

PREPARING

Akar Tools Limited | Annual report, 2009-10

Forward-looking statements

In this annual report, we have disclosed forward-looking information to enable investors to comprehend our prospects and take informed investment decisions. This report and other statements – written and oral – that we periodically make contain forward-looking statements that set out anticipated results based on the management's plans and assumptions. We have tried wherever possible to identify such statements by using words such as 'anticipates', 'estimates', 'expects', 'projects', 'intends', 'plans' 'believes' and words of similar substance in connection with any discussion of future performance.

We cannot guarantee that these forward-looking statements will be realised, although we believe we have been prudent in assumptions. The achievement of results is subject to risks, uncertainties and even inaccurate assumptions. Should known or unknown risks or uncertainties materialise, or should underlying assumptions prove inaccurate, actual results could vary materially from those anticipated, estimated or projected.

We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise



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Preparing for the boom ahead. Preparing to enhance our scale. **Preparing to grow our revenues.** Preparing to strengthen our value chain. **Preparing to make a big leap.** Preparing to enhance our competitiveness. **Preparing for a wider international presence.** Preparing for longstanding customer relationships. **Preparing to enhance shareholder value.**

A motorist in Detroit fishes out a box of precision engineered hand tools while attending to minor repairs.

A bus owner in India uses dependable auto leaf springs in reinforcing vehicle safety.

An international client needs competitive parabolic springs from an Indian vendor.

A reputable Indian automotive brand needs specialised automotive forgings.

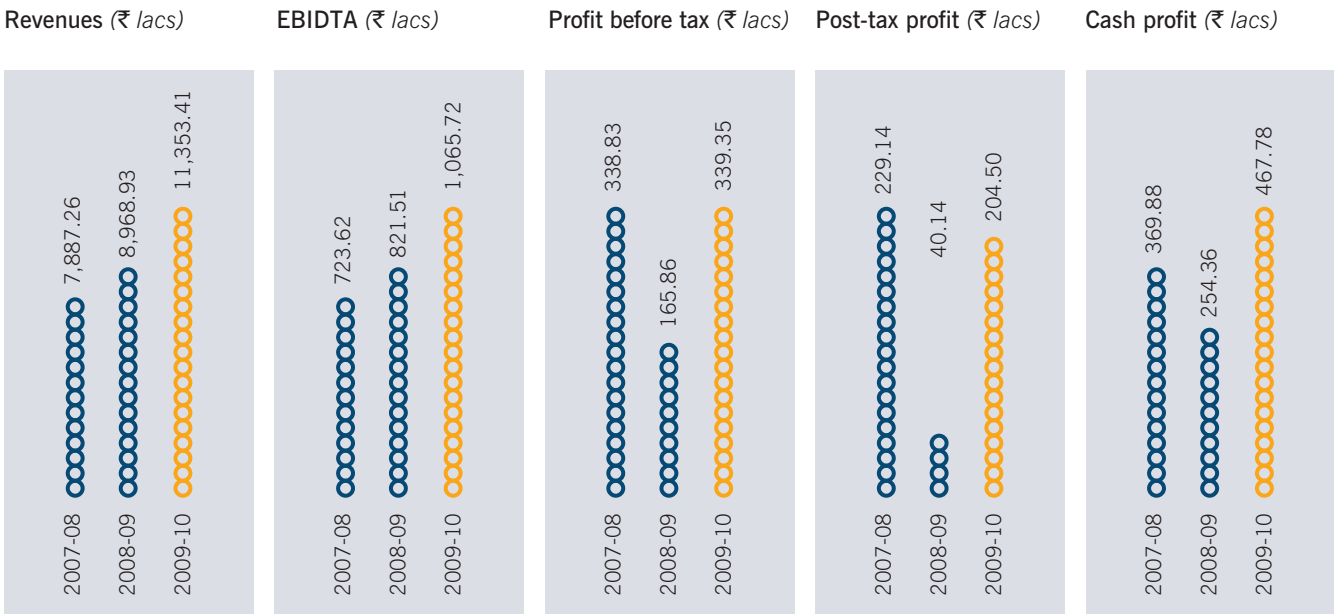
All four products are derived from a reputable Indian manufacturer.

