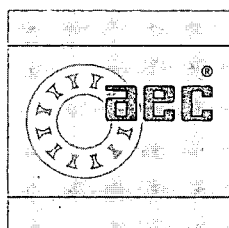


# 29<sup>th</sup> ANNUAL REPORT



**Austin Engineering Company Limited**

# AUSTIN ENGINEERING COMPANY LIMITED



## ALL INDIA AWARDS FOR EXPORT EXCELLENCE 2005-06

*Austin Engineering Company Ltd. Junagadh*

is presented

*the Star Performer (Medium Enterprise) Award*

*in the product group*

*"Bearings, Gears, Driving Elements and Parts"*

*in recognition of its outstanding contribution to Engineering Exports*

*in the year 2005-06*

1st June 2007  
New Delhi



EEPC INDIA

ENGINEERING EXPORT PROMOTION COUNCIL

*Rakesh Shah*  
Rakesh Shah  
Chairman

**AUSTIN ENGINEERING COMPANY LIMITED**

**29th ANNUAL REPORT  
2006-2007**

**: BOARD OF DIRECTORS :**

Mr. N. C. VADGAMA	:	Chairman & Executive Director
Mr. S. M. THANKI	:	Managing Director
Mr. R. N. BAMBHANIA	:	Joint Managing Director
Mr. J. R. BHOGAYTA	:	Executive Director
Mr. S. V. VAISHNAV	:	Non Executive Director
Dr. B. R. SUREJA	:	Non Executive Director
Mr. K. J. MEHTA	:	Non Executive Director
Mr. D. B. NAKUM	:	Non Executive Director

**: AUDITORS :**

DHIRUBHAI DAND & CO.  
Chartered Accountants  
GOKUL CHAMBER, JUNAGADH - 362 001.

**: COST AUDITORS :**

S. B. PARIKH & CO.  
Cost Accountants, VADODARA

**: BANKERS :**

BANK OF BARODA, JUNAGADH

**: REGISTRAR & TRANSFER AGENT :**

SHAREPRO SERVICES  
SATAM ESTATE, 3rd FLOOR, ABOVE BANK OF BARODA, CARDINAL GRACIOUS ROAD,  
CHAKALA, ANDHERI (EAST), MUMBAI - 400 099.

**: REGISTERED OFFICE & WORKS :**

VILLAGE : PATLA, TALUKA : BHESAN, DIST. : JUNAGADH - 362 030.

**: JUNAGADH OFFICE :**

101, G.I.D.C. ESTATE, VADAL ROAD, JUNAGADH - 362 003.

Visit us at <http://www.aec-bearings.com>

E-mail: [info@aecbearings.com](mailto:info@aecbearings.com)

**AUSTIN ENGINEERING COMPANY LIMITED****NOTICE**

NOTICE is hereby given that the Twenty Ninth Annual General meeting of the Company will be held at the Registered office of the Company at Village: Patla, Taluka : Bhesan, Dist: Junagadh 362 030 on Saturday, 29th September, 2007 at 11.00 a.m. to transact the following business:

**ORDINARY BUSINESS :**

1. To receive, consider and adopt the Audited Accounts of the Company for the year ended on 31st March, 2007 and the Directors' and Auditors' Reports thereon.
2. To declare dividend on Equity Shares.
3. To appoint a Director in place of Mr. S.V. Vaishnav, who retires by rotation and being eligible offers himself for re-appointment.
4. To appoint Auditors to hold office from the conclusion of this Annual General Meeting till the conclusion of the next Annual General Meeting and to authorise the Board of Directors to fix their remunerations.

**SPECIAL BUSINESS :**

5. To consider and, if though fit to pass, with or without modification/s, the following resolution as Ordinary Resolution. :

**"RESOLVED THAT** subject to the approval of the members of the Company and in accordance with the provisions of Sections 198, 309, 310 and 311 read with Schedule XIII and all other applicable provisions, if any, of the Companies Act, 1956, the remuneration of Mr. Narottam C Vadgama, Chairman and Executive Director of the Company be and is hereby revised with effect from 1st April, 2007 for the remaining period of his tenure i.e. up to 31st July, 2008, on the terms and conditions mentioned hereto.

