

Appendix 5.1

Board of Directors of L&T Ltd.

Before Ambanis	Under Ambanis	After Ambanis	
Name	Name	Name	Designation
		H. Holck- Larsen	Chairman Emeritus
N. M. Desai	D. H. Ambani		Chairman
	M. D. Ambani		Vice-Chairman
U. V. Rao	U. V. Rao	U. V. Rao	Managing Director and Chief Executive Officer
S. S. R. Subramaniam	S. S. R. Subramaniam	S. S. R. Subramaniam	Managing Director and President
S. P. Kashyap	S. P. Kashyap	S. P. Kashyap	Vice President
S. D. Kulkarni	S. D. Kulkarni	S. D. Kulkarni	Vice President
M. P. Wagh	M. P. Wagh	M. P. Wagh	Vice President
A. M. Naik	A. M. Naik	A. M. Naik	Vice President
A. Ramakrishna	A. Ramakrishna	A. Ramakrishna	Vice President
M. Karnani	M. Karnani	M. Karnani	Vice President
A. S. Gupta	A. S. Gupta	A. S. Gupta	Nominee of FIs
S. S. Marathe	S. S. Marathe	S. S. Marathe	Nominee of FIs
S. N. Shende	S. N. Shende	J. S. Salunke	Nominee of FIs
N. G. Ram	N. G. Ram		Nominee of FIs
		M. D. Ambani	Director
	B. L. Bhakta	B. L. Bhakta	Director
	A. D. Ambani	A. D. Ambani	Director
A. G. Karkhanis	A. G. Karkhanis	A. G. Karkhanis	Director
S. M. Palia	S. M. Palia	S. M. Palia	Director
K. Ramanujam	K. Ramanujam	K. Ramanujam	Director
D. V. Kapur	D. V. Kapur	D. V. Kapur	Director
K. Henseler	K. Henseler	K. Henseler	Director
A. Binder	A. Binder	A. Binder	Alternate Director

Source: Annual report of L&T Ltd., 1991-92.

## Appendix 5.2

### Capital Structure of L&T Ltd.

Year	Paid up capital at the end of the year (Rs. in lakhs)	Type and nature of issue
1946	25.00	Incorporation of the company
1950-51	45.00	Public issue
1954	50.00	Rights issue on equitable basis
1955	55.00	Rights issue, 1:7
1956	60.00	Rights issue, 1:8
1957	65.00	Rights issue, 1:9
1958	75.00	Rights issue, 1:5
1959	95.00	Rights issue, 1:3
1960	125.00	Rights issue, 3:8
1962	180.00	Rights issue at premium, 1:2
1964-65	279.00	Rights issue at premium, 2:5 Bonus issue, 1:7
1967	378.00	Rights issue, 3:8
1969	414.30	Bonus issue, 1:10
1972	562.53	Issue on merger of Canara Bank Ltd. and Willcox Buckwell India Ltd. Bonus issue, 8:25
1973	707.08	Rights issue at premium, 1:4
1975-76	856.14	Bonus issue, 1:2
1978-79	1,264.07	Conversion of Bonds Rights issue at premium, 1:4
1979-81	1,552.39	Bonus issue, 3:4
1981-82	2,417.34	Issue on amalgamation of Utkal Machinery Ltd.
1982-83	2,512.78	Conversion of Conv. Debentures (I series) Financial institution opted of conversion of Debentures
1983-84	2,573.89	Rights issue at premium, 1:5 Conversion of loan by Financial Institutions
1984-85	2,818.31	Bonus issue, 3:5
1985-87	5,199.34	Conversion of Conv. Debentures (II series)
1987-88	6,074.89	Conversion of Conv. Debentures (III series)
1989-91	7,542.00	Part-conversion of Conv. Debentures (III series)
1991-92	15,147.24	

Source: The Stock Exchange Official Directory, The Bombay Stock Exchange

## Appendix 5.3

## Financial Highlights of L&amp;T Ltd.

(Rs. in crores)

