

40th Annual Report 2003-2004

Report  Junction.com

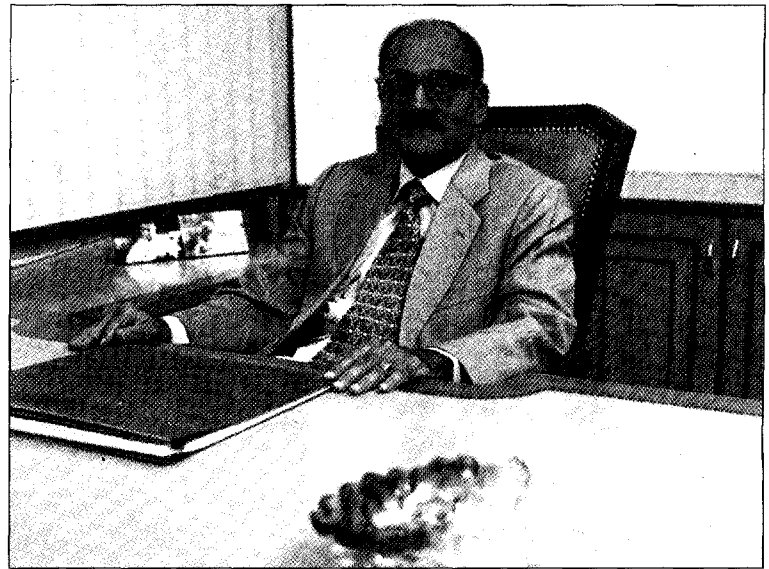


Vardhmān

VARDHMAN SPINNING AND GENERAL MILLS LIMITED



Indian Textile Industry-the imperative of improving competitiveness



It is heartening to note that India has been ranked 34th in the global competitiveness among 60 nations as per Global Competitiveness Yearbook 2004. The report states that India has improved its rank from 50th last year to its present position. This is India's best ranking ever. The report further observed that India has overtaken Greece, Czech Republic, South Africa etc. in competitiveness in the last one year. While businesses in the country are striving to improve their competitiveness, the report signifies much improved perception of Indian business in the global business communities.

In the context of global textile industry, China has emerged as a dominant player in recent years. The Chinese textile industry is estimated to be worth \$128 billion, with estimated exports of \$80 billion, a share of over 20 per cent in the world trade. As per the World Trade Organisation statistics, China has cornered the lion's share in the total increase in world trade in textile and clothing during the year 2002. China captured 76 per cent of the total \$11 billion increase in the trade. The scale of production and cost competitiveness of the Chinese textile and clothing industry are the major driving forces in this magnificent performance. Therefore, any country seeking a higher share in the world trade in textile and clothing has to contend with fiercely competitive producers like China.

The inherent strengths of the Indian textile industry like availability of wide variety of raw materials, cost effective manpower and diversified manufacturing base have been acknowledged by various experts. The high growth potential of the textile industry has been identified by various studies carried out by the Government agencies as well as by the international consultancy organisations. However, most of these studies have also pointed out the poor competitiveness of the Indian textile industry. The only exception is spinning, where too our competitiveness is declining. The fabric processing and clothing segments are incompetent in terms of scale of production, technology employed, productivity, quality parameters and supply chain management. Much of this is on account of fragmented production structure and rigid labour laws. As a consequence, India has not been able to take benefit of the global relocation of the textile business.

I still see a silver lining on the horizon. If we can increase the competitiveness of our fabric and clothing segments, the Indian textile industry can still play a major role in the global textile and clothing business. Our in-house studies indicate that with appropriate policies and entrepreneurial initiatives, the Indian textile exports can increase from the present \$13 billion to \$25 billion in the next six years. In this, the clothing segment has to make a quantum leap to achieve \$15 billion exports by 2010 from the present level of \$5.5 billion. The textile exports can also double in this period. It is a daunting task, but nevertheless necessary to ensure sustainability of the textile industry in India. And competitiveness is the key driving force for resurgence of Indian textiles.