Pay Scale and salary per month(Rs.) Up to 31-03-2007.	Pay Scale and salary per month(Rs.) to be effective from 01-04-2007
Salary Rs.65,000 in the scale of Rs.60,000-5000-90000 Present salary Rs.65,000	Salary of Rs.75000 in the scale of Rs.75000-5000-100000 Present salary Rs.75,000

**RESOLVED FURTHER THAT** the perquisites already approved by the shareholders at the Annual General Meeting held on 22nd September, 2003 remains unaltered except reimbursement of expenses of telephone bills at his residence and mobile bills for personal purpose with effect from 1st April, 2007.

**"RESOLVED FURTHER THAT** pursuant to Section 198 and all other applicable provisions of the Companies Act, 1956, and subject to the approval of members of the Company, the said remuneration as mentioned hereto be paid as minimum remuneration to Mr. Narottam C. Vadgama notwithstanding that in any financial year of the Company during his tenure as Chairman and Executive Director, the Company has made no profits or profits are inadequate.

**"RESOLVED FURTHER THAT** the Board of Directors of the Company be and is hereby authorised to take such steps as may be necessary, to give effect to this resolution.

6. To consider and, if though fit to pass, with or without modification, the following resolution as Ordinary Resolution. :

**"RESOLVED THAT** subject to the approval of the members of the Company and in accordance with the provisions of Sections 198, 309, 310 and 311 read with Schedule XIII and all other applicable provisions, if any, of the Companies Act, 1956, the remuneration of Mr. Shashikant M Thanki, Managing Director of the Company be and is hereby revised with effect from 1st April, 2007 for the remaining period of his tenure i.e. up to 31st July, 2008, on the terms and conditions mentioned hereto.

Pay Scale and salary per month(Rs.) Up to 31-03-2007.	Pay Scale and salary per month(Rs.) to be effective from 01-04-2007
Salary Rs.65,000 in the scale of Rs.60,000-5000-90000 Present salary Rs.65,000	Salary of Rs.75000 in the scale of Rs.75000-5000-100000 Present salary Rs.75,000

**RESOLVED FURTHER THAT** the perquisites already approved by the shareholders at the Annual General Meeting held on 22nd September, 2003 remains unaltered except reimbursement of expenses of telephone bills at his residence and mobile bills for personal purpose with effect from 1st April, 2007.

**"RESOLVED FURTHER THAT** pursuant to Section 198 and all other applicable provisions of the Companies Act, 1956, and subject to the approval of members of the Company, the said remuneration as mentioned hereto be paid as minimum remuneration to Mr. Shashikant M Thanki notwithstanding that in any financial year of the Company during his tenure as Chairman and Executive Director the Company has made no profits or profits are inadequate.

**"RESOLVED FURTHER THAT** the Board of Directors of the Company be and is hereby authorised to take such steps as may be necessary to give effect to this resolution.

7. To consider and, if though fit to pass, with or without modification, the following resolution as Ordinary Resolution. :

**"RESOLVED THAT** subject to the approval of the members of the Company and in accordance with the provisions of Sections 198, 309, 310 and 311 read with Schedule XIII and all other applicable provisions, if any, of the Companies Act, 1956, the remuneration of Mr. Ramniklal N. Bambhanja, Joint Managing Director of the Company be and is hereby revised with effect from 1st April, 2007 for the remaining period of his tenure i.e. up to 31st July, 2008, on the terms and conditions mentioned hereto.

Pay Scale and salary per month(Rs.) Up to 31-03-2007.	Pay Scale and salary per month(Rs.) to be effective from 01-04-2007
Salary Rs.65,000 in the scale of Rs.60,000-5000-90000 Present salary Rs.65,000	Salary of Rs.75000 in the scale of Rs.75000-5000-100000 Present salary Rs.75,000

**RESOLVED FURTHER THAT** the perquisites already approved by the shareholders at the Annual General Meeting held on 22nd September 2003 remains unaltered except reimbursement of expenses of telephone bills at his residence and mobile bills for personal purpose with effect from 1st April, 2007.