Akar Tools Limited.

Akar Tools Limited (ATL) is engaged in the manufacture and marketing of precision engineered hand tools, auto leaf springs and forgings. The Company manufactures and exports high-quality precision engineered hand tools marketed in Europe, USA, Japan, Australia and other countries. Its products comprise wrenches, striking tools, carpenter tools, electronic tools and auto leaf springs. The Company is certified for ISO 9001:2000.

| | | |
|---|--|---|
| Products <ul style="list-style-type: none"> Spanners/wrenches Carpenter/striking tools Automotive/construction tools Electrical/electronic tools Tool aprons Parabolic springs | <ul style="list-style-type: none"> Leaf springs Automotive forgings Location <ul style="list-style-type: none"> Headquartered in Aurangabad, Maharashtra Four manufacturing units in Aurangabad (two in Waluj, one in Chitegaon and one in Chikalthana) | Employee strength <p>Akar Tools has a dedicated workforce of over 400 personnel manufacturing technologically advanced hand tool products.</p> |
|---|--|---|

Key performance indicators



Clientele

Domestic

- Bajaj Auto Ltd
- Kirloskar Oil Engines Ltd
- Greaves Cotton Ltd
- Piaggio Vehicles Pvt. Ltd
- Mahindra & Mahindra Ltd
- P.M.Diesels Pvt. Ltd
- Maruti Enterprises
- Shreenath Agencies

- Tool Tech
- Tyebally Dawoodjee
- Jameel Traders
- MSRTC, KSRTC AND TNSRTC.

Listing

Akar Tools is listed on the Bombay Stock Exchange and enjoyed a market capitalisation of ₹ 1,500 lacs as on March 31, 2010

Quality

Akar Tools’ quality commitment is manifested in the GS certification from TUV (Rheinland) Safety GmbH (Germany) for its spanners as well as other citations, awards and certificates.

Assets

| Units | Range | Capacity |
|-------|---|-------------|
| I | Hand tools (export) | 2,400 MTPA |
| II | Hand tools and automotive commercial forgings | 2,400 MTPA |
| III | Parabolic springs | 14,400 MTPA |
| IV | Leaf springs | 5,400 MTPA |

Highlights, 2009-10

- Gross revenue stood at ₹ 11,353.41 lacs compared with ₹ 8,968.93 lacs in 2008-09
- EBIDTA stood at ₹ 1,065.72 lacs compared with ₹ 821.51 lacs in 2008-09
- Post-tax profit stood at ₹ 204.50 lacs compared with ₹ 40.14 lacs

in 2008-09

- Cash profit stood at ₹ 467.78 lacs compared with ₹ 254.36 lacs in 2008-09
- Earnings per share stood at ₹ 3.79 compared to ₹ 0.74 in 2008-09

Marketing

- Retained its position as the largest

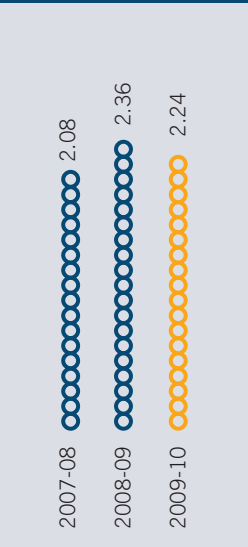
exporter of hand tools in India

- International presence across more than 30 countries

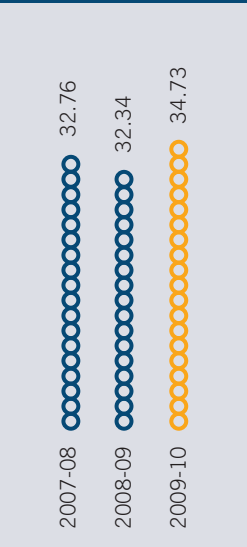
People

- Employee base, the core asset of the Company, increased 2%
- Revenue per employee increased 24%

