



## Management Discussion and Analysis

### A. GENERAL :

The Company has a growing and expanding business in international trade, with a parallel turnover in local trade, based on business synergies and benign trade relationships. Due to the deepening of the globalisation of business, under the auspices of the WTO and more so due to the inherent nature of the Company's business, the developments in global trade and economy, directly affect the Company and are of relevant interest in taking stock of the business situation. The rich countries of Europe, Japan and USA are the consumption centres and the destination for most of the company's products. All these economies are currently facing a downturn and a rebound has been recently announced with cautious optimism. The economic indicators in USA foretell a mild growth phase due to the imminent stemming of the recessionary phase, which has proved to be shortlived. The consumer demand in USA, which has been buoyant so far, is expected to pick up, which should reflect on increased trade/exports, from countries like India. After the demise of the tech boom however, this incipient buoyancy is not mirrored in the stock markets there, which are in a morass. There is a conspicuous disconnect between the impending growth and corporate valuations on the bourses in USA. Japan continues to face a severe recession, despite the massive pump priming measures resorted to by the government there. With such a recession and a massive overhang of NPAs in its banking system, Japan faces the danger of losing out on its prosperity and affluence. The economies of Europe, including those of Britain and Germany continue to suffer and remain fluid and uncertain. The demand for items like jewellery and diamonds in international markets was therefore subdued. Recent trends are however very encouraging and a smart recovery in these markets is on the cards. However any recovery will be strained, till the adverse effects of the looming scourge of terrorism and the ensuing terrorism tax are not eliminated. The Company continues to watch such trends and recalibrates its business strategy appropriately. The local business of the Company and the proposed plans therein are based on the status of the Indian economy and the polity. Despite the downward trends in the global economy, the Indian economy manages to insulate itself, due to its continental nature and the possibility of set off of one sector's fortunes by another's. As a result of this the Indian economy registered a growth of 5.4% in the year under review, riding on a sterling performance by the agricultural sector and a stable performance of the service sector. In order to encourage and support further growth, the country needs to improve its infrastructure radically. The contradictions between economic needs and political compulsions have slowed down the government's efforts to improve the overall infrastructure of the nation. The global business community, after the bursting of the tech boom, views the biotech sector as the next sunrise industry. India by virtue of its trained and skilled manpower is well

positioned, to repeat its IT success story, in the field of biotechnology also. The Company has therefore lined up projects in biotechnology and infrastructure, which are expected to be its growth engines, in the coming years. We continue to make efforts and investments in these sectors, in order to build lines of parallel growth in future.

### B. BUSINESS STRATEGY AND OUTLOOK :

The Company continues to be focused on its business of international trade, in those products wherein India is the undisputed leader and has distinct competitive advantage over all others. The supply of top quality products at competitive rates, supported by excellent customer service & support, has helped the company to establish itself and consolidate growth. This philosophy continues to be the guiding mantra of the company's strategy in international trade. We are at all times resolutely focussed on our customer's needs and strive, at all times, to live upto his needs and our commitments. We have always recognised the importance of consistency in quality, particularly in demanding international markets and the same is reflected in our products as well as the support services. The outlook of business to us remains positive, despite the recent downturn in international trade, due to the emergence of the ugly head of terrorism and the protracted downturn in world economies. We continue to lookout for additional and newer products for expanding our activities in international trade. The present products being explored, for supplementing and supporting the same include those in pharma, software as well biotechnology. All these products have stringent quality standards and are being presently evaluated by our team of experts. We continue to build and strengthen streams of local trade, which profitably support our international trade and enhance our turnover and cashflows profitably.

In order to channelise the trade cashflows and internal accruals, to restructure and consolidate our finances prudently, the company has identified niche long term projects in the fields of biotechnology and urban infrastructure. The projects envisage a large infusion of capital and are expected to generate long term cash flows and profits. As in the case of the power sector in India, our waste to power project, awarded by the BMC, is facing delays in the requisite regulatory approvals. We however view the project as of strong viability and profitability and continue pursuing the regulatory approvals with dogged determination. The financial closure and project implementation will follow thereafter. A number of funding agencies have evinced interest in providing financial support towards the project. Upon implementation, it would be a pioneering project, the first of its kind in India and we have received expressions of interest from a number of other local bodies inviting us to set up such projects. The key manpower team has been retained and the projects under discussion are being pursued doggedly. The projects are expected to consolidate and strengthen our financial position and

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performance and will enhance the shareholder wealth and value significantly.