**AUSTIN ENGINEERING COMPANY LIMITED**

**"RESOLVED FURTHER THAT** pursuant to Section 198 and all other applicable provisions of the Companies Act, 1956, and subject to the approval of members of the Company, the said remuneration as mentioned hereto be paid as minimum remuneration to Mr. Ramniklal N. Bambhanla notwithstanding that in any financial year of the Company during his tenure as Chairman and Executive Director, the Company has made no profits or profits are inadequate.

**"RESOLVED FURTHER THAT** the Board of Directors of the Company be and is hereby authorised to take such steps as may be necessary, to give effect to this resolution.

**8. To consider and, if though fit to pass, with or without modification, the following resolution as Ordinary Resolution. :**

**"RESOLVED THAT** subject to the approval of the members of the Company and in accordance with the provisions of Sections 198, 309, 310 and 311 read with Schedule XIII and all other applicable provisions, if any, of the Companies Act, 1956, the remuneration of Mr. Jeshanker R. Bhogayta, Executive Director of the Company be and is hereby revised with effect from 1<sup>st</sup> April, 2007 for the remaining period of his tenure i.e. up to 31<sup>st</sup> July, 2008, on the terms and conditions mentioned hereto.

Pay Scale and salary per month(Rs.) Up to 31-03-2007.	Pay Scale and salary per month(Rs.) to be effective from 01-04-2007
Salary Rs.65,000 in the scale of Rs.60,000-5000-90000 Present salary Rs.65,000	Salary of Rs.75000 in the scale of Rs.75000-5000-100000 Present salary Rs.75,000

**RESOLVED FURTHER THAT** the perquisites already approved by the shareholders at the Annual General Meeting held on 22nd September, 2003 remains unaltered except reimbursement of expenses of telephone bills at his residence and mobile bills for personal purpose with effect from 1<sup>st</sup> April, 2007.

**"RESOLVED FURTHER THAT** pursuant to Section 198 and all other applicable provisions of the Companies Act, 1956, and subject to the approval of members of the Company, the said remuneration as mentioned hereto be paid as minimum remuneration to Mr. Jeshanker R. Bhogayta notwithstanding that in any financial year of the Company during his tenure as Chairman and Executive Director, the Company has made no profits or profits are inadequate.

**"RESOLVED FURTHER THAT** the Board of Directors of the Company be and is hereby authorised to take such steps as may be necessary, to give effect to this resolution.

By order of the Board of Directors

Place : Patla, Dist. Junagadh  
Date : 23rd June, 2007

N C Vadgama  
Chairman

**NOTES:**

1. A member entitled to attend and vote is entitled to appoint a proxy to attend and on poll to vote instead of himself and the proxy need not be a member of the Company. The proxy must be lodged with the Company not less than 48 hours before the time fixed for holding the meeting.
2. The Register of Members and Share Transfer book of the Company will remain closed from 22nd September, 2007 to 29th September, 2007 (both days inclusive).
3. Dividend on Equity shares, upon its declaration at the meeting shall be paid to the shareholders whose names appear on the Register of members of the Company on 29th September, 2007. In case of shares held in dematerialized form, the dividend thereon, upon its declaration at the meeting, shall be paid to the beneficial owners as per list provided by the depositories for the said purposes.
4. Shareholders holding shares in electronic form are hereby informed that bank particulars registered against the respective depository accounts will be used by the Company for payment of the dividend. The company or its Registrar can not act on any request received directly from the shareholders holding shares in electronic form for any change of bank particulars or bank mandates. Such changes are to be advised only to the Depository Participants of the shareholders.
5. Shareholders holding shares in physical form are requested to advise any change of address immediately to the Company's Registrar and Share transfer agents, M/s Sharepro services, Satam Estate, 3rd floor, Above Bank of Baroda, Andheri (East), Mumbai 400 099. Shareholders holding shares in electronic form must send the advice about change in address to their respective Depository Participants and not to the Company.
6. Pursuant to the requirements on Corporate Governance under clause 49 of Listing Agreement entered into with the Stock Exchange, the information about the Directors proposed to be appointed/re-appointed is given in the Annexure to the Notice.
7. Members seeking any further information are required to write to the Company at least 7 days before the meeting so as to enable the management to keep the information ready at the meeting.
8. Member/Proxies are requested to bring with them duly filled attendance slip for attending the meeting.
9. As an austerity measure, copies of the Annual Report will not be distributed at the Annual General Meeting. Members are requested to bring their copies to the meeting.