Description	1991-92	1990-91	1989-90	1987-89 (Annualised)	1986-87	1985-86	1984-85	1983-84
Sales	1735	1500	1092	789	616	507	472	359
(% change)	15.67	37.36	38.40	28.08	21.50	7.42	31.48	
Profit after taxes	102	91	43	33	28	27	30	23
(% change)	12.09	111.63	30.30	17.86	3.70	-10.00	30.43	
Net block	720	658	606	566	532	499	396	252
(% change)	9.42	8.58	7.07	6.39	6.61	26.01	57.14	
Total assets	1433	1181	1185	787	709	635	550	345
Long-term funds	167	178	213	258	259	253	225	152
Short and medium term funds	389	479	556	174	158	102	68	68
Share capital	130	75	68	61	52	52	28	26
Reserves and surplus	747	449	348	294	240	228	229	99
Net worth	877	524	416	355	292	280	257	125
Working Capital*	554	372	365	3.64	-25	-2.98	-31	36
Book value per share	61.67	59.43	49.45	44.54	38.79	35.4(1)	54.29	47.01
Earning per share*	7.58	11.6	6.06	6.01	5.31	5.9(1)	10.66	8.73
Price-Earning ratio*	39.59	10.24	12.4	15.76	13.41	18.99	14.35	8.62
Return on net worth (%)	11.63	17.37	10.34	9.30	9.59	9.64	11.67	18.40
Return on capital employed	9.77	12.96	6.84	5.38	5.08	5.07	6.22	8.30
Debt : Equity Ratio	0.2	0.4	0.6	0.9	1.3	1.4	1.5	1.2
Current ratio*	1.75	1.59	1.56	1.09	0.95	0.99	0.9	1.15
Dividend (rate)	35	30	25	30	20	17	24	24
Avg. market price* (of year's high and low)	245	122	89	110	96	153	122	74

Source: Larsen &amp; Toubro Ltd., Annual Report, 1991-92.

\* The Stock Exchange Official Directory, The Stock Exchange, Bombay.

(1) After considering the bonus issue

#### Appendix 5.4

#### **Subsidiaries of L&T Ltd. and Reliance Industries Ltd.**

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Parent company	Subsidiary/Associate Company
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L&T Ltd.	EWAC Alloys Limited L&T-McNeil Limited L&T-Gould Limited Audco India Limited Tractor Engineers Limited
Reliance Industries Limited.	Devti Fabrics Limited Trishna Investment and Leasing Limited Reliance Europe Limited Redwood Investments Private Limited Reliance Petro Products Limited

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Source : Annual Reports of both the companies, 1991-92.

## Appendix 5.5

### Emergence of Ambanis

YEAR	EVENTS
1932	Dhirubhai Ambani born in a family of school teacher in Chorwad, a small village near Junagadh district of Gujarat.
1949	After matriculation, Dhirubhai went to Aden to earn livelihood and worked as clerk at A Bee See & Co..
1958	Dhirubhai returned with a "reliance" to settled in India.
1959	Reliance Commercial Corporation was set up as trading concern in textile and export enterprise.
1966	Textile Industries Pvt. Ltd. was incorporated in Maharashtra. It was established as Synthetic Fabric Mill for processing and converting the imported yarn into fabrics. This fabrics then exported under High Value Unit Scheme. This export again entitled them to import the yarn (Polyester Filament Yarn, PFY) which was sold at very high margin in domestic market.
1975	Reliance Textile Industries Pvt. Ltd. converted in to public limited company.
1976	Amalgamation of Reliance Textile Industries Ltd. with Minylon Ltd. under section 394 of The Companies Act, 1956.
1977	Minylon Ltd. is changed to Reliance Textile Industries Ltd. and its registered office was shifted from Bangalore to Bombay. Reliance Textile Industries Ltd. was listed on Bombay Stock Exchange.
1981	Amalgamation of Sidhhpur Mill Co. Ltd. with Reliance Textile Industries Ltd..
1985	Reliance Textile Industries Ltd. was changed to Reliance Industries Ltd.
1992	"Reliance" has become the biggest industrial house in Indian corporate sector.

Source: Various periodicals, newspapers and judgements of the Supreme in cases of RPL and L&T fully convertible debentures issues (1991).