**C. INDUSTRY STRUCTURE AND DEVELOPMENT:**

International trade of India has suffered a slowdown in recent years, due to the reduced volumes of global trade. The agony of a slowdown was further accentuated by the unprecedented acts of terror on 9th September, 2001. Due to the bursting of the tech boom, the trade in IT products also suffered a severe setback. Indian entities have however continued their glorious march in niche sectors, albeit, with reduced rates of growth. The software industry, despite the slowdown, recorded a topline growth of 30% and continues to grow. Due to its undisputed strengths in such sectors, the Indian trade remains robust and remains relatively unaffected by global trends. The software industry thus continues to gain newer territories and has been doing well. The case of diamond exports is almost similar. India is the undisputed leader in export of polished diamonds, due to its expert manpower available at low cost. Thus though there was a dip in global trade volumes, due to demand attrition, for a brief period during the year, India's share in the trade remained unaffected. Margins were however lower and the only way out was stringent and dogged cost cutting. The company was able to maintain its growth and margins due to its efforts here. The volumes of diamond trade world wide have recently recorded an uptick and the short term outlook is exciting. If the recessionary phase worldwide fades, then better times will dawn on this activity, concomitant to the improvement in the economic outlook.

The exports business in India is a bundle of contradictions. Huge exporters, which are offshoots of MNCs, coexist with small cottage industry and SSI exporters. Most of the large exporters are however traders, who source goods to the quality and price satisfaction of their clients abroad and meet supply schedules. Thus these large exporters are essentially traders, who source and export, based on prevailing trends worldwide and the customer needs. The Company is also an entity in this category and has consistently received accolades and awards for its sterling performance in exports of various goods from India. The recently announced EXIM POLICY, apart from containing a number of sops and facilities for the exporters, also recognises the crucial role played by merchant exporters like us in India's international trade. The current policies of the government, favour the setting up of SEZs for facilitating exports. The Company has also set up facilities at SEEPZ and Kandla for availing of the benefits available to entities located in SEZs. With the demonstrated success of SEZ's, as an ideal mode for attracting international players and their FDI and for increasing the international trade of a country, large merchant exporters are increasingly positioning themselves in such zones.

The imminent resurgence of the American economy and the frantic efforts to revive the ailing Japanese economy showing signs of success, the recent worst for global

international trade is over and the ensuing days should hold better times for India's international trade, which is on an upswing. The balance of trade surplus of \$12 bn in the last financial year, is a pointer to our growing strengths in exports. The Company is well positioned to tap such growth and continues to review its business strategy and portfolio of products, on a continuing basis.

**D. OPPORTUNITIES AND THREATS :**

India is an emerging economic power, which is likely to become the second largest economy in the world, by the year 2025. It has managed to record a growth rate of about 6% even at a time when all major economies of the world were facing a recession or a distinct downturn. The projection for the coming year too is a growth rate of 6% and the medium term target of the government is to achieve a growth rate of 8%, so as to achieve all round economic development and realise the real potential of India and its people. The continued growth and prosperity of the country is also increasing its middle class, which has a huge collective purchasing power. The world views India as the next big growth story and a better bet than the opaque and autocratic economy of China. This is also reflected in the growing volumes of FDI in India, which recorded a growth rate of 60% in the last fiscal. The opportunity thus is to participate in India's growth story and make the most of its emanating growth. Companies like yours, which already have a sound footing in international trade, are the ideal vehicles as well as the drivers of such growth. India is on the threshold of long term growth, driven by its own merits as well global demands, due to the liberalisation of world trade. India's accepted and recognised skills in diamonds, jewellery, garments software and engineering will enable it to capture a larger share of global trade. However, such targeted growth in global trade will happen only if we produce goods which are of a top class quality and have a competitive price and if our infrastructure is adequate to support the increased volumes of trade emerging from India. Quality, price and timely delivery are the key factors in such trade. The Company has always recognised these factors, which is a prime reason for its continued growth over the years. The projected growth will not materialise, if we do not support it with adequate levels of infrastructure, which is woefully inadequate in our country today. Much as the infrastructure sector is one full of long term promises. The government needs to announce the right policies, in order to build investor confidence and drive investment therein. The Company is actively pursuing projects in urban infrastructure, power, biotechnology and manpower training, in order to encash these opportunities for profits and for a build up of shareholder wealth and value. Your Directors are confident that the large growth opportunities arising out of such global trends, shall be successfully tapped by the Company, as it makes larger strides in its business.

The competitive pressures in international trade, have shot



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up in the post WTO scenario. Profitable niches are very difficult to maintain, as dogged competitors eat into profit margins. Innovation, cost cutting and proven customer relationships, built on benign trade and trust are the only way, in order to survive such daily pressures in trade. The fluctuations in demand due to business cycles and the undulating profit margins are constant threats to business, which the Company is constantly vigilant about. The recent economic trends worldwide, particularly after the bursting of the tech bubble, have once again underscored the reality, that the business cycle is not dead and that profits do still matter always. A growing financial strength of the Company, an enhanced portfolio of products and customers, ruthless cost cutting and constant innovation, are the only strategies for the company's profitable survival and growth in such fiercely competitive market. An emerging threat to exports has been the increased propensity of nations to impose trade barriers in international trade, which are then fought/contested at sovereign levels. Such threats are largely unforeseen, but the Company is proposing to set up off shoots abroad, in order to circumvent such barriers, by virtue of its presence in multiple nations. As reported earlier, the Company has adopted the following strategy for the implementation of its on going projects and to reduce the chances of delayed project set up :-

- Financial closure and structuring, which is prudent and is compatible with the Company's cash flows.
- A competent team of persons for project set up and subsequent management.
- Sourcing from the best suppliers and the best of technology and processes.
- Monitoring of project costs and control thereof.