With best wishes,

(SHRI PAUL OSWAL)
Chairman and Managing Director

Vardhman Spinning and General Mills Limited

BOARD OF DIRECTORS

1. MR. SHRI PAUL OSWAL
– *Chairman and Managing Director*
2. MR. CHANDRASEKHARAPURAM V. RAMANI
– *Nominee of Industrial Development Bank of India*
3. MR. SURINDER KUMAR BANSAL
4. MR. SURINDER SINGH BAGAI
5. AIR MARSHAL (Retd.) KULDIP SINGH BHATIA
6. MR. CHAMAN LAL JAIN
7. MR. SUBASH KHANCHAND BIJLANI
8. MR. RAJENDRA
9. MR. BAL KRISHAN CHOUDHARY
10. MR. SACHIT JAIN
– *Executive Director*
11. MRS. SUCHITA JAIN
– *Executive Director*

CORPORATE GENERAL MANAGER (FINANCE, ACCOUNTS AND MIS)

MR. NEERAJ JAIN

COMPANY SECRETARY

MRS. SHAKTI JINDAL

AUDITORS

M/S. S.C. VASUDEVA & CO.,
Chartered Accountants, New Delhi

BANKERS

1. ALLAHABAD BANK
2. BANK OF AMERICA
3. CANARA BANK
4. ICICI BANK LIMITED
5. STANDARD CHARTERED BANK
6. STATE BANK OF INDIA
7. STATE BANK OF PATIALA

REGISTRAR AND TRANSFER AGENT

ALANKIT ASSIGNMENTS LIMITED



Vardhman Spinning and General Mills Limited

REGISTERED AND CORPORATE OFFICE

Chandigarh Road, Ludhiana-141 010
 Phones : (0161) 2662543-547
 Fax : (0161) 2601048, 2602710, 2642616
 Website: www.vardhman.com
 E-mail : secretarial.lud@vardhman.com

WORKS

1. **VARDHMAN SPINNING AND GENERAL MILLS LIMITED, UNIT-I**
Chandigarh Road, Ludhiana-141 010
2. **VARDHMAN SPINNING AND GENERAL MILLS LIMITED, UNIT-II**
Chandigarh Road, Ludhiana-141 010
3. **AURO SPINNING MILLS**
Village Baddi, District Solan (H.P.)-173 205
4. **AURO WEAVING MILLS**
Village Baddi, District Solan (H.P.)-173 205
5. **AURO DYEING**
Village Baddi, District Solan (H.P.)-173 205
6. **VARDHMAN SPINNING AND GENERAL MILLS LIMITED, (100% EOU)**
Village Baddi, District Solan (H.P.)-173 205
7. **AURO TEXTILES**
Village Baddi, District Solan (H.P.)-173 205

BRANCHES

1. 309, Surya Kiran Building, 19, Kasturba Gandhi Marg, New Delhi-110 001
2. 504, Dalamal House, Nariman Point, Mumbai-400 021
3. P-22, 3rd Floor, C.I.T. Road, Kolkata-700 014
4. S.C.O. 1-2-3, Sector 17-B, Chandigarh-160 017
5. 266, Kamraj Road, Tirupur-638 604
6. Chandigarh Road, Ludhiana-141 010

CONTENTS

NOTICE	03
DIRECTORS' REPORT	07
CORPORATE GOVERNANCE REPORT	12
AUDITORS' REPORT	17
BALANCE SHEET	20
PROFIT AND LOSS ACCOUNT	21
CASH FLOW STATEMENT	22
SCHEDULES TO THE ACCOUNTS	23



Vardhman Spinning and General Mills Limited

NOTICE

NOTICE is hereby given that the FORTIETH ANNUAL GENERAL MEETING of the members of the Company will be held on Saturday, the 28th day of August, 2004 at 10.30 A.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, 2004, Profit and Loss Account for the year ended on that date together with the Report of Auditors and Directors thereon.
2. To declare Dividend.
3. a) To appoint a Director in place of Mr. Chaman Lal Jain, who retires by rotation in accordance with Article 104 of the Articles of Association of the Company and being eligible, offers himself for re-appointment.
- b) To appoint a Director in place of Air Marshal (Retd.) Kuldip Singh Bhatia, who retires by rotation in accordance with Article 104 of the Articles of Association of the Company and being eligible, offers himself for re-appointment.
4. To appoint Auditors for the year 2004-2005 and to fix their remuneration.

SPECIAL BUSINESS :

5. To consider and if thought fit, to pass, with or without modification(s), the following resolution as an Ordinary Resolution :-

"RESOLVED THAT pursuant to the provisions of Section 269 read with Schedule XIII and other applicable provisions, if any, of the Companies Act, 1956, Mr. Shri Paul Oswal be and is hereby appointed as the Chairman and Managing Director of the Company for a period of five years with effect from 01.11.2003 to 31.10.2008 at the remuneration and other perquisites as detailed below:-

- I. **Salary** : Salary will be in the scale of Rs.1,37,500-7,500-1,67,500 per month.
- II. **Commission** : Commission will be an amount equal to 2 per cent of net profit subject to the total remuneration being within the limits as prescribed in Part II of Schedule XIII to the Companies Act, 1956.
- III. **Perquisites** : Perquisites shall be allowed in addition to salary and commission. However, such perquisites shall be restricted to an amount equal to one year's salary during each year as per details given below :-
 - a) **Housing** - Free residential accommodation or House Rent Allowance equal to 50 per cent of the basic salary. Free furnishing shall be provided alongwith other amenities. The expenditure incurred by the Company on gas, electricity, water and furnishing shall be valued as per the Income Tax Rules, 1962.
 - b) **Medical Reimbursement** - Reimbursement of medical expenses incurred by the appointee (including mediclaim insurance premium) on self and his family, subject to a ceiling of one month's salary in a year or five months' salary over a period of five years.