## Appendix 5.6

### Major Foreign Collaborators of Reliance Industries Ltd.

Product	Foreign collaborator
Polyester Filament Yarn (PFY)	E.I. Du Pont De Nemours & Co.
Polyester Staple Fibre (PSF)	Ltd., USA
High Density Polyethylene (HDPE)	
Poly Vinyl Chloride (PVC)	B.F. Goodrich & Co., USA
Mono Ethylene Glycole (MEG)	Scientific Design Ltd., USA
Liner Alkyl Benzene (LAB)	U.O.P. Processors Inter-
Purified Terephthalic Acid (PTA)	national Inc., USA and Imperial
	Chemical Industries, UK
Ethylene, Propylene and Butadiene	Stone & Webster Eng. Corpora-
	tion, , USA
Polypropylene and polyethylene	C. Itoh & Co. Ltd., Japan

Source: The Stock Exchange Official Directory, The Bombay  
Stock Exchange, Bombay

Appendix 5.7

**Board of Directors of Reliance Industries Ltd.**

Name	Designation
D.H.Ambani	Chairman and Managing Director
Mukesh D.Ambani	Vice Chairman
Ramniklal H. Ambani	Joint Managing Director
Anil D. Ambani	Joint Managing Director
N.H.Ambani	Executive Director
N.R.Meswani	Executive Director
S.S.Betrabet	Nominee of Financial Institutions
B.D.Shah	Nominee of Financial Institutions
M.L.Bhakta	Director
T.Ramesh U.Pai	Director
Yogendra P.Trivedi	Director

Source: Annual Report of Reliance Industries Ltd., 1991-92

# Appendix 5.8

## Capital Structure of Reliance Industries Ltd.

Year	Paid up capital at the end of the year (Rs. in lakhs)	Type and nature of issue
1973-74	0.11	Incorporation of the company
1975-77	595.11	Merger with Reliance Textile Industries Ltd.
1977-78	625.11	Preference shares issued to GIC Conversion of loans by Financial Institutions Partly Conv. Debentures (I series)
1979	783.89	Rights issue at premium, 4:25
1980	1,236.23	Bonus issue, 3:5 Partly Conv. Debentures (II series)
1981	1,697.38	Amalgamation with Sidhhpur Mills Co. Ltd. Partly Conv. Debentures (III series) Right issue at premium, 1:6 Conversion of loans by Financial Institutions
1982	2,439.46	Issue of 13.5% Preference shares Partly Conv. Debentures (IV series)
1983	4,195.13	Bonus issue, 3:5 Additional entitlements to IV series PCD holders
1984-85	5,740.93	Partly Conv. Debentures (E series) Conversion of non-convertible portion of I, II, III and IV series PCDs.
1986-88	15,790.65	Non-Convertible Debentures (F series) Fully Convertible Debentures (G series) Rights issue at premium, 1:4
1992		Proposed issues: Partly Convertible Debentures (H series) Non Convertible Debentures (J & K series)

Source: The Stock Exchange Official Directory, The Bombay Stock Exchange



## Appendix 5.9

## Financial Highlights of Reliance Industries Ltd.

(Rs. in crores)