### E. SEGMENTWISE, PRODUCTWISE PERFORMANCE :

The segmentwise details of performance are as follows :-

(Rupees in Lacs)		
Sale	2002	2001
International Trade	30508.10	21654.33
Local Trade	22333.28	21288.18
Other Income	479.60	488.65
<b>Total</b>	<b>53320.98</b>	<b>43431.16</b>

The productwise sales have been as follows :-

Product	2002	2001
Diamonds	52018.37	42427.24
Diamond Jewellery	505.88	-
Chemicals	43.06	13.33
CD's	10.52	232.26
Software	-	13.50
Others	263.55	256.18
<b>Total</b>	<b>52841.38</b>	<b>42942.51</b>

The turnover recorded a growth rate of 23.05%, on a YOY basis, which was satisfactory, viewed in the light of the trends in the global economy and the Indian economy. The Company was able to weather adverse trends in costs, due to the benefit of long term supply contracts and a stringent review of costs. Since most demand centres witnessed recessionary times, there were pressures on price realisations, which tended to be lower as well as slower. The adverse trend in sales realisation, has been now stemmed and is likely to be reversed to the earlier norms. At such times, our customers become more demanding, which puts pressures on pricing and sourcing. The company was awarded 4th and 7th rank, for the years 2001-2002 & 2000-2001, respectively by The Gem & Jewellery Export Promotion Council for its outstanding performance in the export of Cut & Polished Diamonds.

The demand for the company's product remains sound and the order book is very healthy. The local demand too remains buoyant and encouraging. The Company continues to balance its volumes of trade, in local as well as foreign markets, ensuring an optimum mix of risks and rewards. The local sales are characterised by a much reduced profitability, which is set off by robust cashflows, caused by quicker turnaround and shorter investment duration. The Company's post tax profits, continues to face pressures from the continued withdrawal of export benefits by the government. Appropriate and adequate efforts, to mitigate such erosion of margins have been adopted by the Company. The composition of sales as above is expected to undergo a radical change, after the ongoing projects under implementation, are commissioned. As part of its continued appraisal the turnover volumes will determine the levels of required investment in future, in each of the operating segments.

### F. RISKS AND CONCERNS :

The dynamism in today's times, which shifts demands, changes the levers of business cycles and affects corporate profitability, is a two way street. While it endows benefits to the agile and vigilant players, it also bestows losses on those who are not. The changes initiated by the WTO are yet to stabilise and settle. Thus trade blocs and trade barriers are a constant area of concern. These have the potential of suddenly closing down existing markets for the company and obstructing it from dealing with its customers in such markets. The short term effects of such barriers can be very debilitating to an enterprise. Innovation in products, trade policies and financial instruments continues to be both, a risk as well as a reward. But the demands for a quick reaction from such trends are so overbearing, that the best of the best, tend to be caught on the wrong foot sometimes. The Company continues to constantly review its standing in these matters and has successfully weathered such risks so far. The Company has also retained the best of talent, to advise it on innovation and change in these areas and your directors are resolutely focussed on ensuring that correct and timely

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measures are initiated from time to time. The current year has so far witnessed a 12% erosion in the dollar's value and a concomitant increase in the value of the Euro. The rupee has, on the basis of active RBI support, tended to remain stable against the dollar though its undertone too has been of appreciation. The shape of the economy of USA will determine the global currency movements and valuations and will reflect accordingly on the Company's export realisations and profitability. Due to the downturn which India has witnessed, as well as the lacklustre equity capital markets, the cost of capital in India, is presently at an all time low. It is also a reaction to the interest costs in world markets, which too are at all time lows. Your Directors seek to attain financial closure of the projects at these prevailing costs, so as to make the most of the same. It is important and imperative to close the funding and freeze the financial structure of the projects, in order to retain their sharp competitive edge. The government policies in FDI have been encouraging and are likely to attract large volumes of foreign capital to India. However the policies related to the critical infrastructure sector, have failed to comfort the private sector and their lenders. It is perhaps singularly responsible for the delay in infrastructure projects being set up or the slow response to investment in such projects. The corporate world is presently awash with scams of unprecedented extent and nature. The best of the best have been exposed and have hit the dust. Corporate accounting practices are highly suspect and have unnerved investors. Disclosure and reporting to stakeholders, needs to be appropriately transparent, otherwise the supply of individual savings to the corporate sector will dry up, for a long time to come. The Company has always complied with and adhered to the highest standards of disclosures and presentation. Though there are hopes that the world recession will soon fade, it continues to be a matter of concern to companies, engaged in international trade.