**ANNEXURE TO THE NOTICE**

(Explanatory Statement pursuant to Section 173(2) of the Companies Act, 1956)

**Item No. 5,6,7,8**

The terms of appointment of Shri N. C. Vadgama, Shri S M Thanki, Shri R N Bambhanla and Shri J R Bhogayta, expires on 31<sup>st</sup> July, 2008. The Remuneration Committee held at its meeting on 15<sup>th</sup> February, 2007 recommends the revision in remuneration in the Whole Time Directors including Managing Directors for its remaining terms with effect from 1<sup>st</sup> April, 2007 and the same was also recommended at its Board Meeting held on 15<sup>th</sup> March, 2007 subject to the approval of the members at the ensuing Annual General Meeting. The particulars of revised remuneration and perquisites payable to them are as under :

- (1) Salary (in scale, of) : Rs. 75,000/- in the scale of Rs. 75000-5000-100000 with effect from 1<sup>st</sup> April, 2007.
- (2) Perquisites : The following perquisites will be allowed in addition to the salary.





**AUSTIN ENGINEERING COMPANY LIMITED****CATEGORY – A**

- (a) Medical Reimbursements :  
Medical expenses for appointee and his family shall be reimbursed subject to a ceiling of one month a year of three months salary over a period of three consecutive years.
- (b) Leave Travel Concession :  
For the appointee and his family, once in a year incurred in accordance with the rules specified by the Company.
- (c) Personal accident insurance : For premium not to exceed Rs. 5000/- per annum

**CATEGORY – B**

- (a) Contribution to provident fund to the extent not taxable under the Income Tax Act.
- (b) Gratuity shall be payable at half a month's salary for each complete year of service.

**CATEGORY – C**

- (a) Conveyance & Telephone :  
Provision of Car for Company's business and telephone at residence: This will not be considered as perquisites. Telephone bills at their residence and mobile bills for personal purpose shall not be reimbursed with effect from 1<sup>st</sup> April, 2007. The use of car for private purpose shall be billed by the Company to the appointee.
- (b) Leave on full pay allowance as per rules of the Company but not exceeding one month's leave for every 11 months services.

None of the directors except Shri N. C. Vadgama, Shri S M Thanki, Shri R N Bambhanian and Shri J R Bhogayta, may be deemed to be concerned or interested in the said resolution.

The above statement may be treated as an abstract of the terms and memorandum of interest under Section 302 of the Companies Act, 1956.

**BRIEF RESUME OF DIRECTORS SEEKING APPOINTMENT/ RE-APPOINTMENT AND DIRECTORS APPOINTED SINCE LAST ANNUAL GENERAL MEETING****DIRECTORS SEEKING RE-ELECTION/ REAPPOINTMENT AT THE ANNUAL GENERAL MEETING**

Particulars	<b>Mr. S. V. VAISHNAV</b>
Date of Birth and Age	29-10-1971
Appointed on	15-03-2003
Qualifications	M.B.A., (Finance)
Expertise in Specific Functional Areas	Finance
Directorships held in other Public Companies (excluding foreign companies)	
Membership/ Chairmanship of Committees across public Companies	Biodeal Laboratories Pvt. Ltd.
Shareholding	Nil

**DIRECTORS' REPORT**

To the Members,

Your Directors have pleasure in presenting the Twenty Ninth Annual Report with the audited accounts of the Company for the year ended 31st March, 2007.

**FINANCIAL RESULTS**

	Rs.in Lacs	
	2006-2007	2005-2006
Gross profit before Interest, Depreciation and Tax	1147.45	741.59
Less: Interest and Depreciation	291.98	245.71
Profit before Tax	855.47	495.88
Less : Provision for Taxation	(265.27)	(107.00)
Fringe Benefit Tax	( 16.00)	( 12.00)
Deferred Tax Assets	( 38.99)	( 64.56)
Profit after Tax.	535.21	312.32
Excess Provision of I. Tax W. Back	-	8.00
Profit for the year	535.21	320.32
Add : Balance brought forward from last year.	643.86	402.86
Profit available for appropriations	1179.07	723.18
Appropriations :		
- Proposed Dividend	70.62	42.37
- Provision for Tax on Proposed Divi.	12.00	5.94
- Transfer To General Reserve	55.00	31.00
Balance carried forwarded to next year	1041.45	643.87

