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AMFORGE

33RD ANNUAL REPORT 2004-2005

Amforge Industries Limited

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Amforge Industries Limited

Annual Report 2004-2005

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REGISTERED OFFICE

United Bank of India Building,
6th Floor, Sir P. M. Road,
Fort, Mumbai - 400 001.

CORPORATE OFFICE

416, Raheja Chambers,
Free Press Journal Marg,
Nariman Point, Mumbai - 400 021.

WORKS

Hakimrai Jaichand Compound,
L. B. Shastri Marg,
Bhandup (West),
Mumbai - 400 078.
Maharashtra State.

Khopoli-Pen Road,
Mauje-Sarsan/Sajgaon,
Khopoli - 410 203.
Maharashtra State.

GAT 856-860
Chakan, Ambethan Rd.,
Tal. Khed, Pune - 410 501.
Maharashtra State.

32-D-2, M.I.D.C. Area
Chinchwad,
Pune - 411 019.
Maharashtra State.

12/2 Mathura Road,
Faridabad - 121 003.
Haryana State.

33RD ANNUAL GENERAL MEETING
on
Friday, the 30th September, 2005
at 12.00 Noon at
Maharashtra Chamber of Commerce and Industry,
Babasaheb Dahanukar Sabhagriha, Oricon House,
6th Floor, 12, K. Dubhash Road, Fort, Mumbai - 400 001.

BOARD OF DIRECTORS

Yogiraj Makar	- Chairman *Emeritus*
Puneet Makar	- Chairman & Managing Director
Fali P. Mama	- *Director*
Kishore Chakraborty	- Nominee IIBI
S. C. Bhave	- Nominee SBI (From 24.12.2004)
Smt. Reshma Y. Makar	- (From 24.03.2005)
Bhushan Lal Gupta	- (From 24.03.2005)
Sunil K. Aggarwal	- (From 24.03.2005)
Vijay S. Choksi	- (From 24.03.2005)

VICE PRESIDENT (LEGAL) & COMPANY SECRETARY

Ajit P. Walwaikar

AUDITORS

Bansal & Associates,
Chartered Accountants,
Mumbai.

SOLICITORS

Mulla & Mulla, Craigie Blunt & Caroe

BANKERS

State Bank of India
Union Bank of India
The South Indian Bank Ltd.

REGISTRARS AND TRANSFER AGENTS

Sharex Dynamic (India) Private Limited
Unit-1, Luthra Industrial Premises, Safed Pool,
Andheri-Kurla Road, Andheri (E), Mumbai - 400 072.
Tel. : 2851 6338 Fax : 2851 2885.
E-mail : sharexindia@vsnl.com

As a measure of economy, copies of the Annual Report will not be distributed at the Meeting and, therefore, Members are requested to bring their copy of the Annual Report to the Meeting.

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NOTICE

NOTICE is hereby given that the THIRTY-THIRD ANNUAL GENERAL MEETING of Amforge Industries Limited will be held on Friday, the 30th September, 2005 at 12.00 Noon at Maharashtra Chamber of Commerce and Industry, Babasaheb Dahanukar Sabhagriha, Oricon House, 6th Floor, 12, K. Dubhash Road, Fort, Mumbai - 400 001 to transact the following items of business:

ORDINARY BUSINESS:

1. To receive, consider and adopt the Audited Balance Sheet as at 31st March, 2005 and Profit & Loss Account of the Company for the year ended on that date, together with the reports of the Directors and the Auditors.
2. To appoint Auditors to hold office from the conclusion of this meeting until the conclusion of the next Annual General Meeting and to fix their remuneration.