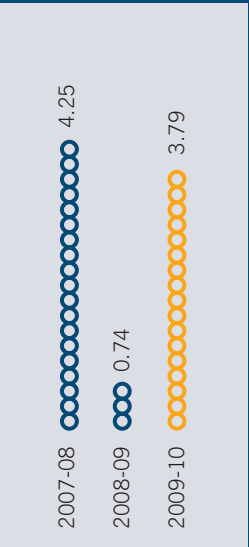
Debt-equity ratio



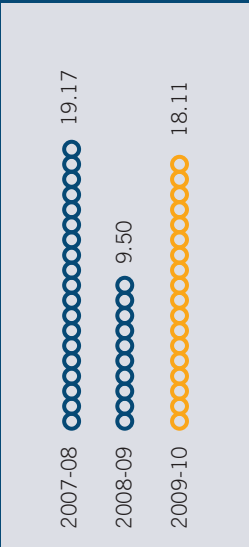
Book value per share (₹)



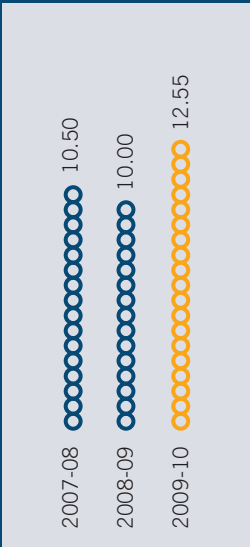
Earnings per share (₹)



Return on net worth (%)



Return on capital employed (%)



Preparing.

By enhancing shareholder value.

In 2008-09, we commissioned capacities for the manufacture of commercial automotive forgings and parabolic springs through internal accruals and debt. This diversification was intended to widen our sectoral relevance among specialised automotive component manufacturers and the replacement automotive segment.

The year 2009-10 was the first full year of commercial production of the expanded capacity. The Company reported a 26.58% growth in revenues and is attractively positioned to enhance capacity utilisation of parabolic leaf spring from 28% in 2009-10 to an estimated 70% in 2010-11 and to utilise its

fullest capacity in the other units. This is expected to raise the Company's revenue from ₹ 11,353.41 lacs in 2009-10 to an estimated ₹ 15,000 lacs in 2010-11.

This growth possibility is already evident. During the first quarter of 2010-11, the Company reported a 39% increase in revenues over the corresponding period of the previous year and a 30% increase in the pre-tax profit over the corresponding period of the previous year.

Based on this unfolding reality, the Company's share price strengthened from ₹ 31 to ₹ 71 in July 2010, enhancing value for shareholders.

Preparing.

By moving from commodity to niche.

Over the years, Akar Tools extended from hand tools to value-added products like parabolic springs, automotive forgings and leaf springs.

This helped strengthen the business model, enhance revenues, reinforce margins, enrich customers (through OEM registrations) and enhance the corporate brand.

The Company will evolve beyond its positioning as a hand tool manufacturer to a value-added manufacturer of forged products.

The value-addition, when combined with high asset utilisation, will translate into higher margins and profits, enhancing wealth in the hands of those who own shares in the Company.