**OPERATING RESULTS :**

The Company has fared well during the year under review. The sales of the Company have increased both in domestic and export segment. The Sales during the year were Rs. 6914.10 Lacs as against Rs.5740.74 Lacs in the previous year. The sales thus registered an overall increase of 20.44 % including an increase in export to the tune of 46.69% as compared to the last year export.

## AUSTIN ENGINEERING COMPANY LIMITED

The operating margins which were in the range of 6% to 8% about 3 years ago have now risen to about 18% coupled with relatively lower capital intensity leading higher operating efficiencies. We have tied up with highly reputed international customers in the most quality conscious markets in US and EU like Bonfiglioli Srl., GE, Westinghouse and GM Loco etc.

The net profit of the Company is also increased from Rs. 312.31 Lacs to Rs. 545.48 Lacs registering the growth of about 74.66%. The prospect of the Company for the current year both in domestic and export segment is also good. The Company has earned revenue of Rs. 63.90 Lacs making net Profit of Rs. 25.02 Lacs out of the Wind Mill project installed last year.

The Company continued to launch a numbers of new and higher value added products which will further strengthen the Company's competitiveness in the future.

### DIVIDEND :

In view of the Company's profitable performance, the Directors are pleased to recommend for approval of shareholders a dividend of Rs. 2.00 (Tax Free) per Equity share of the Company in respect of the financial year ended on 31<sup>st</sup> March, 2007. (Previous Year Rs.1.20). The said dividend shall be payable to those members whose names appear on the Register of member of the company on record date.

### REWARD AND ACHIEVEMENT :

The Company has been awarded "The Star Performer (Medium Enterprise) Award" in the product group "Bearings, Gears, Driving Elements and Parts" in recognition of its outstanding contribution to Engineering Export in the year 2005-06 by Engineering Export Promotion Council, New Delhi. Ours is the only Company in the bearing industry to get this award. The Company is also likely to get the same award during the current year.

### FIXED DEPOSITS :

There is no deposit outstanding/unpaid as at 31<sup>st</sup> March, 2007.

### DIRECTORS :

In accordance with the provisions of the Companies Act, 1956, and Articles of Association of the Company, Mr. S. V. Vaishnav, Director of the Company retire by rotation at the ensuing annual general meeting and being eligible offer themselves for re-appointment.

### DIRECTORS' RESPONSIBILITY STATEMENT :

Pursuant to Section 217(2AA) of the Companies (Amendment) Act, 2000 your Directors confirm that :

- In the preparation of the annual accounts, the applicable accounting standards have been followed.
- Appropriate accounting policies have been selected and applied prudent so as to give a true and fair view of the state of affairs of the Company as at March 31, 2007 and of the profit of the company for the year under review.
- Proper and sufficient care has been taken for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities.
- The annual accounts have been prepared on a going concern basis.

### AUDITORS :

M/s. Dhirubhai Dand & Co. Chartered Accountants, the auditors of the Company retire at the conclusion of the ensuing Annual General Meeting. They are eligible for re-appointment and have furnished the certificate to the effect that their appointment, if made, will be in accordance with the limits specified under Section 224(B) of the Companies Act, 1956.

### COST AUDITORS :

Pursuant to the provisions of section 233B of the Companies Act, 1956 necessary approval had been obtained from the Department of Company Affairs for the appointment of M/s. S. B. Parikh & Co. as Cost Auditors to Audit the Cost Accounts maintained by the Company for the year ended on 31<sup>st</sup> March, 2007.

### PREFERENTIAL ALLOTMENT OF EQUITY SHARES :

The Company allotted 2,56,000 Nos. of Equity Shares on Preferential basis to the Promoters and Foreign Company @ Rs.105/- per share including premium of Rs.95/- each in accordance with the prescribed guidelines. The Company has received the final approval of listing and trading from Mumbai Stock Exchange Limited.