SPECIAL BUSINESS:

3. To consider and, if thought fit, to pass, with or without modification, the following resolution as an ORDINARY RESOLUTION:
"RESOLVED THAT Smt. Reshma Y. Makar who was appointed as Directress with effect from 24-03-2005 and whose term of office expires at this Annual General Meeting and in respect of whom the Company have received a Notice under Section 257 of the Companies Act, 1956 from a Member proposing her candidature for the office of a Director be and is hereby appointed a Director of the Company whose period of the office will be liable to determination by retirement by rotation."
4. To consider and, if thought fit, to pass, with or without modification, the following resolution as an ORDINARY RESOLUTION:
"RESOLVED THAT Shri. Bhushan Lal Gupta who was appointed as Director with effect from 24-03-2005 and whose term of office expires at this Annual General Meeting and in respect of whom the Company have received a Notice under Section 257 of the Companies Act, 1956 from a Member proposing his candidature for the office of a Director be and is hereby appointed a Director of the Company whose period of the office will be liable to determination by retirement by rotation."
5. To consider and, if thought fit, to pass, with or without modification, the following resolution as an ORDINARY RESOLUTION:
"RESOLVED THAT Shri. Sunil K. Aggarwal who was appointed as Director with effect from 24-03-2005 and whose term of office expires at this Annual General Meeting and in respect of whom the Company have received a Notice under Section 257 of the Companies Act, 1956 from a Member proposing his candidature for the office of a Director be and is hereby appointed a Director of the Company whose period of the office will be liable to determination by retirement by rotation."
6. To consider and, if thought fit, to pass, with or without modification, the following resolution as an ORDINARY RESOLUTION:
"RESOLVED THAT Shri. Vijay S. Choksi who was appointed as Director with effect from 24-03-2005 and whose term of office expires at this Annual General Meeting and in respect of whom the Company have received a Notice under Section 257 of the Companies Act, 1956 from a Member proposing his candidature for the office of a Director be and is hereby appointed a Director of the Company whose period of the office will be liable to determination by retirement by rotation."
7. Announcement of the results of the Postal Ballot in respect of the Ordinary Resolution circulated among the Members, pursuant to Section 192(A), separately for securing consent for Sale or Disposal of Bhandup Undertaking u/s. 293(1)(a). (Refer Note - d).

By Order of the Board of Directors

Ajit P. Walwaikar
Vice President (Legal) &
Company Secretary

Registered Office:
United Bank of India Bldg.,
6th Floor, Sir P. M. Road,
Fort, Mumbai - 400 001.

Mumbai,

Dated : 29th July, 2005.

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NOTES :

a) The Explanatory Statement setting out the material facts concerning the Special business mentioned under item No. 3 of the Notice as required under Section 173(2) of the Companies Act, 1956 is annexed hereto.

b) A MEMBER ENTITLED TO ATTEND AND VOTE IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF AND A PROXY NEED NOT BE A MEMBER. A DULY COMPLETED PROXY FORM, IN ORDER TO BE EFFECTIVE, MUST BE RECEIVED AT THE REGISTERED OFFICE OF THE COMPANY NOT LESS THAN 48 HOURS BEFORE THE MEETING.

c) The Register of Members and the share transfer books of the Company will remain closed from Monday, the 19th September, 2005 to Friday, the 30th September, 2005 (both days inclusive).

d) Item 7 of this Notice relates to Postal Ballot sent to the Members u/s 192A of the Companies Act, 1956 for an Ordinary Resolution under Section 293 (1) (a) of disposal of the Undertaking at Bhandup, Mumbai, Maharashtra. As per Government of India's General Circular No. 16/2001 dated 24-07-2001 issued by the Department of Company Affairs, the Chairman shall declare the results of the Postal Ballot in the General Meeting.

e) Members who desire any information as regards the Accounts are requested to write to the Company at least 10 days before the date of the Meeting so as to enable the Management to keep the information ready.

f) Members, having the shares in physical form, are requested to notify immediately any change in their addresses to the Company's Registrars and Transfer Agents, Sharex Dynamic (India) Pvt. Ltd., Unit - 1, Luthra Industrial Premises, Safed Pool, Andheri-Kurla Road, Andheri (East), Mumbai - 400 072. Fax: 2851 2885. Email: sharexindia@vsnl.com.