- c) **Leave Travel Concession** - The expenses incurred on leave travel by the appointee on self and his family shall be reimbursed once in a year in accordance with the rules specified by the Company.
- d) **Club Fees** - Fees of clubs subject to a maximum of two clubs. This will not include admission and life membership fees.
- e) **Personal Accident Insurance** - Premium not to exceed Rs. 5,000/- per annum.
- f) **Provident Fund** - Contribution to provident fund, superannuation fund or annuity fund and this will not be included in the computation of the ceiling on perquisites to the extent these either singly or put together are not taxable under the Income Tax Act, 1961. The said contribution will also be subject to the rules framed by the Company in this respect.
- g) **Gratuity** - Gratuity payable shall not exceed half a month's salary for each completed year of service and this shall not be included in the computation of ceiling on perquisites. This will, however, be subject to the ceiling prescribed by the Central Government from time to time.
- h) **Car and Telephone** - Free use of Company's car for official work as well as for personal purposes alongwith driver and telephone at Company's cost.

Explanation :

"Family" means the spouse, the dependent children and dependent parents of the appointee.

RESOLVED FURTHER THAT the Board of Directors be and is hereby authorised to vary/alter at any time the remuneration, terms and conditions of the said appointment in such manner as may be approved by the Board of Directors of the Company and are acceptable to Mr. Shri Paul Oswal and to take necessary steps for the appointment of Mr. Shri Paul Oswal as Chairman and Managing Director of the Company."

6. To consider and if thought fit, to pass, with or without modification(s), the following resolution as an Ordinary Resolution :-

"RESOLVED THAT pursuant to the provisions of Section 269 read with Schedule XIII and other applicable provisions, if any, of the Companies Act, 1956, Mr. Sachit Jain be and is hereby re-appointed as an Executive Director of the Company for a period of five years with effect from 01.04.2004 to 31.03.2009 at the remuneration and other perquisites as detailed below:-

- I. **Salary** : Salary will be in the scale of Rs.1,25,000-7,500-1,55,000 per month.
- II. **Commission** : Commission will be an amount equal to 75 per cent of annual salary subject to the total remuneration being within the limits as prescribed in Part II of Schedule XIII to the Companies Act, 1956.
- III. **Perquisites** : Perquisites shall be allowed in addition to salary and commission. However, such perquisites shall be restricted to an amount equal to one year's salary during each year as per details given below :-



Vardhman

Vardhman Spinning and General Mills Limited

- a) **Housing** – Free residential accommodation or House Rent Allowance equal to 40 per cent of the basic salary. Free furnishing shall also be provided by the Company alongwith other amenities. The said facility shall, however, be subject to the policy framed by the Company in this respect. The expenditure incurred by the Company on gas, electricity, water and furnishing shall be valued as per the Income Tax Rules, 1962.
- b) **Medical Reimbursement** – Reimbursement of medical expenses incurred by the appointee (including mediclaim insurance premium) on self and his family, subject to a ceiling of one month's salary in a year or five months' salary over a period of five years.
- c) **Leave Travel Concession** – The expenses incurred on leave travel by the appointee on self and his family shall be reimbursed once in a year in accordance with the rules specified by the Company.
- d) **Club Fees** – Fees of clubs subject to a maximum of two clubs. This will not include admission and life membership fees.
- e) **Personal Accident Insurance** – Premium not to exceed Rs. 5,000/- per annum.
- f) **Provident Fund** – Contribution to provident fund, superannuation fund or annuity fund and this will not be included in the computation of the ceiling on perquisites to the extent these either singly or put together are not taxable under the Income Tax Act, 1961. The said contribution will also be subject to the rules framed by the Company in this respect.
- g) **Gratuity** – Gratuity payable shall not exceed half a month's salary for each completed year of service and this shall not be included in the computation of ceiling on perquisites. This will, however, be subject to the ceiling prescribed by the Central Government from time to time.
- h) **Car and Telephone** – Free use of Company's car for official work as well as for personal purposes alongwith driver and telephone at Company's cost.

Explanation :

"Family" means the spouse, the dependent children and dependent parents of the appointee.