The total proceeds of preferential allotment amounting to Rs.268.80 Lacs was utilised for the stated object as under.

- (1) For Working Capital Utilization : Rs 237.57 Lacs (2) For Capital Expenditure Rs. 31.23 Lacs

### PARTICULARS OF EMPLOYEES :

The particulars of employees as required Under Section 217(2-A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules 1975 is given in the annexure appended hereto and forms part of this Report. As per the Provisions of Section 219 (1) (b) (iv) of the Companies Act, 1956, the report and accounts are being sent to the Shareholders of the Company, excluding the statement of particulars of employees under Section 217(2A) of the Act. Any share holder interested in obtaining a copy of the said statement may write to the Secretarial department at the Registered Office of the Company.

### SUBSIDIARY COMPANY :

As required U/s. 212 of the Companies Act, 1956, the audited statement of Accounts for the year ended on 31<sup>st</sup> March, 2007 of Accurate Engineering Inc. U.S.A., the wholly owned subsidiary, together with the report of the Auditors and also the statement U/s. 212 of the Companies Act, 1956 are annexed.

### CORPORATE GOVERNANCE REPORT :

A separate section on Corporate Governance and a Certificate from the Auditors of the Company regarding compliance of conditions of Corporate Governance as stipulated under Clause 49 of the Listing Agreement with the Stock Exchanges are annexed to this report.



**AUSTIN ENGINEERING COMPANY LIMITED****MANAGEMENT DISCUSSION AND ANALYSIS STATEMENT :**

A Report on Management Discussion and Analysis Statement is separately annexed to this report.

**INDUSTRIAL RELATIONS :**

The industrial relation with workmen and staff continued to be extremely cordial during the year under review.

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

The particulars as prescribed under section 217(1)(e) of the Companies Act, 1956 read with Companies (Disclosure of Particulars in the report of Board of Directors) Rules 1988 are set out in an Annexure to this Report.

**ACKNOWLEDGMENT :**

The Directors wish to place on record their gratitude for the continued co-operation and patronage extended by the esteemed customers both in OEM and after market segments. The Directors would also like to place on record their sincere appreciation for the continued co-operation, guidance, support and assistance during the year under report by our Bankers, all the customers, suppliers of the Company including Government agencies. The Board of Directors also wish to express its appreciation for the efforts and contribution made by the employees at all levels during the year under report.

On behalf of the Board of Directors

Place :: Patla, Dist.:Junagadh.  
Date :: 23rd June, 2007

N C. VADGAMA  
Chairman

**ANNEXURE (I)**

Particulars under the Companies(Disclosure of Particulars in the Report of Board of Directors) Rules,1988.

**FORM A :****(A) CONSERVATION OF ENERGY :**

- (a) Energy Conservation measures taken:  
Regular preventive maintenance of Machinery & Electric equipments.
- (b) Additional investments and proposals, if any, being implemented for reduction of consumption of energy : None
- (c) Impact of measures at a)and (b)for reduction of energy consumption and consequent impact on the cost of production of goods.  
The aforesaid measures have resulted in a saving in the consumption of electricity & Fuel.
- (d) Total Energy Consumption and Energy Consumption per unit of production as per prescribed Form A is not applicable as the Company is not covered under the list of specified industries and hence not given.

**FORM B :****(A) RESEARCH & DEVELOPMENT :**

- (i) Specific areas in which R & D is carried out by the Company:  
The R & D efforts of the Company are directed towards quality assurance, improvement/upgradation of existing product lines, minimizing dependence on scarce and imported raw materials, development of new products and subjecting them to stringent endurance tests.
- (ii) Benefits derived as a result of the above R & D :  
The benefits are improvement in the quality of the existing range of products, cost reduction, development of new products, energy saving, export promotion and import substitution.
- (iii) Future plans of action :  
R & D efforts are being planned as a continuous exercise to improve quality, reduce costs and try for import substitution as far as possible.
- (iv) Expenditure on R & D :  
Expenditure on R & D is not quantifiable at present since it is a continuous exercise, forming part of our Technical Department.

**(B) TECHNOLOGY, ADOPTION & ABSORPTION & INNOVATION :**

The Company is continuously undertaking a comprehensive modernisation and technology upgradation.