g) The Company in accordance with the Companies Unpaid Dividend (Transfer to General Revenue Account of the Central Government) Rules, 1978, has transferred to General Revenue Account of Government, all dividends declared up to the dividend for the year 1993-94 and remaining unclaimed. Concerned shareholders can receive the unclaimed dividend from the Registrar of Companies, Maharashtra, at Hakoba Compound, 2nd Floor, Dattaram Lad Marg, Kalachowki, Chinchpokli (East), Mumbai - 400 033, upon preferring an application in the form prescribed under the said rules.

h) Pursuant to the provisions of Section 205C of the Companies Act, 1956, the dividend remaining unclaimed/unpaid for a period of seven years from the date they became due for payment shall be credited to the Investor Education and Protection Fund, set up by the Central Government. Members who have so far not claimed the dividend are requested to make claim with the Company as no claim shall lie against the Fund or the Company in respect of individual amounts once credited to the said Fund.

i) Members holding shares in identical order of names in more than one folio are requested to write to the Company's Registrar and Transfer Agents enclosing their share certificates to enable the Company to consolidate their holdings in one folio.

j) Members of erstwhile Tru Wheels Ltd. who have not yet surrendered their old certificate for exchange with the certificate of Amforge, consequent to amalgamation are requested to correspond with the Company's Registrars and Transfer Agents.

k) The Board of Directors of the Company have converted all the 24,23,368 Tradable Detachable Warrants (TDWs) into equity shares of Rs.10/- each and allotted them alongwith premium of Rs.25/- per share on 13th May, 2004 to the applicants consisting of holders of such TDWs and others. No TDWs are pending to be converted.

l) The delivery of shares of the Company are compulsorily in dematerialized form.

ANNEXURE TO THE NOTICE PURSUANT TO THE PROVISIONS OF SECTION 173(2) OF THE COMPANIES ACT, 1956

EXPLANATORY STATEMENT:

ITEM NO 3 :

In its effort to broad-base the Board of Directors of the Company, pursuant to Clause 49 of the Listing Agreement with The Stock Exchange, Mumbai the Company appointed Smt. Reshma Y. Makar as an Additional Director of the Company from 24-03-2005. Pursuant to Section 260 of the Companies Act, 1956, she holds office upto this Annual General Meeting. Details like age, qualifications, experience of Smt. Reshma Y. Makar is given below.

Notice in writing has been received from a Shareholder of the Company signifying his intention proposing Smt. Reshma Y. Makar as a candidate for the Office of Director. The Directors recommend that she be appointed as a Director of the Company.

Smt. Reshma Y. Makar herself, Shri. Puneet Makar and Shri. Yogiraj Makar shall be deemed to be interested in the Resolution.

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ITEM NO 4 :

In its effort to broad-base the Board of Directors of the Company, pursuant to Clause 49 of the Listing Agreement with The Stock Exchange, Mumbai, the Company appointed Shri. Bhushan Lal Gupta as an Additional Director of the Company from 24-03-2005. Pursuant to Section 260 of the Companies Act, 1956, he holds office upto this Annual General Meeting. Details like age, qualifications experience of Shri. Bhushan Lal Gupta is given below.

Notice in writing has been received from a Shareholder of the Company signifying his intention proposing Shri. Bhushan Lal Gupta as a candidate for the Office of Director. The Directors recommend that he be appointed as a Director of the Company.

Except Shri. Bhushan Lal Gupta, no director is interested in the Resolution.

ITEM NO 5 :

In its effort to broad-base the Board of Directors of the Company, pursuant to Clause 49 of the Listing Agreement with The Stock Exchange, Mumbai, the Company appointed Shri. Sunil K. Aggarwal as an Additional Director of the Company from 24-03-2005. Pursuant to Section 260 of the Companies Act, 1956, he holds office upto this Annual General Meeting. Details like age, qualifications experience of Shri. Sunil K. Aggarwal is given below.

