



Focused on the future
ANG Auto Limited

Report



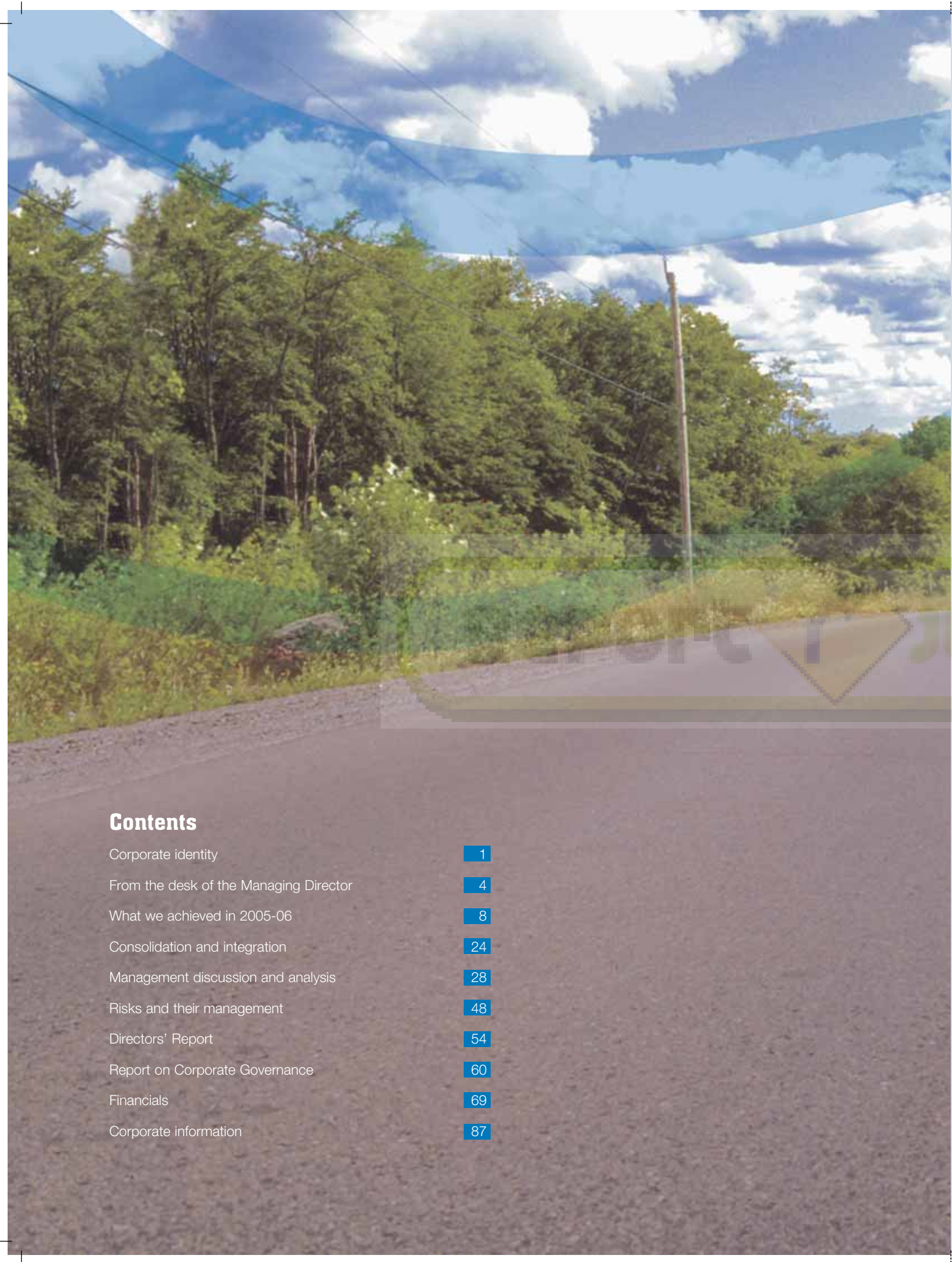
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www.angauto.com
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Annual Report 2005-06

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Cautionary statement

Statements in this report that describe the Company's objectives, projections, estimates, expectations or predictions of the future may be 'forward-looking statements' within the meaning of the applicable securities laws and regulations. The Company cautions that such statements involve risks and uncertainties and that actual results could differ materially from those expressed or implied. Important factors that could cause differences include raw material cost or availability, cyclical demand and pricing in the Company's principal markets, changes in government regulations, economic developments within the countries in which the Company conducts business and other factors relating to the Company's operations such as litigation, labour negotiations and fiscal regimes.