Quality of bearings has improved substantially & are well accepted by OEM as import substitute.

Technology imported during last five years : Nil.



**AUSTIN ENGINEERING COMPANY LIMITED****(C) FOREIGN EXCHANGE EARNING AND OUTGO :**

(Rs. in Lacs)

**FOREIGN EXCHANGE EARNINGS :**

	2006-2007	2005-2006
1. Exports of goods on FOB basis	2849.27	1942.38
2. Interest Income	0.88	0.88
3. Tooling Charges Income	5.82	3.28
Total Foreign Exchange earned	2855.97	1946.54

**FOREIGN EXCHANGE OUTGO :**

1. Import of CIF value of Raw Materials, Capital goods & Spares.	69.92	28.22
2. Traveling	1.23	3.86
3. Sales Commission	41.03	26.82
4. Foreign Marketing & Sales Promotion Expenses	0.16	9.72
5. FCNR Loan Interest	7.68	28.92
6. Dividend	0.96	0.00
Total Foreign Exchange used	120.98	97.54

On behalf of the Board of Directors,

Place :: Patla, Dist.:Junagadh.  
Date :: 23rd June, 2007

N C VADGAMA  
Chairman

**MANAGEMENT DISCUSSION AND ANALYSIS REPORT****OVER VIEW OF BEARING INDUSTRY :**

Bearings Industry in India can be divided into three main segments namely the organized sector, unorganized sector and imports. The organized sector primarily caters to the OEM Segment which is pre-dominantly automotive, railway and other industrial users. The replacement market is mainly dominated by the unorganized sector.

Domestic market comprises of ten major players in the organized sector and innumerable units in the unorganized sector. Annual bearing demand in India is estimated at Rs. 6000 Crores, of which about one third is met imports and the rest is met through indigenous production. The sales of organized bearing industry in India, including exports are estimated at Rs.4000 Crores. The bearing industry experienced an over all growth of about 19%.

Bearing industry covers both ball and roller bearings. Bearings are precision products requiring sophisticated machinery and the industry is characterized by high capital costs and intensive technology and skill requirements. Almost all the major international bearing manufacturers are represented in India by way of 100% subsidiary or technical and / or financial collaborations.

Bearing industry is subject to fluctuations in its user industries viz. automobiles, general engineering, railways, electrical applications, pumps, fans and agricultural machineries. Its growth, though, is predominantly dependant upon its major user –automobile industry. During the year under report, there has been a good growth in the automobile industry. The demand of commercial vehicles was buoyant at 26% and tractor industry also grew at 25%. The sales growth of two wheeler industry, especially motorcycle has now stabilized. The performance of bearing industry during the year under report has been commendable.

**OPPORTUNITIES AND THREATS :**

Indian economy has performed well. The GDP growth indications are encouraging and will provide opportunities for increase in production and optimum capacity utilization. With expected increase in output of commercial vehicles and tractors, the industry demand is likely to be good.

The counterfeiting of bearings is the biggest threat to the industry since these spurious bearings affect the business and brand image. Your company is taking steps to curtail spurious trade by improved packaging, creating awareness and other necessary action. Necessary action has also been taken at industry level to check the menace of counterfeit, which has increased over last few years.

**OUR BUSINESS STRATEGY :**

AECL is the leading manufacturers of all types of antifriction bearings namely Ball, Tapered Roller, Spherical Roller, Needle Roller and Thrust Bearing. The Company offers wide range of bearings to the different category of buyers like automobiles, Defence, State Road Transport Corporation, Steel Plants, Thermal plants, Cements Plants, Sugar and Paper Industries, Fan and Pump Industry and material handling equipments.

At the core of AECL, technical up gradations and advancements is the involvement of the top management which itself endeavors and supports new developments, continuous quality improvement and strong desire to prove that Indian technology can compete with any top technologically advanced country products, thus resulting in unshakable customer confidence in India and abroad for 'aec' Bearings.

The majority of the product range of the Company is import substitutes and thus indirectly it serves the country by saving Foreign Exchange. A number of initiatives for strict cost control, and improving efficiency and productivity at all levels have been taken which is expected to further enhance the performance of the Company in the years to come.