RESOLVED FURTHER THAT the Board of Directors be and is hereby authorised to vary/alter at any time the remuneration, terms and conditions of the said appointment in such manner as may be approved by the Board of Directors of the Company and are acceptable to Mr. Sachit Jain and to take necessary steps for the re-appointment of Mr. Sachit Jain as an Executive Director of the Company."

7. 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 be and is hereby given, to enhance the sitting fee payable to the Directors from Rs. 2,000/- to Rs. 4,000/- and from Rs. 1,500/- to Rs. 3,000/- per meeting respectively for attending the Board Meetings and Committee Meetings."
8. To consider and if thought fit, to pass, with or without modification(s), the following resolution as a Special Resolution :-
"RESOLVED THAT approval of the members be and is hereby accorded to get the equity shares of the Company delisted from The Ludhiana Stock Exchange Association Limited (LSE), Ludhiana.

RESOLVED FURTHER THAT the Board of Directors of the Company be and is hereby authorised to do all such acts, deeds, matters and things as may be necessary or expedient for giving effect to the above resolution and to do all other ancillary and consequential matters in relation thereto."

By Order of the Board

Place : Ludhiana
Dated : 29th May, 2004

(SHAKTI JINDAL)
Company Secretary

NOTES :

1. A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE ON A POLL INSTEAD OF HIMSELF/HERSELF AND SUCH PROXY NEED NOT BE A MEMBER OF THE COMPANY. THE PROXY, IN ORDER TO BE EFFECTIVE, MUST BE RECEIVED BY THE COMPANY NOT LESS THAN 48 HOURS BEFORE THE MEETING. THE BLANK PROXY FORM IS ENCLOSED.
2. Explanatory Statement pursuant to Section 173(2) of the Companies Act, 1956, in respect of Items Nos. 5 to 8 is annexed hereto and forms part of the Notice and 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 Nos. 3(a), 3(b), 5 and 6 of the Notice is also annexed hereto separately and forms part of the Notice.
3. The Dividend declared, if any, will be paid to those members whose names appear in the Register of Members of the Company as on the date of Annual General Meeting i.e. 28th August, 2004. However, in respect of the shares held in electronic form, dividend will be paid on the basis of beneficial ownership as at the end of the 12th day of August, 2004, as per details furnished by Depositories for this purpose.
4. **The Register of Members and Share Transfer Books of the Company shall remain closed from 13th August, 2004 to 28th August, 2004 (Both days inclusive).**
5. Members holding shares in physical mode are requested to notify the change in their addresses, if any, at the earliest to the Company/Registrar and Transfer Agent. However, members holding shares in electronic mode may notify the change in their addresses, if any, to their respective Depository Participants.
6. Members desiring any information as regards Accounts are requested to write to the Company at its Registered Office at least 10 days before the date of Annual General Meeting so as to enable the management to keep the information ready.
7. Copies of relevant documents can be inspected at the Registered Office of the Company on any working day between 10.30 A.M. to 12.30 P.M.
8. Members are requested to bring their copy of Annual Report alongwith them to the Annual General Meeting.
9. Members holding shares in the same/identical name(s) under different folios are requested to apply for consolidation of such folios and send relevant share certificates to the Company/Registrar and Transfer Agent.



Vardhman Spinning and General Mills Limited

ANNEXURE TO THE NOTICE

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

ITEM NO. 5 OF THE SPECIAL BUSINESS :

Mr. Shri Paul Oswal, Chairman of the Company had been the Managing Director of the Company for about 25 years before he resigned from the post of Managing Directorship in August, 2001. Even in his position as the Chairman of the Company, Mr. Shri Paul Oswal is actively involved in policy making and decision making activities of the Company.

Keeping in view his active involvement and contributions towards the growth and development of the Company, the Board of Directors in its meeting held on 30th October, 2003 approved the appointment of Mr. Shri Paul Oswal as Chairman and Managing Director of the Company for a period of 5 years with effect from 01.11.2003 to 31.10.2008 on the remuneration, terms and conditions as mentioned in the resolution, for which your approval is solicited.

Memorandum of Interest :

Except Mr. Shri Paul Oswal, being the appointee himself, Mr. Sachit Jain and Mrs. Suchita Jain, Executive Directors, being the appointee's relatives, none of the Directors of the Company is, in any way, concerned or interested in this resolution.