Description	91-92	1990-91	1989-90	1988-89	1987-88	1986-87	1985-86	1984-85
	(Annualised)							
Sales	953.21	2098.34	1840.66	1493.77	1185.46	905.48	733.14	622.01
(% change)	40.74	14.00	23.22	26.01	30.92	23.51	17.87	
Profit after taxes	163.32	125.55	90.5	119	53.85	14.17	71.34	61.1
(% change)	30.08	38.73	-23.95	120.98	280.03	-80.14	16.76	
Net block	338.11	1482.57	1469.01	1502.78	1584.08	949.46	606.8	426.28
(% change)	125.16	0.92	-2.25	-5.13	66.84	56.47	42.35	
Total assets	880.21	2712.32	2553.32	2410.74	2193.16	2002.66	1046.2	661.86
Longterm funds	794.15	708.96	595.89	579.44	609.82	546.12	515.16	276.96
Short and medium term funds	142.44	849.91	870.45	759.99	561.22	1145.01	219.92	138.51
Total funds	936.59	1558.87	1466.34	1339.43	1171.04	1691.13	735.08	415.47
Share capital	232.88	157.92	157.92	157.91	157.1	57.41	57.41	51.98
Reserves and surplus	710.74	995.53	929.06	913.4	864.22	254.12	253.71	194.41
Net worth	943.62	1153.45	1086.98	1071.31	1022.12	311.53	311.12	246.39
Working capital*	318	335	238	171	71	-92	220	2
Book value per share	85.34	75.44	71.01	10.05	66.82	59.24	59.16	52.1
Earning per share*	5.74	8.03	5.89	6.23	5.09	2.58	12.07	13.06
Price-Earning ratio*	61.79	17.02	10.44	20.47	40.84	78.91	18.33	9.3
Return on net worth	8.40	10.88	8.33	11.11	5.27	4.55	22.93	24.80
Return on capital employed	7.63	13.74	11.90	8.80	9.68	6.01	9.25	17.06
Debt : Equity Ratio	0.92	0.61	0.55	0.54	0.6	1.75	1.66	1.12
Current ratio*	1.26	1.4	1.28	1.23	1.13	0.91	2	1
Dividend (rate)	30	30	30	30	55	25	50	40
Avg. market price* (of year's high and low)	287	151	104	167	173	287	186	128
No. of investors (in lakhs)	38	24	26	31	31	18	17	15

Source: Reliance Industries Ltd., Eighteenth Annual Report, 1991-92.

\* The Stock Exchange Official Directory, The Stock Exchange, Bombay.

## Appendix 5.10

### Chronology of Events of Corporate Rivalry of Ambanis and Wadia

April, 1977:

Nusli Wadia takes over as Chairman of the prosperous Bombay Dyeing.

May, 1977:

Janta Party came into power. Vijaya Raje Scindia, the then Janata Sangh leader is a major shareholder in Bombay Dyeing and son Madhavarao Scindia is on the board of the company.

November, 1977:

Dhirubhai Ambani, along with his brother Natverlal, issues 2.8 million shares of Reliance Textile Industries for Rs.10 at par.

November, 1978:

Indira Gandhi wins the by-election to the Lok Sabha. Ambanis makes friends with her new right hand man, R.K.Dhawan. They were also believed to have made substantial contribution to the election fund.

December, 1978:

Wadia receives letter of intent for the manufacture of 60,000 tonnes per annum (tpa) of DMT and announces plans to invest Rs. 53 crores in a plant at Patalganga near Bombay.

September, 1979:

Wadia on the verge of getting DMT license but due to defeat of Janta Government his license is reportedly held up.

January, 1980:

Indira Gandhi is Prime Minister again and the men who wield power include Dhawan and Pranav Mukherjee, close friends of Dhirubhai. Reliance applies and is granted a license to produce 10,000 (tpa) Polyester Yarn, reportedly at the behest of Dhawan and Mukherjee.

September, 1981:

Reliance allegedly influenced custom authorities to block the clearance of imports of PFY by textile mills for eight months to its advantages. Wadia shifts DMT plant from US but customs hold it up, delaying the project by several months.

May, 1982:

Reliance's shares is hammered down by bears. Ambanis retaliate with non-resident Indian companies based in the Isle of Man which allegedly pump in as much as Rs. 22 crores to prop up the shares.

August, 1984:

Mukherjee permits a change in the rules and Reliance's non convertible debentures (NCDs) are converted to equity shares giving the company a chance to wipe out a debt of Rs.73 crores.

October, 1984:

Reliance gets letters of intent to manufacture 75,000 tpa of PTA, 45,000 tpa of PFY and 40,000 tpa of MEG, all in a record three months period.

December, 1984:

Rajiv Gandhi is elected as Prime Minister. Mukherjee and Dhawan fall out of favour. Madhavarao Scindia, Wadia's close friend becomes Railway minister and V.P.Singh, known for his animosity towards Ambanis becomes finance minister.

February, 1985:

V.P.Singh blocks Reliance's proposal to set up a Rs.100 crores leasing company.