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“Our focus on world-class manufacturing facilities, corporate repositioning and creating an enviable client list has helped us emerge as one of the most dynamic companies in the Indian auto-component industry today.”

– Mr. Premjit Singh Chadha, *Managing Director*

ANG Auto Limited is one of the fastest growing companies in India’s auto component industry. It is a leading multi-product manufacturer-exporter of specialised automotive components used by the heavy commercial vehicle (HCV) segment.

Key numbers

1995
Year of commercial production

800+
Number of employees

6
Number of operational plants

Rs. 213 lacs
EVA in 2005-06

Who we are

- Among the fastest growing auto component manufacturers in India
- Promoted by a technocrat with 14 years of experience in the auto-component industry
- Ownership of a 48 per cent stake by the promoters in the Company

What we manufacture

- Specialised automotive components for HCVs and trailers, Off High applications, vehicles
- Comprehensive range of parts for air-brakes and trailers with diverse applications

What is our reputation

- Tier-I and Tier-II approved sources for OEMs in US and Europe
- Holders of the ISO 9001:2000 and TS16949 certifications for our facilities

Where we are present

- Headquartered in New Delhi
- Facilities in Noida, Noida SEZ, Faridabad, Greater Noida and Nalagarh
- Facilities proposed at Bhiwadi and Sitarganj
- Strong marketing presence in the US, Europe and Latin America
- Listed on the Mumbai, Delhi and Ahmedabad Stock Exchanges

What we have achieved

- A compounded revenue growth of 66 per cent over the four years leading to 2005-06
- A CAGR profit after tax of 189 per cent over the same period
- Earnings per share growth from Re. 0.33 in 2001-02 to Rs. 9.45 in 2005-06

Dear Shareholders

The year 2005-06 was a momentous one in the history of our Company and I am excited as we ready to step into the next level of our growth.

My enthusiasm is derived from a key initiative, which we executed in 2005 and which should catapult us into the top 10 auto ancillary companies in India by 2008.

Before I expound on the historic event, allow me to summarise our performance:

- Topline registered a growth of 189 per cent
- Profit grew by 830 per cent
- Operating margin improved by 11 per cent
- Return on invested capital was at 30 per cent

From the desk of the
Managing Director

“We have laid the foundation for growing the organisation from revenues of Rs. 0.57 bn currently to Rs. 5 bn by 2008-09”

Initiative 2005

We consolidated two group companies into our only listed entity ANG Exports and re-christened it to ANG Auto Ltd. I would like to remember this step as Initiative 2005. As much as it was necessary, keeping in line with the global trend, it was important for the Company to unlock value for shareholders.

I would like you to look at the necessity of the consolidation from two angles: one from the perspective of business growth and the second from the perspective of unlocking value for our shareholders.

Global perspective

We are among the few companies predominantly driven by international trends and an export focus. Over the last few years, India has emerged as a preferred destination for global automobile OEMs as well as Tier 1 and Tier II companies. The global players prefer to partner Indian corporates with stability, reflected in the strength of their financial statements. After a decade of knowledge accumulation and expertise development, we are seeking growth in India in addition to our traditional focus on exports, deriving volume and value-addition.

Domestic perspective

Last year, we grew operational scale and

strengthened our quality commitment. The rapid economic growth, an enhanced preference towards surface transport and increasingly stringent regulatory controls in line with the international benchmarks are providing a significant opportunity for the quality conscious Indian auto component sector. Our operational scale, financial size and international experience perfectly position us to capitalise on this growing opportunity in the Indian market.

I take the opportunity to summarise the benefits of the consolidation through the diagram given below.

This is just the first step towards our goal. But the road ahead consists of a mixed bag – of challenges and opportunities.

The road ahead

The Indian economy grew rapidly at 8.4 per cent during the fiscal under review, the second highest in the decade. This trend is expected to continue over the medium term, driven by favourable government policies and a consistently improved corporate performance, presenting us with a mixed bag – of opportunities and challenges.

Outsourcing

Outsourcing to India has increased at a scorching pace over the last few years, a trend,

which is expected to continue over the medium term. Companies who expand capacities while maintaining their quality and cost competitiveness will emerge as the major beneficiaries.

