valued coloured Gemstones. The Company has been able to post a 26% growth in turnover for the first quarter ended June 2002 in comparison to the corresponding quarter of the previous year. This growth trend is likely to continue keeping in view the renewed strength in US economy.

SUBSIDIARY COMPANY

VGL Softech Limited (VSL), a Company promoted by your Company as subsidiary has issued 2,15,570 equity shares of Rs. 10 each at the premium of Rs. 10 per share and have ceased to be a subsidiary since March 15, 2002. However, your Company continues



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to be a major shareholder. VSL also has posted improved performance and has achieved a sales turnover of Rs. 188 lacs as compared to Rs. 90 lacs of the previous year.

INVESTMENTS

During the Year the Company has applied for 50,000 equity shares of Rs. 10 each offered for subscription by Punjab National Bank at Rs. 31 per share. Since the allotment has been made on April 10, 2002, the amount has been shown under the head Loans and Advances. The issue was oversubscribed and the Company has been allotted 7,000 equity shares only.

MANAGEMENT DISCUSSION AND ANALYSIS

In terms of Clause 49 of the listing agreement with Stock Exchanges Management Discussion and Analysis Report is appended as an Annexure - I to this Report.

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

Details of energy conservation and research and development activities undertaken by the Company along with the 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 are given in the Annexure - II to this report.

DIRECTORS

IFCI Ltd; consequent upon liquidation of their Term Loan, has withdrawn the nomination of Shri R. Krishnamurthy from the Board of Directors of the Company w.e.f. October 23, 2001. Your Directors place on record the enormous contribution made by Shri Krishnamurthy during his tenure on the Board.

Mr. Sunil Agrawal was appointed as Managing Director with effect from May 16, 2001 for a period of 5 years. The Company has received the approval of Central Government regarding his appointment vide letter dated December 26, 2001. However due to his occupations abroad, he has regretted 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.

The Board of Directors has appointed Mr. Rahimullah as Managing Director of the Company, with effect from July 30, 2002, subject to your approval.

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 for 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 :

- i. that in the preparation of the annual accounts for the financial year ended March 31, 2002, the applicable accounting standards have been followed along with proper explanation relating to material departure;
- ii. 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;
- iii. 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 would like to express their sincere appreciation of the co-operation and assistance received from the shareholders, bankers and other government agencies during the year under review.

Your directors also wish to place on record their deep sense of appreciation of the unstinted efforts and contribution made by employees at all levels resulting in the successful performance during the year.

On behalf of the Board of Directors

Sanjeev Agrawal
Director

Rahimullah
Managing Director

Jaipur, 30th July, 2002



Annexure - I to the Directors' Report

MANAGEMENT DISCUSSION AND ANALYSIS

i. Industry structure and developments

Gems and Jewellery industry in India is largely dependent on Exports, a major share of which goes to USA. The industry, therefore, is vulnerable to the US economy to a great extent. Unfortunately, the slowdown in that economy set in during the later half of 2000 was further aggravated by terrorist attack on September 11 and consequential political reactions and their effects on that economy. One of major Gemstone dealt in by your Company - Tanzanite also came under clouds during these highly charged times.

In an effort to restore confidence of the trade in Tanzanite, a summit was called in at Tucson, Arizona, USA comprising of key organizations including Governments of Tanzania and USA; trade bodies from USA, Tanzania, India; International Color gemstone Association etc. The protocol adopted at the summit and the equivocal clear statement of US Government has cleared the rumors and restored the people's confidence in this attractive gemstone. However, this has caused a pressure on the margins and profitability of the Company during the corresponding period to some extent.