May, 1985:

PTA which Reliance imported heavily, is put on the restricted list imports.

June, 1985:

V.P.Singh stops Reliance's efforts to convert the F series NCDs, resulting in additional interest payments of Rs.3.5 crores and a drop of 40 percent in the debentures' prices in one day. V.P.Singh also issues a show cause notice for alleged smuggling of an entire plant worth Rs.120 crores - Ambanis PTA project is delayed by a year. A drastic fall in net profits in 1986.

September, 1985:

The Government raises ad valorem duties on PTA and DMT from 140 to 190 percent which, Reliance claims, cost the company Rs. 30 crores.

March, 1986:

Indian Express publishes the first of a series of exposes of Reliance's wrong doings. Goenka's financial advisor and chartered accountant, S.Gurumurthy, details how Reliance borrowed bank's funds to invest in the debentures.

June, 1986:

Gurumurthy and Bhurelal, director of the enforcement directorate, investigates Ambanis activities abroad. Michel Harshman of Fairfax Inc., a detective agency, visits Delhi, meets Bhurelal, and agrees to investigate the activities of 22 Isle of Man companies which invested \$20 million in Reliance. He is also asked to investigate how Reliance paid its collaborator, Du Pont, for the purchase of the equipment and transfer of technology. Reportedly, during the meeting Nusli Wadia was also staying at the same hotel.

January, 1987:

Bhurelal visits U.S.A. for further investigation. V.P.Singh is transferred to the defence ministry. Bhurelal and Vinod Pandey, revenue secretary are transferred. Ambanis's clout at the Center is re-established.

March, 1987:

Gurumuthy is arrested in Madras and the guest house of Indian Express is raided. CBI claims to have discovered a letter written by a vice-president of Fairfax Inc., stating that Wadia paid \$3 lakhs to conduct the investigation and that a further \$2 lakhs was due ( the letter was proved to be a forged letter).

April, 1987:

The Government appoints Thakker-Natrajan commission to investigate the Fairfax affair. The Government slashes consumption tax on PTA. Reliance benefit to tune of Rs.22 crores.

August, 1987:

Nusli Wadia is arrested by the CBI for registering as an Indian national in a hotel while holding a British passport.

September, 1987:

A prominent financial institution unload about one lakh shares in three days to bring down the price of Bombay Dyeing shares from Rs.130 to Rs.88.

March, 1988:

The excise duty on polyester yarn is reduced and so is the import duty on MEG, the raw material for polyester, both of which benefit Reliance immensely. Import duty on paraxylene is raised to the detriment of Bombay Dyeing .

April, 1988:

The enforcement directorate issues nine show cause notices to Bombay Dyeing for the alleged breach of foreign exchange regulations, claiming that RBI permission was not obtained from 1974 onwards for certain transactions. The notices were served in the name of J.D.Choksy, director of the company, who had died four years earlier.

April, 1989 :

The Financial institutions supported Ambanis to takeover the L&T. The reports of The Public Accounts Committee assails the customs department for " financially accommodating " Reliance.

August, 1989 :

Police arrested Reliance executive Kirti Ambani on charges of conspiracy to kill Wadia. Reports had it that it was move by Wadia group to sabotage the RPL's Rs 594 crores public issue which opened in last week of August, 1989. It was also revealed that to note that Kirti Ambani was not related to the Ambanis.

December 1989 :

The Congress (I) Government was defeated and the National Front Government led by V.P.Singh came to power.

April, 1989 :

Ambanis thrown out of the L&T by FIs. Mr.D.N.Ghosh, nominee of FIs, was made Chairman of L&T who in turn reversed all the

decisions taken by the L&T under Chairmanship of Ambanis.

November, 1990 :

Mr. V.P. Singh resigned and Mr. Chandrashekhar became Prime Minister with the sole support of Congress(I).

February, 1991 :

Mr. D.N. Ghosh, nominee of FIS and Chairman of L&T resigned reportedly getting instructions from the Government, paving a smooth way for Ambanis to comeback.

September, 1991 :

Reportedly the Government could not take stand whether to support Ambanis or to remain neutral in L & T's adjourned meeting. They feared that being minority Government, support to Ambanis might affect the required support of other parties which in turn endangered the passage of Finance Bill, 1991.