ITEM NO. 6 OF THE SPECIAL BUSINESS :

The Board of Directors in its meeting held on 8th May, 1999 had appointed Mr. Sachit Jain as an Executive Director for a period of 5 years with effect from 01.04.1999 to 31.03.2004 on a salary of Rs. 55,000-5,000-75,000 per month and other perquisites equal to one year's salary and commission equal to 75% of annual salary subject to total remuneration being within the limits as prescribed in Part II of Schedule XIII attached to the Companies Act, 1956. His appointment was also approved by the members in their meeting held on 29th July, 1999. The term of his appointment came to an end on 31st March, 2004.

Keeping in view his active involvement in the affairs of the Company, the Board of Directors in its meeting held on 30th January, 2004 approved the re-appointment of Mr. Sachit Jain as an Executive Director of the Company for a further period of five years with effect from 01.04.2004 to 31.03.2009 on the remuneration, terms and conditions as mentioned in the resolution, for which your approval is solicited.

Memorandum of Interest :

Except Mr. Sachit Jain, being the appointee himself, Mr. Shri Paul Oswal, Chairman and Managing Director and Mrs. Suchita Jain,

Executive Director, being the appointee's relatives, none of the Directors of the Company is, in any way, concerned or interested in this resolution.

ITEM NO. 7 OF THE SPECIAL BUSINESS :

Article 96 of the Articles of Association of your Company provides for payment of sitting fee to every director for attending a meeting of the Board or its Committee subject to such maximum fee as may be prescribed by the Central Government from time to time. Presently, the Directors of the Company are being paid sitting fees @ Rs. 2,000/- and Rs. 1,500/- per meeting respectively for attending the Board Meetings and Committee Meetings. Keeping in view the contribution made by the directors in framing progressive policies and in giving their valuable suggestions from time to time, the Board of Directors in its meeting held on 29th May, 2004 enhanced the sitting fee from Rs. 2,000/- to Rs. 4,000/- and from Rs. 1,500/- to Rs. 3,000/- per meeting respectively for attending the Board Meetings and Committee Meetings, for which your approval is solicited.

Memorandum of Interest :

Except Mr. Shri Paul Oswal, Chairman and Managing Director, Mr. Sachit Jain, and Mrs. Suchita Jain, Executive Directors, all other Directors of the Company are concerned or interested in this resolution.

ITEM NO. 8 OF THE SPECIAL BUSINESS :

Presently, the equity shares of the Company are listed on The Ludhiana Stock Exchange Association Limited (LSE), Ludhiana, The Stock Exchange, Mumbai (BSE) and The National Stock Exchange of India Limited (NSE), Mumbai. As trading in the equity shares of the Company at LSE is almost negligible, it is proposed to get the equity shares of the Company delisted from LSE and your approval is solicited accordingly.

Memorandum of Interest :

None of the Directors of the Company is, in any way, concerned or interested in this resolution.

By Order of the Board

Place : Ludhiana
Dated : 29th May, 2004

(SHAKTI JINDAL)
Company Secretary



Vardhman Spinning and General Mills Limited

INFORMATION PURSUANT TO CORPORATE GOVERNANCE CLAUSE OF THE LISTING AGREEMENT REGARDING THE DIRECTORS SEEKING APPOINTMENT/RE-APPOINTMENT IN THE ANNUAL GENERAL MEETING

MR. CHAMAN LAL JAIN

Mr. Chaman Lal Jain, 77, has been a director of the Company since 1978. He is M.Sc. (Chemistry). He is having more than 30 years of business experience in Chemical Industry. He also served Sri Ram Institute for Industrial Research, New Delhi from 1965 to 1975. However, he is not a director or member of the Board of Directors or Committee of any other body corporate.

AIR MARSHALL (RETD.) KULDIP SINGH BHATIA

Air Marshal (Retd.) Kuldip Singh Bhatia, 73, has been a director of the Company since 1993. He is B.Sc. Electrical Engineering (Hons.) and M.Sc. Advanced Electronics (U.K.). He also holds post graduate qualifications in Tech. Officers' Course and Microwave Engineering. He retired as Commander-in-Chief of Maintenance Command of Indian Air Force. He has also been the recipient of Ati Vashisht Sewa Medal and Param Vashisht Sewa Medal. He has nearly 56 years of experience in electronics, technology, power, environment, technology education and management.

He also holds the position of a director in Punjab Information and Communication Technology Corporation Limited. He is presently also a member of the Board of Governors, Punjab Energy Development Agency, the Punjab State Council for Science and Technology and of the Pushpa Gujral Science City Society.

MR. SHRI PAUL OSWAL

Mr. Shri Paul Oswal, 62, has been associated with the Company since 1971. He is M.Com. (Gold Medalist) and having rich industrial and business experience of more than 35 years.