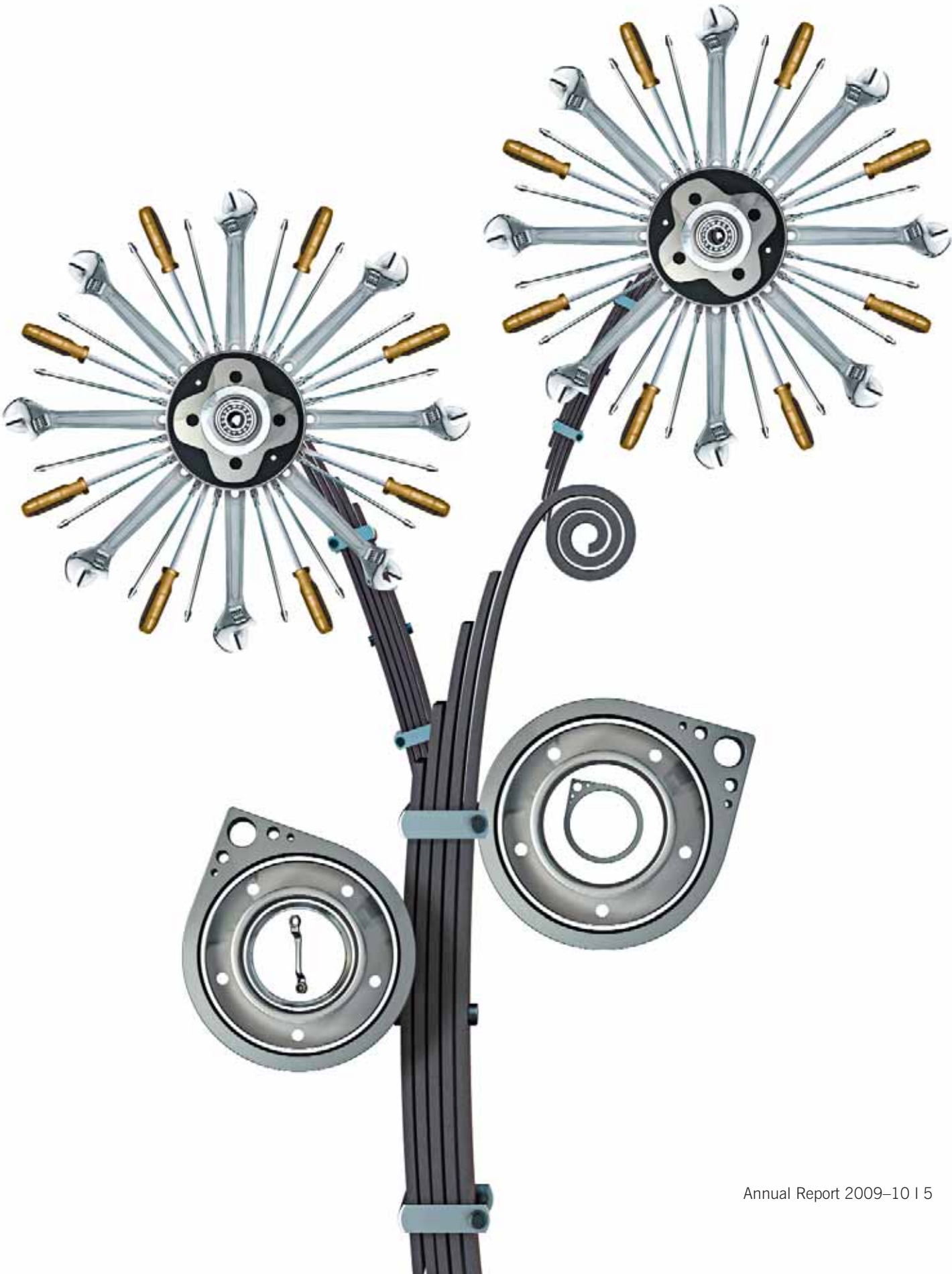
Preparing.

By leveraging the benefit of integration.

Over the years, the one big advantage of Akar Tools has been its ability to source alloys steel from the proximate Group company, RL Steels.

Over the last few years, RL Steels increased its installed capacity periodically, enhancing the availability of raw material for Akar Tools. In turn, this assured availability encouraged Akar

Tools to explore larger production volumes. Besides, this integration provided Akar Tools with an added advantage in terms of timely raw material procurement at lower costs and consistent high quality, translating into superior end product quality.



Chairman's review



“We are extending into value-added segments that will propel our turnover to a new high in 2011-12, enhancing shareholder value in an attractive way.”