George Fernandes of Janta Dal, Member of Parliament and close friend of Nusli Wadia put before the Parliament the sample of forged proxies collected by Ambanis in L&T takeover attempts.

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Source: Business India, 7-20, 1989 and other secondary sources.

Appendix 5.11

Summary of Major Events in L&T Takeover

YEAR*	EVENT NO.	EVENT NARRATION
1	2	3
1988	1	* Who is behind the upsurge? (03\03\88) * Financial Institutions sold 33 lakhs shares of L&T to BoB Fiscal. (05\08\88)
	2	* L&T registered 39 lakhs shares in the name of BoB Fiscal. Nominees of Ambanis joined the Board of L&T. (10\10\88)
1989	3	* Mr.D.H.Ambani became the Chairman of L&T. (28\04\89) L&T became part of House of Ambanis
	4	* Board of L&T approved the mega issue Rs.920 crores of FCDs. (22\07\89)
	5	* A writ petition was filed against the sale of 39 lakhs shares of L&T by FIs to BoB Fiscal and Ambanis' entry in L&T in Bombay High Court. (13\09\89)
	6	* The above petition was dismissed by the High Court and the petitioners preferred an appeal in Supreme Court and got the stay on implementation of mega issue. (29\09\89)
	7	* Ambanis sold back 39 lakhs shares in L&T to FIs as gesture of goodwill. (19\10\89)
	8	* Mr.V.P.Singh became the Prime Minister. (30\11\89)
1990	9	* FIs requisitioned extra ordinary general meeting to remove Ambanis from the Board of L&T. (02\04\90)
	10	* LIC of India filed a petition in Bombay High Court to get register of shareholders of L&T. (16\04\90) * Mr.D.H.Ambani resigned from Board of L&T. (19\04\90)
	11	* Board of L&T cancelled the supplier's credit to RPL and prune the mega issue. (29\06\90)
	12	* Board of L&T approved the accounts for the year ended on March, 1990. (06\07\90)
	13	* The advocates of Ambanis initiated fore political settlement. (10\09\90)

1	2	3
	14	* Mr.V.P.Singh resigned as Prime Minister. (06\11\90) * Ambanis may regain the control?
	15	* Mr.Chandra Shekhar won the vote of confidence in the Parliament with the support of Congress-I and later on became Prime Minister. (21\11\90)
1991	16	* Mr.D.N.Ghosh resigned from the Chairmanship of L&T. (16\02\91)
	17	* Mr.Chandra Shekhar resigned as Prime minister. (07\03\91)
	18	* L&T leadership issue kept in abeyance. (06\04\91)
	19	* Supreme Court upheld the mega issue of L&T. (18\04\91)
	20	* Mr.Rajiv Gandhi was killed in a bomb explosion. (20\05\91)
	21	* Mr.P.V.Narsimha Rao emerged as the leader of Congress-I. (30\05\91)
	22	6 * L&T to go ahead with mega issue. (04\06\91)
	23	* Mr.P.V.Narsimha Rao became Prime Minister. (26\06\91)
	24	* Ambanis are likely to come back. (01\08\91)
	25	* Ambanis convened EGM meeting to appoint their nominees on the Board of L&T.(02\08\92)
	26	* The EGM got adjourned due to "bomb hoax". (26\08\91)
	27	* A shareholder filed a petition to stay the adjourned meeting challenging the appointment of Ambanis on L&T's Board and forging of proxy forms. (02\09\91)
	28	* The Court refused to stay the meeting but restrained Ambanis to appoint Mr.Mukesh Ambanis as Vice-President at the adjourned meeting. (10\09\91)
	29	* Ambanis withdrew the proposed resolutions to appoint their nominees at the adjourned meeting. (17\09\91)
	30	* Ambanis rehearsed their comeback in L&T at RPL's Annual General Meeting. (10\10\91)

\* Dates are given in the paranthesis.

Source: Various periodicals and newspapers and judgments of the Supreme Court in cases of RPL and L&T fully convertible debentures issues.