The Company continues to maintain a very high quality of its product followed by timely delivery and reasonable pricing. This has helped Company in building customer confidence. As a result, despite of slowdown in economy, Company has able to improve its market share.

ii. Opportunities and threats

The Company is focussing on newer customer segments with bulk demands to take advantage of economies of scale. As applicable to other businesses, your Company is also facing competition from low cost economies. However, keeping in view the excellence it has acquired, the Company does not envisage any serious impact of such competition. The Company expects that the same will help in achieving the improved efficiencies.

iii. Segment-wise performance

Sales including exports have shown improvements in both segments, Gemstones

and Jewellery division. The Export Oriented Unit at Sitapura has substantially increased the production. The sales for the coloured gemstones has increased from Rs. 4100 lacs to Rs. 4682 lacs i.e., 14.20% increase over previous year. The total sales of Studded Gold Jewellery has increased from Rs. 2240 lacs to Rs. 4132 lacs i.e., 84.46% increase over the previous year.

The Company has emphasized on increasing export of Studded Gold Jewellery as the contribution is higher in this segment. The ratio between Gems and Jewellery, which was 65 : 35, has changed to 53 : 47. The most of incremental turnover has come from Jewellery division.

The Company has also emphasized on exports in comparison to Domestic Markets. Both the markets have varying preferences. The demand of domestic markets was in smaller quantities with lower margins, and hence uneconomical in comparison to export markets. Total exports has amounted to Rs. 8949 lacs (Previous Year Rs. 6310 lacs) and Domestic Sales Rs. 101 lacs (Previous year 835 lacs) Exports now constitute 98.88% of total sales as against 88.31% of previous year.

Due to substantial increase in production both of Gemstones as well as of Jewellery the manufacturing costs has increased substantially. Job-work charges are mainly incurred for Gemstone manufacturing and these have increased in proportion to the increase in production of Gemstones in carats. Stores and consumables are incurred mainly in Jewellery manufacturing and are generally proportionate to production, which has increased by 137% over the previous year.

However, the Company has been able to check the controllable costs viz. Travelling & Conveyance, Insurance, Advertisement & Business Promotion and have reduced these expenses by Rs. 46 lacs approx. Interest cost has also been reduced by Rs. 14 lacs approx.

iv. Outlook

The recession in general and slow down in US economy which had set in at the end of the year



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2000 and further aggravated by the events of September 11, 2001, has started showing improvements and demand has started picking up. The sales during the first quarter ending June 2002 has amounted to Rs. 2633 Lacs as compared to Rs. 2088 lacs of the corresponding period in the previous year, which is 26% higher. Your management optimistically added newer customer segments with sustained demand, helping in availing economies of scale.

v. Risks and concerns

The Company envisages risk of product obsolescence and foreign exchange fluctuations. The Company is constantly exploring newer markets and market segments. The Company is using Computer Aided Designing Techniques for designing latest jewellery designs. It continuously explores and develops new designs according to the market preferences. Therefore, the Company envisages these risks as normal business risks only. At the same time with the diversified markets and customer profiles, the risks are minimized. Most of the customers of the Company are having excellent track record and are dealing with the Company for a considerable long time. Similarly, your Company is a net foreign exchange earner and therefore is vulnerable to positive fluctuations only.

vi. Internal control systems and their adequacy

The Company has adequate internal control systems for the business processes, in respect of efficiency of operations, financial reporting, compliance with applicable laws and regulations etc. The audits are conducted to review the adequacy and effectiveness of internal controls and suggest improvements for strengthening them. Audit plans are made out with due weightage to the risk parameters associated with the business processes. Reviews are carried out to ensure follow up on the audit observations.

The Company has an Audit Committee, which comprises four non-executive directors. The Committee regularly reviews the significant observations of Internal Audit.

vii. Financial

Traditionally, the Company's financial

management has been governed by prudent policies, more often than not, even conservative. 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. To illustrate, borrowings have been based not on the capacity to borrow but on the basis of requirement keeping in view the plough back of profits.

The Company has a Financial Management Information System in place, which involves preparation of a detailed annual business plan for the current year and a broad forecast of projections for five years. The performance is reviewed on a monthly basis and corrective measures are taken.