Were you happy with the performance of the Company in 2009-10?

The Company emerged safely from the recession in 2008-09 with revenues of ₹ 5,289.59 lacs during the first two quarters of the 2009-10, up 10% over the previous year's corresponding figures. We are happy to report that we sustained the momentum with sales of ₹ 6,063.82 lacs during the last two quarters of 2009-10. The big picture is that our 2009-10 sales picked up 26.58% to ₹ 11,353.41 lacs and profit after tax increased 409% to ₹ 204.50 lacs. The big message to our shareholders is that our performance during the year under review represented a picture of consolidation and a foundation on which we expect to grow our business across the foreseeable future.

To what factors would you attribute the growth of 2009-10?

Our production tonnage increased from 9,014.11 tonnes in 2008-09 to 12,009.77 tonnes in 2009-10 following capacity enhancements in our parabolic and forgings units. On the other hand, affordable prices of steel and nickel helped us strengthen and reduce our working capital outlay. The result was that our EBITDA grew 30% to ₹ 1,065.72 lacs in 2009-10 and corresponding margin improved 23 bps.

What were some the highlights of your performance in 2009-10?

- We reported fair capacity utilisation at our third unit, which commenced

operations in the last quarter of 2008-09. The result was that we enhanced revenues from ₹ 320 lacs in 2008-09 to ₹ 2,100 lacs in 2009-10 from this unit, translating into enhanced profits.

- We registered a 34% growth in the combined sales of unit 3 and unit 4 to ₹ 4,358.05 lacs in 2009-10.
- We progressively moved from Tier II clients to the Tier I category.
- We registered a 22% growth in the combined sales of unit 1 and unit 2 to ₹ 6,995.37 lacs in 2009-10.

What developments in the customer industry are favourable for your business growth?

We are shifting our focus from B category customers to the A category like OEMs (Tata Motors, Ashok Leyland) and big retailers. Our registration among these OEMs is expected to be completed by the end of this year and once supplies commence, should help us generate higher margins as a larger quantity of value-added products is expected to be sold.

How is the Company placed to grow its business?

We are integrated backwards into the manufacture of alloy steel in RL Steels, our Group company. We expect to leverage the availability of superior raw material to evolve from a hand tools company into an engineered steel organisation manufacturing automotive forgings and machined steel. In this respect, we have some positive developments to report: a new leaf springs

customer in Egypt is expected to provide revenue visibility for the next nine months. As a result, the evolving character of the organisation is becoming visible: from mid-value to high-value and from low order book to a high order book.

What has the Company achieved in 2010-11, which it will build on in the later part of the year?

- The Company is already engaged in making an inorganic addition to its business. It acquired an automotive commercial forgings company with strong OEM clients but is suffering on account of poor working capital availability. This acquisition will orient the character of our Company towards the value-added segment of the automotive industry.
- There was an approximately 39% jump in sales in the first quarter of 2010-11 compared with the first quarter of the year under review, which augurs well for our performance for the rest of the year.

How does the Company expect to enrich shareholder value?

Through a number of initiatives. The Company expects to graduate to the value-added end across its various product segments, acquire assets cheap, maximise asset utilisation, shrink project costs, graduate towards lower gearing and generate adequate resources for reinvestment. The sum of these initiatives is expected to translate into revenues of ₹ 15,000 lacs in 2010-11. We will reach a new high in 2011-12 (following the completion of our proposed acquisition).

What was the rationale behind the acquisition of the forgings company in Pune?

The proposed forging company suffered from a dearth of working capital, affecting the supply of products to its OEM clients. We recognised an opportunity: we engaged in acquiring this company, infusing working capital and leveraging our Group competence to turn the company around. The acquisition is a value buy as the investment is nil. The company had more liabilities than assets on its books and we are infusing working capital to resume product supply to OEM clients.



Our strengths

Group synergy

Akar Tools represents value-added forward integration to the alloy steel manufactured by Group company RL Steels. The scrap generated from hand tool manufacture is sold by Akar Tools to RL Steels.