## Appendix 5.12

The Extract of Resignation Letter of D.N.Gosh :

"... I accepted this responsibility though somewhat reluctantly, at the request of the financial institutions and the Government, for restoration of the professional management of the company and all its shareholders. I am fully satisfied that towards that end. I discharged my responsibility professionally without fear or favour.

The Government has now indicated to that they wish to have someone else elected in my place. I joined at the request of the Government and I am happy to leave at the request of the Government.

I am therefore, tendering my resignation as requested by the Government to enable the FIs to take appropriate steps to relieve me of my responsibility...."

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Source: The Economic Times, February 17,1991.



## Appendix 5.13

### **Changes in Accounting Policies and their Effects on Annual Accounts of RIL**

RIL is known for applying high degree of creativity in preparing corporate financial statements. The major changes in accounting policies and their consequent effects on financial statements of RIL are as under:

#### **Accounting Year 1982**

There was a change in the mode of computation of depreciation in this year in accordance with the provisions of Section 205(2)(b) of the Companies Act, 1956. The company had been providing depreciation for the full year on addition to fixed assets, even though assets were installed and commissioned for part of the year. However, in view of legal opinion, depreciation should be provided on the fixed assets installed during the year on pro-rata basis with reference to the period of use. Had depreciation for the previous years been provided on the same basis as in the previous year, the depreciation charged in the Profit & Loss Account would have been higher by Rs.1633.56 lacs.

The Company until 1981, used to capitalise interest on long term loans/debentures/deferred payment arrangements obtained for procuring fixed assets till the date of commissioning of the assets. In the year 1982, it had capitalised the interest for the entire period of such loan availed of, for acquiring fixed assets on the following assumptions:

1. interest accrues at the time of availment of the loan till the date of repayment of the said loan.
2. all loans shall be repaid on due dates.

As a result of the above change in the method of accounting, the charge to the Profit & Loss Account on account of depreciation was higher by Rs.100.84 lacs and on account of interest was lower by Rs.183.22 lacs.

#### **Accounting Year 1983 and 1984**

The company had continued the practice to capitalise interest on Long Terms Loans/Deferred Payment Arrangements obtained for procuring Fixed Assets for the entire contracted period of such loans availed of during the year for 1983 and 1984. Consequently the charge to profit and loss account on account of:

1. depreciation was higher by Rs.612.20 lacs in 1983 and Rs.397.2 in 1984.
2. interest was lower by Rs.788.82 lacs in 1983 and Rs.955.1 lacs in 1984 .

#### **Accounting Year 1985**

From 1st January, 1982 to 31st December, 1984 the company had capitalised a sum of Rs.190.72 crores in respect of interest on long term borrowings availed for procuring fixed assets for the entire contracted period of such borrowings. In view of the amendment to Section 43 of Income Tax Act, 1961 vide Finance Bill 1986, the company decided to capitalise interest

on the said borrowings only upto the date of commissioning of the Plant. Accordingly the company has recalculated the cost of Fixed Assets from 1st January, 1982 and its consequent effect on depreciation, interest and on sale of assets for the years 1982 to 1984 had been adjusted in accounts as under:

	(Rs. in crores)	
Short provision of interest for the past year	19.27	
Less: a. Excess provision for depreciation		
written back	11.10	
b. Net adjustment on sale of assets	0.04	
	-----	11.14
Net debit to profit and loss account		8.13
		=====

Had the Company continued the same practice of capitalisation of interest in this year, the figures of Fixed Assets, Reserves and Current Liabilities for the year would have been higher by Rs.504.38 crores, Rs.9.43 crores and Rs.473.28 crores respectively and the charge to Profit and Loss account on account of depreciation would have been higher by Rs.10.73 crores and on account of interest lower by Rs.11.09 crores.

#### Accounting Year 1986

The Company until the accounting year 1985 used to account for disposal of waste generated in the course of production on cash basis. In 1986, one of the Waste Recovery Plants was commissioned for recycling of Polyester yarn and Fibre waste as raw material. Therefore, such usable waste lying with the Company to the extent of 4040 tonnes at the end of the year had been booked at the price equivalent to cost of raw materials after deducting recycling cost. Had this not been done, the figures of raw materials consumption would have been higher by Rs.11.72 crores and correspondingly the Profits for the year would have been lower by the said amount.