He is the Chairman of National Committee on Textiles, Confederation of Indian Industry (CII). He is also a member of –

1. National Council, CII
2. Punjab State Council, Northern Region, CII
3. Chief Minister's Advisory Committee on Industrial Growth and Infrastructure Development in Punjab
4. Chief Minister's Advisory Committee on Fiscal Reforms and Fiscal Reconstruction and Mobilisation in Punjab
5. Advisory Committee to Punjab State Electricity Regulatory Commission
6. Punjab Pollution Control Board
7. State Environment Council, Punjab

He is Executive Chairman of Mahavir Spinning Mills Limited. He also holds the position of Chairman and Director on the Board of the following companies :-

1. Vardhman Acrylics Limited
2. VMT Spinning Company Limited
3. Vardhman Threads Limited
4. Nimbua Greenfield (Punjab) Limited

In addition to the above, he is a director on the Board of the following companies:-

1. Adinath Investment and Trading Company
2. Anklesh Investments Pvt. Limited

3. Devakar Investment and Trading Company Pvt. Limited
4. Flamingo Finance & Investment Company Limited
5. Marshall Investment & Trading Company Pvt. Limited
6. Plaza Trading Company Pvt. Limited
7. Pradeep Mercantile Company Pvt. Limited
8. Ramaniya Finance & Investment Company Limited
9. Santon Finance & Investment Company Limited
10. Srestha Holdings Limited
11. Syracuse Investment & Trading Company Pvt. Limited
12. Ludhiana Industries Power Company Limited
13. Vardhman Textile Processors Pvt. Limited

He is the Chairman of Audit Committee of Vardhman Threads Limited.

MR. SACHIT JAIN

Mr. Sachit Jain, 37, is an Electrical Engineer from IIT, Delhi and MBA (Gold Medalist) from IIM, Ahmedabad. He is a director of the Company since 1990 and having business experience of more than 15 years. He is the Chairman of HRD Sub-Committee of Confederation of Indian Industry (CII), Northern Region. He is also the member of Indian Cotton Mills' Federation (ICMF). He is the past President of Northern India Textile Mills' Association (NITMA) and also the past Chairman of Textile Sub-Committee of CII-Northern Region and also of CII-H.P. State Council. He is also the founder of BBN Industries Association.

He also holds the position of a director on the Board of the following companies :-

1. Mahavir Spinning Mills Limited
2. Vardhman Acrylics Limited
3. VMT Spinning Company Limited
4. Vardhman Apparels Limited
5. Auro Fabriks Limited
6. Adinath Investment and Trading Company
7. Anklesh Investments Pvt. Limited
8. Devakar Investment and Trading Company Pvt. Limited
9. Flamingo Finance & Investment Company Limited
10. Marshall Investment & Trading Company Pvt. Limited
11. Plaza Trading Company Pvt. Limited
12. Pradeep Mercantile Company Pvt. Limited
13. Ramaniya Finance & Investment Company Limited
14. Santon Finance & Investment Company Limited
15. Srestha Holdings Limited
16. Syracuse Investment & Trading Company Pvt. Limited
17. Vardhman Textile Processors Pvt. Limited

He is the Chairman of Vardhman Apparels Limited. He is member of the Audit Committee of Mahavir Spinning Mills Limited and VMT Spinning Company Limited. Further, he is also member of Investors' Grievance Committee of Mahavir Spinning Mills Limited.



Vardhman Spinning and General Mills Limited

DIRECTORS' REPORT

To
The Members,

The Directors of your Company have pleasure in presenting their 40th Annual Report on the affairs of the Company together with the Audited Accounts of the Company for the year ended 31st March, 2004.

1. FINANCIAL RESULTS :

The Financial Results for the year are as under :-

PARTICULARS	2003-2004	2002-2003
	(Rs. in lac)	
Sales (Gross)	67,390.17	63,000.92
Profit before Depreciation, Interest and Tax (PBDIT)	11,639.22	10,367.25
Interest and Financial Expenses	2,937.34	3,098.27
Profit before Depreciation and Tax (PBDT)	8,701.88	7,268.98
Depreciation and Amortisation	4,186.47	4,121.92
Profit before Tax (PBT)	4,515.41	3,147.06
Provision for Tax		
- Current	559.00	225.00
- Deferred (Including Deferred Tax Adjustments)	936.76	818.50
- Tax credit availed	(280.00)	—
Profit after Tax (PAT)	3,299.65	2,103.56
Appropriations:		
Proposed Dividend on Equity Shares	670.09	558.41
Corporate Tax on Proposed Dividend	85.86	71.55
Transfer to Debenture Redemption Reserve	625.00	125.00
Transfer to General Reserve	2,000.00	2,545.58
Balance carried to Balance Sheet	1,032.09	913.05
	4,413.04	4,213.59
Earnings per Share (Rs.)		
- Basic	20.68	13.18
- Diluted	3.77	2.61
Dividend per Share (Rs.)	4.20	3.50