Our initiative

We proactively increased capacity to emerge among the top auto component manufacturers and exporters for most of the products. We attained the ISO and TS-16949 certifications, and are moving to implement the TPM and the TQM standards across all our plants over the coming years.

Domestic market

Economic growth and an increased focus on creating a road network has increased the preference towards road transport, providing a huge growth opportunity for our Company due to the segment we are in.

Our initiative

We have taken initiatives for growing our presence in the Indian market. As a first step in this direction, we are looking for strategic tie-ups with Indian OEMs.

Safety first

Following an improvement in the road infrastructure, the emphasis on safety increased. The government is in the process of making it mandatory for commercial vehicles to be fitted with automatic slack adjusters for improved braking efficiency.

Our initiative

We are producing automatic slack adjusters, a vital component in the braking assembly. This component is to be fitted in all the commercial vehicles with effect from April 2007. We have commissioned a new plant with a capacity of 1,20,000 units per annum dedicated to exports. On having established our reputation in the international market, we will launch the product soon in India.

Regulatory norms

New norms are forcing change in the means of load carrying. The regulatory norms are forcing trucks to maintain their original carrying capacity and cutting down on overloading. With the growth in

infrastructure and roads the demand for trailers will increase substantially and this should translate into increased sales of trailer axles and suspensions. This, we expect, will result in a silent shift towards the increased use of trailers.

Our initiative

We have moved up the value chain from components to assemblies in the braking and axle segments. We expect to leverage this expertise in manufacturing trailers only for the Indian industry, which over the next few years will be among the highest growing segments in the automobile industry. This initiative was the logical extension of the Company's value chain as we already supply the undercarriage that constitutes about 30-35 per cent of the trailer to various transporters and fleet owners. As a proactive fast mover, we have taken two key initiatives to ensure our success in this venture:

- Entered into a Memorandum of Understanding with Fuwa Engineering, China, and are in the process of establishing a joint venture (JV) Company in India for the manufacture of trailers, trailer axles and other components at Uttaranchal at a total investment of approximately Rs. 610 mn committed over the next 12 months
- Signed a five-year contract to manufacture and supply automotive trailers to Indian auto giant Ashok Leyland. We will supply about 6,000 trailers to Ashok Leyland from our Sitarganj unit for a period of five years starting from November 2006 to be marketed under the Leyland-ANG brand

Outlook

I am optimistic of our growth and expect the sum of these initiatives will grow the Company from Rs. 570 mn in revenues into a Rs. 5 bn organisation, helping it emerge among the top ten companies in the auto-components sector in India.


Managing Director

Benefits of the consolidation

ANG Exports (Pre-merger)		ANG Auto (Consolidated)	
Plants	– 1	Plants	– 6
Gross block	– Rs. 396.38 lacs	Gross block	– Rs. 1,796.22 lacs
Revenue	– Rs. 1,146.12 lacs	Revenue	– Rs. 5,700.04 lacs
EBIDTA	– Rs. 89.15 lacs	EBIDTA	– Rs. 1,438.10 lacs
PAT	– Rs. 19.50 lacs	PAT	– Rs. 938.02 lacs
Market capitalisation	– Rs. 61.00 lacs	Market capitalisation	– Rs. 30,356 lacs

What we achieved in 2005-06

FII holding in ANG Auto at more than 20% (August 4, 2006) is the highest amongst all auto ancillaries listed only on the BSE.

Key numbers

Rs. 5,681 lacs Revenue ...from Rs. 1,899.90 lacs in 2004-05	Rs. 1,438 lacs EBIDTA ...from Rs. 269.68 lacs in 2004-05	Rs. 1,054 lacs Cash profit ...from Rs. 162.35 lacs in 2004-05	30% ROCE ...from 14% in 2004-05	Rs. 938 lacs PAT ...from Rs. 100.85 lacs in 2004-05
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Since ANG Auto's consolidation has been completed, the performance analysed in this report reflects the benefit of the consolidation in 2005-06.