Technology

Akar Tools employs cutting-edge technology through CNC machines, polishing machines, vibrators and other sophisticated equipment to manufacture quality hand tools.

International presence

Akar Tools' customer profile comprises domestic OEMs like Ashok Leyland and users in Egypt, North America and Europe, among others.

Quality

Akar Tools products address stringent ANSI and DIN quality standards.

Diversified portfolio

Akar Tools' businesses – hand tools, parabolic springs, leaf springs and automotive forgings – provide a range of products.

Brand

Akar Tools is a future-ready company with a growing exposure to forgings.

Niche

Akar Tools is a major global producer of precision engineered hand tools, possessing a wide product basket. It is one of the few spring steel manufacturers in the Marathwada region of Maharashtra, approved by All India State Road Transport Undertaking for the procurement of leaf springs.

Human capital

Akar Tools comprises 416 technically qualified workers, its human capital.

Competitive

Akar Tools is one of the most competitive spanner manufacturers in the world with one of the largest dedicated global spanner capacities.

Business segment review

Hand tools

Ranking: 1
Revenue, 2009-10: ₹ 3,630.32 lacs
Proportion of Company's revenue, 2009-10: 31.97%
Revenue growth: 19%



Overview

Hand tools are non-powered tools designed for use in do-it-yourself (DIY) projects like home repairs, general maintenance, woodworking, building, mechanics and gardening.

They are used by householders and professionals (carpenters, plumbers, craftsmen, toolmakers, etc). The products comprise spanners, wrenches, striking tools, pliers and screw drivers, among others. These are used in multiple applications.

The unit (installed capacity 2,400

MTPA) manufactures precision engineered hand tools catering to growing export markets.

Highlights, 2009-10

- The unit reported an increase in revenue from ₹ 3,060.96 lacs in 2008-09 to ₹ 3,630.32 lacs.
- The unit's exports accounted for a significant 89% of its total revenue.
- The unit achieved a capacity utilisation of 64%.
- The unit exported around 85% of its production to the US and the rest to Japan, Australia and Europe.

Strengths

- **Range:** The unit addresses a wide range of multi-order spanners.
- **Capacity:** The unit possesses India's largest capacity for hand tools dedicated to the US market.
- **Rich relationships:** The unit enjoys long-standing relationships with large US retail brands.

Road ahead

The unit is expected to maintain its capacity utilisation at 100%, generating estimated revenues of ₹ 4,000 lacs in 2010-11.



Hand tools (domestic) and automotive forgings

Ranking: 2
Revenue, 2009-10: ₹ 3,365.04 lacs
Proportion of Company's total revenue, 2009-10: 29.63%
Revenue growth: 26%

Overview

Automotive forgings are intermediate products used widely by original equipment manufacturers (OEMs). They range in size from less than an ounce to more than 150 tonnes and are found in machines, vehicles and equipment used to generate our industrial economy.

The unit was established in December 2008 (installed capacity 2,400 MTPA) to manufacture hand tools and automotive commercial forgings to service India's growing consumption.

Highlights, 2009-10

- The unit reported a revenue of ₹ 3,365.04 lacs, an increase of 29.63% over the previous year.
- The unit also generated sales by outsourcing few items from others.
- The unit enriched its product mix from hand tools to automotive commercial forgings.
- The unit imported specialised forging technology from Germany

Strengths

- **Extensive dealer network:** The unit has around 200 pan-Indian dealers

distributing its products.

- **Diversified portfolio:** The unit offers a range of products including steel vices, pliers and screw drivers, among others.
- **Customer registrations:** The unit is registered with 10 OEMs including Bajaj Auto, M&M, Escorts, Ashok Leyland and Kirloskar, among others.

Road ahead

The unit expects to enhance revenues by 50% to ₹ 5,000 lacs in 2011-12 following higher capacity utilisation and the acquisition of an automotive forgings unit in 2010-11.