2. MANAGEMENT DISCUSSION AND ANALYSIS REPORT :

a) TEXTILE INDUSTRY - GLOBAL PERSPECTIVE :

After remaining sluggish for the last couple of years, the world economy has started showing signs of recovery. As per World Trade Organisation (WTO), the World economy is expected to grow by about four per cent in 2004. The global economic recovery is led by the economic recovery in USA, which is the largest consumer of goods and services. However, the rising oil prices is a cause of concern for global economy. It is also estimated that world trade would record a healthy growth rate of seven per cent during 2004. WTO in its latest report on world trade has observed that after a long time, the prices of agricultural commodities and manufactured products increased in 2003 leading to the recovery in merchandise trade.

Although recovery is felt in all parts of the world, however, the Asian region especially China and India are likely to remain more vibrant economies. The World Bank Report on Global Development Finance (2004) has estimated that within Asia, South Asian region is expected to grow by more than seven per cent. According to the report, business outsourcing by OECD countries, software exports from India, new regional trade initiatives, improved trade relations between India and Pakistan

and continued economic reforms will contribute to the region's achieving the record growth in 2004.

The global textile industry, which has witnessed depressed market in the past, coupled with over supply and low prices of textile and clothing products is waiting for major restructuring and readjustment in coming years. The phasing out of ATC regime in the next year (2005) and shifting of international trade in textile and clothing from a highly regulated trade to market driven one would be the first outcome of the restructuring process. United States International Trade Commission (USITC) in its investigation report on *Textiles and Apparel: Assessment of the Competitiveness of Certain Foreign Suppliers to the U.S.* Market observed that China is expected to emerge as a "Supplier of Choice" for most US importers due to its ability to produce any type of textile and clothing products at varying quality levels and price fronts. However, India is also emerging as a consistent supplier of a variety of textile and clothing products due to its large manufacturing base, low labour cost and availability of wide varieties of raw material. However, the industry has to put its house together in terms of scale, quality, cost and service, if the industry has to increase its market share.

b) TEXTILE INDUSTRY - INDIAN PERSPECTIVE :

The Indian economy is expected to record a growth of about 8 per cent in 2003-04. The impressive growth of 9 per cent in agriculture sector, consistently growing industrial sector, which grew by 7 per cent and service sector, which notched up a growth rate of 8.5 per cent are drivers of the brisk growth, which the Indian economy has experienced in 2003-04. The increasing exports, growing foreign exchange reserves at \$120 billion, steady inflation rate at less than five per cent are indicators of resounding economy.

The economy is projected to grow by more than six per cent in the financial year 2004-05. However, the positive outlook of the economy is not a short-term phenomena, the economy is poised to grow at a sustained growth rate in long run also. It is evident from the Goldman Sachs BRIC Report, which envisages India as a bigger growth story than China in the long run. The report has based its projection of Indian economy on the service led growth, which is benefiting from global as well as domestic demand, growing competitiveness of the manufacturing sector, broad based reforms fostering infrastructure development and greater openness. This fact is also corroborated with the findings of World Competitiveness Report prepared by IMD, which has recently upgraded India on global competitive scale from 50 to 34.

In the past, the complex structure of the textile industry has hindered the growth of the industry in terms of sub-optimal scale of operations and low level of technology, leading to fragmentation. As a result, India's share in World Trade in textile and clothing remained at a very low level in comparison to its true potential and inherent competitive strengths. However, the fiscal policy measures taken in the last couple of years paved the way for the revival of the Indian textile industry. The impact of these changes on the industry structure and capability would be visible only in the coming years. If the industry has to grow in synchronisation with the global manufacturing, it would require much improved investment climate for fresh investment of \$ 16-20 billion in the coming 6-7 years.

c) FINANCIAL ANALYSIS AND REVIEW OF OPERATIONS :

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



Vardhman Spinning and General Mills Limited

i) PRODUCTION AND SALES REVIEW :

During the year under review, your Company has registered Gross Sales of Rs. 67,390.17 lac as compared to Rs. 63,000.92 lac in the previous year, registering an increase of 6.97 per cent. The segment-wise performance is as under :-