**G. INTERNAL CONTROLS :**

Robust and evolving systems of internal control are the best defence against frauds or asset abuse. The company has a reasonable system of internal control, comprising authority levels and powers, supervision, checks and balances, policies, procedures and internal audit. The systems are reviewed, rectified and updated, on an ongoing basis. These systems provide a reasonable assurance with regard to maintenance of proper financial records, preserving the economy and efficiency of operations, safeguarding assets against unauthorised use or losses and facilitating the reliability of financial and operating information. The Management Information System (MIS) constitutes the backbone of the overall control mechanism. Clearly defined roles and responsibilities, down the line, for all managerial positions have been institutionalised. All operating parameters are

monitored and controlled. Regular internal audits and checks ensure that responsibilities are executed effectively and that the MIS is flawless, among a well established system of managerial control.

The internal control systems include -

- clear delegation of power with authority limits for incurring capital and revenue expenditure.
- corporate policies on accounting and capital raising.
- established processes for setting and reviewing annual and long term business plans and preparation and monitoring of annual budgets.
- a suitable internal audit system, which inter alia, reviews the internal controls of the company and actively contributes to cost control.
- An audit Committee of the Board of Directors, with a majority of independent directors, which regularly reviews the audit plans, material audit findings, adequacy of internal controls, as well as the compliance with Accounting Standards. The system of internal control of the company is adequate, keeping in mind the nature and size of the business of the Company.

**H. DISCUSSION ON FINANCIAL PERFORMANCE :**

The financial statements are prepared, in compliance with the requirements of the Companies Act, 1956 and the Generally Accepted Accounting Principles as established by the ICAI in India. The management of Soundcraft, accepts the responsibility for the integrity and objectivity of these financial statements and the basis for various estimates and judgements used in preparing the financial statements.

**Balance Sheet As At 30th June, 2002**

	Rs. (in lacs)
Share Capital	1621.60
Reserves & Surplus	13464.75
Secured Loans	10585.53
Unsecured Loans	1582.32
Fixed Assets	934.88
Depreciation	227.58
Investments	2425.62
Inventories	5460.09
Debtors	16552.05
Loans & Advances	3044.37
Cash & Bank Balances	1890.06
Current Liabilities and Provisions	2825.29



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### RESULTS OF OPERATIONS

	Rs. (in lacs)
Income from Sales	52841.38
Other Income	479.60
Cost of Goods sold	47346.58
Salaries and Manpower cost	65.21
Travelling	32.62
Selling, Administrative & General Expenses	331.18
Interest	1322.03
Income Tax	313.50
Non Recurring/Extra Ordinary Items	-
<b>Appropriations from Profits</b>	
Equity Dividend	324.32
Transfer to General Reserves	2000.00
Balance Carried Forward	4452.43

### I. OUTLOOK FOR 2002-03 :

Though the economic outlook for the year 2002-03 is very encouraging, the Company is approaching it with a sense of cautious optimism. The Reserve Bank has projected a GDP growth rate of 6% for the Indian economy and global trade, riding on revival of the major economies, is expected to record a growth of 3%. The USA's economy did weather the downturn, due to an unabated customer spending. It yet continues to be amidst uncertainty and fluid times. The gigantic and uncertain economy has shown signs of a slowdown, which is likely to be protracted with a sharp change of political leadership on the cards. India perhaps holds the hope for global trade. The Company expects that growth in the sunrise sectors, like biotechnology,

wherein it has lined up investments, will be sharp and across the board. The policies of the Government, related to the infrastructure sectors are expected to get clearer and easier, which will benefit the ongoing projects therein. The government, after changing its economic leadership, has announced its determination to growth and reforms and has declared its intent to unleash suitable policies and incentives. The year could thus be one of consolidation and upward movement, particularly in the service sectors of the Indian economy. There should be a continued shakeout in the manufacturing sector, as the industry attempts to find its feet and establish its competitiveness in global markets. However, all growth will be largely contingent on the happening of a bountiful and wellspread monsoon, in order to give a growth to agriculture and continued prosperity to the rural segments of the country.

### 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 the 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 availability and price of cost of goods sold, cyclical demand and pricing in the Company's principal markets, changes in government regulations, tax regimes, economic developments within India and the countries in which the Company conducts business and other incidental factors.

On behalf of the Board  
For Soundcraft Industries Ltd.

Place : Mumbai  
Dated : 11th September, 2002

Rajkumar Basantani  
Chairman