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

Man is the only active agent and acts as a catalyst in effective utilization of all other M's (Material, Machine and Money). We would like to place on record our appreciation for the efforts and contribution made by all 410 employees in the challenging environment. Your directors take this opportunity to thank all employees for rendering impeccable services to every constituent of Company, customers and shareholders. The Company has a well-defined appraisal system to assess and reward the employees appropriately and also to gauge the potentials of the individuals.

CAUTIONARY STATEMENT

Statement in this Management Discussion and Analysis describing the Company's objectives, projections, estimates, expectations or predictions may be "forward looking statements" within the meaning of applicable securities laws and regulations. Actual results could differ materially from those expressed or implied. Important factors that could make a difference to the Company's operations include raw material availability and prices, cyclical demand and pricing in the Company's principal markets, changes in Government regulations, tax regime, economic developments within India and the countries in which the Company conducts business and other incidental factors.



Annexure - II to the Directors' Report

Information pursuant to Section 217(1)(e) of the Companies Act, 1956 read with Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988.

A. CONSERVATION OF ENERGY

The Company has installed energy efficient machineries at its Sitapura EOU Unit. The Company has started using lamps, which are extremely energy efficient in all its departments. The Company has a policy of identifying areas of energy conservation and implements the same immediately. The impact of above measures cannot be measured in view of increasing production.

B. TECHNOLOGICAL ABSORPTION

The Company is having its exclusive, 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 AND 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) of the Company is as follows :

	2001-02	2000-01
	Rupees	Rupees
Earnings	87,44,86,550	69,54,90,632
Outgo	48,76,71,362	35,35,97,567

On behalf of the Board of Directors

Sanjeev Agrawal **Rahimullah**
Director Managing Director

Jaipur, 30th July, 2002

AUDITORS' REPORT

To,
The Shareholders of
VAIBHAV GEMS LIMITED
Jaipur

We have audited the attached Balance Sheet of **VAIBHAV GEMS LIMITED** as at 31st March 2002 and also the Profit and Loss Account of the Company for the year ended on that date annexed thereto. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in India. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

- As required by the Manufacturing and Other Companies (Auditors' Report) Order, 1988 issued by the Companies Law Board in terms of Section 227 (4A) of the Companies Act, 1956, we annex hereto a statement on the matter specified in paragraphs 4 and 5 of the said Order.
- Further to our comments in the Annexure referred to in paragraph (1) above :
 - We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;
 - In our opinion, proper books of accounts as required by law have been kept by the Company so far as appears from our examination of the books of accounts;
 - The Balance Sheet and Profit and Loss account dealt with by this report are in agreement with the books of accounts;
 - In our opinion, the Profit and Loss account and the Balance Sheet of the company comply



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with the Accounting Standards as referred in Sub-Section (3C) of Section 211 of the Companies Act, 1956, to the extent applicable;

- (e) As per information and explanations given to us, none of the directors of the Company are disqualified from being appointed as a director under clause (g) of Sub-Section (1) of Section 274 of the Companies Act, 1956;
- (f) In our opinion and to the best of our information and according to explanations given to us, the said accounts, read together with Significant Accounting Policies and Notes forming part of Accounts, give the information required by the Companies Act, 1956 in the manner so required, and give a true and fair view in conformity with the accounting principles generally accepted in India,
 - (i) in case of Balance Sheet, of the state of the affairs of the Company as at 31st March, 2002
 - and
 - (ii) in case of Profit and Loss Account, of the **Profit** of the Company for the year ended on that date.

For **B. KHOSLA & CO.**
Chartered Accountants

G. G. MUNDRA
Partner

Jaipur, 30th July, 2002

Annexure to the Auditors' Report

(Referred to in paragraph (1) of our report of even date)