Operations

- **July 2005:** Commissioned a state-of-the-art facility for the assembly of automatic slack adjusters in the NOIDA SEZ
- **November 2005:** Commissioned a facility for the assembly of trailer axles in Nalagarh
- Received the Indian patent for automatic slack adjusters

New products

- Pioneering launch of automatic slack adjusters used in the air brake assembly
- Pioneering launch of single-piece dummy axles used in Indian commercial vehicles

Increasing business

- Entry into high-growth developing economies like Brazil and China

Alliances

- Joint venture with Guandong Fuwa (China), one of the largest manufacturers of trailer axles in the world, for the manufacture of trailers (May, 2006)

Corporate

- Consolidation of group companies ANG Automotive (P) Ltd. and ANG Auto (P) Ltd. into ANG Exports (renamed ANG Auto Ltd.)

Attractive value enhancement

ANG Auto's market capitalisation has grown by 6,456 per cent in 2005-06 over the previous year.

AT ANG AUTO, WE RECOGNISE THAT WE ARE PRIMARILY IN BUSINESS TO ENHANCE VALUE FOR OUR STAKEHOLDERS - FASTER THAN WE HAVE DONE BEFORE AND HIGHER THAN THE INDUSTRY AVERAGE.

We are proud to have done so precisely in 2005-06 through the following insights:

- We realised that a bigger organisation would be better placed to capitalise on the emerging opportunities; in response to this, the Company consolidated its group companies into a single entity, creating a Rs. 5,700 lac organisation (revenues 2005-06)
- We felt that a value-added organisation would be well equipped to leverage the upside and protect itself from industry downtrends; in response to this, the Company extended from the manufacture of only components to value-added assemblies

- We recognised that cost-competitiveness represents the ultimate edge in a challenging business environment; in response to this, the Company invested in high economy and high productivity equipment, generating a sales/investment ratio that is among the highest in the Indian auto-component industry

- We comprehended that a prudent geographical footprint represents the best vehicle for sustainable growth; in response to this, the Company is widening its presence across the world and India

In doing so, ANG Auto enhanced wealth in the hands of its stakeholders:

- Return on employed capital in 2005-06 grew significantly over the previous year
- EVA was an attractive Rs. 213.02 lacs in 2005-06, reflecting that the Company had more than addressed the expectations of its shareholders

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Growing industry segment

ANG Auto outperformed the Indian auto component industry growth in 2005-06.



AT ANG AUTO, WE RECOGNISE THAT SELECTION OF THE RIGHT NICHE WITHIN A GROWING AUTOMOTIVE COMPONENT SPECTRUM REPRESENTS THE DIFFERENCE BETWEEN SUCCESS AND AVERAGE PERFORMANCE IN A COMPETITIVE MARKETPLACE.

Over the last few years, the Company decided to widen its exposure in the area of heavy commercial segment for the following reasons:

- The conviction that India's aggressive growth in road infrastructure by 2008 would strengthen the logistical bias towards roads, driving the demand for commercial vehicles and ANG Auto's products like trailers, trailer axles, among others
- The confidence that as India's regulatory environment would get increasingly stringent

against the incidence of overloading (banned from November, 2005), there would be an increasing demand for high-speed, high-capacity trailers

- The awareness that as India's exports grew, the cargo would be progressively containerised, necessitating the use of trailers; as an extension, India adds more than 1,000 trailers a month to its road transport fleet and this segment is the fastest growing in the country's automobile industry

As an opportunity-focused organisation, ANG Auto has responded to this evolution through the following priorities:

- Concentrated on the heavy commercial segment in general and trailers in particular
- Proactively catered to demands emanating from the most quality demanding markets with a first mover's presence

Widening value chain

ANG Auto will emerge among the few companies to extend across the entire automobile value chain – from components.

AT ANG AUTO, WE RECOGNISE THAT THE MOST EFFECTIVE INSURANCE AGAINST INCREASING COMPETITION AND PRICE PRESSURE IS A RESPONSIBLE EXTENSION OF THE VALUE CHAIN.

Over the last few years, the Company proactively selected to extend the value chain and move into downstream products on the basis of the following understandings:

- That due to stringent quality parameters demanded by the OEMs, competition in the space would be relatively limited, incentivising investment in downstream products

- That international OEMs would prioritise the outsourcing of critical and complete automotive (as opposed to sub-components) parts due to the attractive cost differential between developed and Indian geographies

- That the potential for making sales in the vast replacement market was – now preferring the use of original products to grey market alternatives – relatively unexplored

In response to this scenario, ANG Auto focused on the following:

- The high growth segments of braking systems and transmission systems
- Growth from a single product to the entire product family