- **YARN:** The production of yarn increased from 30,177 MT to 31,469 MT during 2003-2004, registering an increase of 4.28 per cent. The sales of yarn also increased from Rs. 34,867.48 lac to Rs. 36,962.80 lac during the year under review, showing an increase of 6.01 per cent. The exports of yarn also increased from Rs. 9,203.62 lac to Rs. 11,608.22 lac during the year under review, showing an increase of 26.13 per cent.
- **FABRIC:** The production of grey fabric increased from 24.65 million metres to 30.58 million meters registering an increase of 24.06 per cent. The Company also produced processed fabric of 25.64 million metres as compared to 24.76 million metres in the previous year. During the year under review, turnover of fabric was Rs. 25,220.15 lac as against Rs. 22,198.93 lac in the previous year, showing an increase of 13.61 per cent. The exports of fabric also increased from Rs. 2,651.92 lac in the previous year to Rs. 4,423.01 lac during the year under review, recording an increase of 30.69 per cent.

ii) PROFITABILITY :

The Company earned profit before depreciation, amortisation interest and tax of Rs. 11,639.22 lac as against Rs. 10,367.25 lac in the previous year, showing an increase of 12.27 per cent. The Company earned profit before depreciation and tax of Rs. 8,701.88 lac as compared to Rs. 7,268.98 lac in the previous year, showing an increase of 19.71 per cent. After providing for depreciation and amortisation of Rs. 4,186.47 lac (Previous Year Rs. 4,121.92 lac), provision for current tax of Rs. 559.00 lac (Previous Year Rs. 225.00 lac), provision for deferred tax and deferred tax adjustments of Rs. 936.76 lac (Previous Year Rs. 818.50 lac), and availing tax credit of Rs. 280.00 lac (Previous Year Nil), net profit worked out to Rs. 3,299.65 lac as compared to Rs. 2,103.56 lac in the previous year, showing an increase of 56.86 per cent.

The balance available for appropriation after adding the surplus of Rs. 913.05 lac carried from the previous year was Rs. 4,413.04 lac. Out of this, a sum of Rs. 670.09 lac and Rs. 85.86 lac respectively have been appropriated towards proposed dividend and corporate dividend tax thereon, Rs. 625.00 lac is proposed to be transferred to debenture redemption reserve, Rs. 2,000.00 lac is proposed to be transferred to general reserve and the balance of Rs. 1,032.09 lac is proposed to be carried as surplus to the balance sheet.

The main reasons for increase in the profitability of the Company is increase in the production of grey and processed fabric and better sales realisation of the products manufactured by the Company. Further, the Company has been able to reduce its cost and other expenses and also avail the loans at lower cost.

iii) RESOURCE UTILISATION :

- **FIXED ASSETS:** The gross fixed assets (including capital work-in-progress) as at 31st March, 2004 were Rs. 66,508.02 lac as compared to Rs. 64,019.32 lac in the previous year. During the year, the Company added assets amounting to Rs. 5,072.71 lac which is mainly on account of additions of fixed assets made in all the units of the Company situated at Ludhiana and Baddi.
- **CURRENT ASSETS:** Debtors outstanding for more than six months were Rs. 677.90 lac as compared to Rs. 1,449.32 lac

in the previous year. The net current assets as on 31st March, 2004 were Rs. 25,893.14 lac as against Rs. 23,527.70 lac in the previous year. Inventory level was at Rs. 19,512.16 lac which was more than the previous year level of Rs. 17,073.58 lac.

iv) FINANCIAL CONDITIONS AND 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 are 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)	
	Current Year	Previous Year
Cash & cash equivalents :		
Beginning of the Year	770.28	548.00
End of the Year	865.60	770.28
Net cash provided/(used) by :		
Operating Activities	8,357.64	9,849.03
Investing Activities	(4,645.28)	(4,519.52)
Financial Activities	(3,617.04)	(5,107.23)

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 RISKS & CONCERNS :

Our major raw material, Cotton, being an agricultural product, suffers from climatic volatility in the major cotton producing countries. The cotton production in the coming years is projected to be comfortable to meet the growing demand by the textile mills in India and in the world. The international cotton prices have witnessed higher volatility in the recent past and will continue to remain so in view of the vagaries of weather. The major textile consuming markets in developed countries are likely to resume growth after prolonged sluggishness. However, the global textile industry suffers from excess capacities, which will exert pressure on prices and profit margins. The emergence of China as a dominant producer in textiles will squeeze out less competitive countries. With the impending integration of textile industry in tune with WTO from January, 2005, competition will intensify further. The domestic consumption of textile products continues to be low, restricting the growth of industry. The fragmented nature of industry in the country poses the challenge of meeting unfair competition for the organized players.

f) HUMAN RESOURCES/INDUSTRIAL RELATIONS :

Continued emphasis on the development of human resources and creation of a culture, wherein employees can contribute to the fullest of their potential, has remained the focus of your Company. During the year, the Company employed over 6,500 persons.

Pursuit of proactive policies has ensured peaceful and harmonious industrial relations.