1. The Company has maintained proper records of all Fixed Assets from 1st April 1998 showing full particulars including quantitative details and location thereof. As regarding Fixed Assets acquired prior to above date, the Company has compiled only item-wise lists of its fixed assets. The value shown by these list generally tallies with the gross value shown in the books of accounts. Further, we are informed that during the year the management verified these assets and that there were no material discrepancies between the list showing the quantitative details and physical existence of the assets.
2. None of the Fixed Assets have been revalued during the year.
3. The stock of finished goods, work-in-process, consumables and raw materials have been physically verified during the year by the management except for certain stock with third parties which we are informed by the management could not be verified due to practical difficulties. In our opinion, the frequency of verifications is reasonable.
4. In our opinion and according to the information and explanations given to us, the procedures of physical verification of stock followed by the management is reasonable and adequate in relation to the size of the Company and nature of its business.
5. According to information and explanation given to us, the discrepancies noticed on physical verification of stock as compared to books records are not material and same have been properly dealt with in the books of Accounts.
6. Considering various types of raw material and peculiar nature of stock and manufacturing process used by the Company and relying to explanations and information given to us, we are of the opinion that valuation of closing stock is fair and proper in accordance with normally accepted accounting principles and is on the same basis as followed in preceding year.
7. In our opinion the rate of interest and other terms and condition on which loans have been taken from companies, firms, other parties listed in register maintained under Section 301 of the



- Companies Act, 1956, are in our opinion not prima-facie prejudicial to the interest of the Company. There is no loan taken from the Companies under the same management as defined under Sub-section (1B) of Section 370 of the said Act.
8. The Company has not granted any loan to companies, firms and other parties listed in the register maintained under section 301 of the Companies Act, 1956 and to the companies under the same management as defined under Section (1B) of Section 370 of the said Act.
 9. The parties and employees to whom loans and advances in the nature of loan have been given by the Company are repaying the principal amounts as stipulated and are also regular in payment of interest wherever applicable. However, Company had given a loan in a case where principal amount and interest is not being received as stipulated, adequate provision and reasonable steps have been taken by the Company for recovery of principal and interest.
 10. In our opinion and according to the information and explanation given to us, there are adequate internal control procedures commensurate with size of the Company and the nature of its business with regard to the purchases of stores, raw materials including components, Plant & Machinery, equipments and other assets and for the sale of goods.
 11. In our opinion and according to the information and explanations given to us, the transaction of purchases of goods and material and sale of goods, material and services made in pursuance of contracts or arrangement entered in the register maintained under Section 301 of the Companies Act, 1956 and aggregating during the year to Rs. 50,000 or more in respect of each party have been made at prices which are reasonable, having regard to the prevailing market prices at which transaction for similar goods or service have been made with other parties.
 12. As explained to us, the Company has a regular procedure to determine unserviceable or damage stores, raw material and finished goods. Adequate provision has been made in the accounts for the loss arising on the items so determined.
 13. According to the information and explanations given to us, the Company has not accepted any deposit to which provision of Section 58A of the Companies Act, 1956 and the Companies (Acceptance of Deposits) Rules, 1975 are applicable.
 14. The sale or disposal of scrap is not significant and the Company's production process does not generate any realisable by-products.
 15. The internal audit work is entrusted to a firm of Chartered Accountants and in our opinion the same is commensurate with the size of the Company and nature of its business.
 16. Maintenance of cost records under Section 209 (1) (d) of the Company Act, 1956 has not been prescribed by the Central Government for the Company.
 17. In our opinion, and as per information and explanations given to us the Company is regular in depositing of the Employees State Insurance and the Provident Fund dues with appropriate authorities.
 18. According to the information and explanations given to us no undisputed amounts payable in respect of Income Tax, Sales Tax, Custom Duty and Excise Duty were outstanding at 31st March, 2002 for the period of six month from the date it becomes payable.
 19. According to the information and explanations given to us no personal expenses of employees or director have been charged to revenue account other than those payable under contractual obligations or in accordance with generally accepted business practice.
 20. The Company is not Sick Industrial Company within the meaning of Clause (O) of Sub-section (1) of Section 3 of the Sick Industrial Companies (Special Provision) Act, 1985.
 21. In respect of the trading activities, it is explained that the Company has a system of determination of damaged goods and provision for loss/write off has accordingly been made.

For B. KHOSLA & CO.
Chartered Accountants

G. G. MUNDRA
Partner

Jaipur, 30th July, 2002