The Company is striving to focus on sharpening its competitiveness, and for offering a product mix which is totally market driven in order to create a competitive advantage over other players in the market.

We are in a growth mode and our operating and financial performance outlook for the future continues to be strong. We are executing multiple initiatives aimed at enhancing our national presence, strengthening our market position and providing specialized quality to our customers.



## AUSTIN ENGINEERING COMPANY LIMITED

We as "AECL" restrict our exports domain only to the most quality conscious markets like USA and Europe which accounts for over 40% of its revenues. We have setup 100% subsidiaries in USA, which also act as marketing front-end. What may come as a surprise to the most is that despite its our very modest size, we have the widest range of bearings in the domestic market. We manufacture bearings from 50 gms. to over half a tone. It is also among a few companies globally to manufacture bearings with 1200mm OD.

We manufacture bearings for very demanding applications. It is among a handful of customized bearing manufacturers worldwide to produce bearings with 1200mm diameter.

Ours special bearing range includes -

1. Steel Plant bearings
2. Heavy duty bearings for Railways
3. Mining Equipment.
4. Material handling equipment.
5. Bearings for cement, sugar, paper and other continuous process industry
6. Special bearings for high speed heavy duty turbines (used in power plants)
7. Oilfield applications

### SEGMENTWISE PERFORMANCE :

The company has primarily two segment of activity namely "Bearings" and "Power" Their present performance and future prospectus have been given separately in Directors' Report.

### INTERNAL CONTROL SYSTEMS :

AECL has adequate internal control systems commensurate with its size and complexity of operations, which enables the management to achieve the following objectives.:

- Monitoring efficiency of operations
- Ensuring protection of resources
- Accuracy and promptness of financial reporting
- Compliance with statutes and regulations

The frame-work of the system comprises a well defined organizations structure, authority levels, documented policy guidelines, procedures, management reviews and use of information technology. The Internal Audit department has an extensive audit programme for the year. Post audit checks and reviews are also carried out to ensure follow-up on the observations made by the Audit Committee. The Audit Committee reviews the internal audit reports and the adequacy of internal controls periodically and takes corrective action as and when necessary.

### STRENGTH :

The Directors are well experienced and technically qualified with well succession plan.

The Company is this line of business for more than 32 years and enjoy its brand name in the market.

The Company has wide market net work with established customer base.

The Company is able to obtain skilled workers at comparatively lower cost.

The Company is a profit making and self-performance are improving year after year.

### WEAKNESS :

The industry is highly capital intensive and as such operating at the minimum economic volume assumes greater significance.

A decline in the capacity utilization would lead to a major negative impact on the operational parameters considering the huge initial capital outlay.

The manufacturers are facing a threat from the spurious parts manufactured who manufacture duplicate parts and sell them in the names of popular brands in the replacement market at a very low price.

Steel and alloy steel are the basic raw-material for the bearing industry and their prices are expected the upward trend in the coming future.

A serious threat is being faced from imports due to decline in duty rates and at the same time, domestic manufacturers are subject to the increased levies.

Higher inventory holding also lead to increase indirect cost.

### OPPORTUNITIES :

Penetration of export market during last couple of years help the Company to increase export performance substantially on regular basis.

The Company is manufacturing specialised type of bearing which serve as high value added product.

The Company's CAGR is 20% since last 3 years.

The Company is manufacturing variety of bearings which serve as a product-mix for maintaining profitability.

### OUTLOOK :

The ongoing capex, estimated to be in the range of Rs.900000.crs. has opened up very exciting long-term opportunities for a niche but quality driven player like us. This capex would be spread over the next 4-5 years and would involve very high level of investments in steel, power, earthmoving and mining sectors. Apart from this, very profitable opportunities are opening up as existing dilapidated power plants and steel plants are required to be modernized. Most of these are 30 years or older, with unavailability of key components like bearings. These players like SAIL, NTPC, NHPC and others are willing to pay top bucks for custom designed bearings to keep these plants running. With overall demand from other sectors improving, bargaining power of buyers has been steadily declining. This has led to a steady improvement in operating margins which have improved from 6-8% in 2003 to around 18% in current year and the said is expected to improve in the next couple of years and likely to stabilize around 22-23% band.