Until the accounting year 1985, inventories were valued at cost. During the current year, the Company has changed the method of valuation of inventories and accordingly, these are valued at cost or market value whichever is lower. Had the same method been continued, inventories and profit would have been higher by Rs.5.10 crores.

#### Accounting Year 1987-88

The company, during this financial year, in line with the amendment to section 209(3) of the Companies Act, 1956, prepared accounts on 'accrual basis' for (a) liability in respect of maturity value in excess of initial investment of Cash Certificates issued by the Company under Fixed Deposit Scheme (b) income on investments and (c) Excise Duty set-off, which, as per the accepted practice, were hitherto accounted for on cash basis. As a result, the profit for the year is lower by Rs.1.19 crores.

Since it is not possible to ascertain with reasonable accuracy, the quantum to be provided for in respect of (i)

Export incentives and other claims (ii) Claims for refunds of customs duty, sales tax, insurance, octroi, etc. (iii) Interest on overdue bills and delayed payment charges (v) Performance incentives on sales (v) Premium on redemption of Debentures (vi) disposal of sundry items other than usable waste of POY/PSF (vii) Exchange difference arising on repayment of foreign currency loans, deferred credit facilities, and (ix) interest on letters of credit outstanding till the end of accounting period, the same are continued to be accounted on cash basis.

Had the company continued the same practice during the current financial year, depreciation would have been higher by Rs.28.91 crores and the closing inventory would have been higher by Rs.4.37 crores and the net profits would have been lower by Rs.24.54 crores.

#### **Accounting Year 1988-89**

There had been a change in the method of accounting in year 1988-89 in respect of forex loss/profits on account of fluctuation in rates of exchange on repayment of loans and deferred payment liabilities which in the previous year was charged to the Profit and Loss account in the year of repayment. The company had decided to treat the same as capital expenditure with effect from 1st January, 1982, in view of various Court Judgements. Accordingly, the company has adjusted the same and had provided depreciation at applicable rates for the said relevant years. Consequently, effect on the accounts was, as under:

Excess Provision written back	Rs.21.16 crores
Less: Provision for depreciation	Rs. 5.98 crores
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	Rs.15.18 crores
	=====

Had the company continued its past practice, in respect of the above, the profit (net) for the year would have been lower by Rs.4.11 crores and Reserve and Surplus and Net Fixed Assets would have been lower by Rs.19.29 crores and Rs.20.66 crores respectively, and the closing inventory would have been higher by Rs.1.37 crores.

#### **Accounting Year 1991-92**

During the year, company had restated liabilities in respect of foreign exchange loans availed to acquire fixed assets at the rate of exchange prevailing at the end of the year or contract rate in case of forward cover, unlike in past when the company used to (a) account such loans at the exchange rates prevailing on relevant dates; and (b) recognise such additional liabilities on the basis of payment there to along with roll-over charges. Consequently, the liability has been increased by the translated difference of Rs.116.54 crores with corresponding increase in carrying cost of the fixed assets. On account of this depreciation up to 31st March, 1991 amounting of Rs.62.11 crores, had been included in Prior years adjustment in Profit and Loss Account.

Had the company followed its past practice, depreciation for the year would have been lower by Rs.28.40 crores and profit for the year would have been higher by Rs.28.40 crores. Consequently Reserves and Surplus are lower by Rs.90.51 crores, Net Block of Fixed Assets is higher by Rs.26.03 crores, and Secured Loans are higher by Rs.116.54 crores.

**Accounting Year 1992-93**

Inter-divisional transfers of goods and services for internal use as captive consumption in vertically integrated multi-plants are shown as contra items in the Profit and Loss Account to reflect the true economic value of the production inter-se the divisions. Any unrealised profit on unsold stocks is ignored while valuing inventories. This accounting treatment has no impact on the profits of the company.

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Source: Letter of offer to equity shareholders for H,J, and K series of debentures issued by Reliance Industries Limited.