Notice in writing has been received from a Shareholder of the Company signifying his intention proposing Shri. Sunil K. Aggarwal as a candidate for the Office of Director. The Directors recommend that he be appointed as a Director of the Company.

Except Shri. Sunil K. Aggarwal, no director is interested in the Resolution.

ITEM NO 6 :

In its effort to broad-base the Board of Directors of the Company, pursuant to Clause 49 of the Listing Agreement with The Stock Exchange, Mumbai, the Company appointed Shri. Vijay S. Choksi as an Additional Director of the Company from 24-03-2005. Pursuant to Section 260 of the Companies Act, 1956, he holds office upto this Annual General Meeting. Details like age, qualifications experience of Shri. Vijay S. Choksi is given below.

Notice in writing has been received from a Shareholder of the Company signifying his intention proposing Shri. Vijay S. Choksi as a candidate for the Office of Director. The Directors recommend that he be appointed as a Director of the Company.

Except Shri. Vijay S. Choksi, no director is interested in the Resolution.

By Order of the Board of Directors

Registered Office:
United Bank of India Bldg.,
6th Floor, Sir P. M. Road,
Fort, Mumbai - 400 001.

Ajit P. Walwaikar
Vice President (Legal) &
Company Secretary

Mumbai,
Dated : 29th July, 2005.

DETAILS OF DIRECTOR BEING APPOINTED AT THE ANNUAL GENERAL MEETING (IN PURSUANCE OF CLAUSE 49 (VI) A OF THE LISTING AGREEMENTS).

Name of Director	Smt. Reshma Y. Makar	Shri. Bhushan Lal Gupta	Shri. Sunil K. Aggarwal	Shri. Vijay S. Choksi
Age	69 years	66 years	45 years	52 years
Qualification	B.A.	M.Com., D.S.W., CAIIB	B.B.A. (US)	B.Com., A.C.A., A.C.S.
Date of Appointment	24-03-2005	24-03-2005	24-03-2005	24-03-2005
Expertise	Associated with many Companies as Director.	Financial Appraiser, Banking	Administration, Finance, Real Estate Development.	Finance, Accounts and Company Secretarial matters.
Other Directorships	1) Nainesh Investment and Trading Co. Pvt. Ltd. 2) Devi Dass Pvt. Ltd.	1. MTZ Polyfilms Ltd. 2. MTZ Industries Ltd.	-	1) Viniyog Investment and Trading Co. Pvt. Ltd. 2) Mughal Investment and Trading Co. Pvt. Ltd. 3) Hakimrai Jaichand Holdings Pvt. Ltd. 4) Quadratic Financial Services Pvt. Ltd. 5) Devi Dass Pvt. Ltd.
Chairman/Member of the Committees.	-	Member - Audit Committee, Amforge Industries Ltd., MTZ Polyfilms Ltd. and MTZ Industries Ltd.	-	-

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DIRECTORS' REPORT

TO THE MEMBERS
AMFORGE INDUSTRIES LTD.

Your Directors have pleasure in presenting their 33rd Annual Report and audited statement of accounts for the year ended 31st March, 2005.

FINANCIAL HIGHLIGHTS

	(Rs. In Lacs)	
	2004-2005	2003-2004
Gross Revenue after Stock adjustments	**24907.36**	19685.70
Gross Profit before Interest, Depreciation, Amortization & Tax	**1292.07**	2526.25
Interest	**(901.49)**	(864.34)
Operating Profit (Loss) before Depreciation & Amortization	**390.58**	1661.91
Depreciation	**(629.67)**	(434.86)
Amortization	**(19.09)**	(24.62)
Operating Profit/(Loss) for the year	**(258.18)**	1202.43
Employees Separation Cost written off	**(169.02)**	(110.98)
Old and Obsolete Dies written off	**(78.37)**	(87.69)
Other Extra Ordinary Gains (Net)	**467.63**	89.86
Profit/(Loss) for the year	**(52.43)**	1093.62
Prior Period's adjustments (Net)	**(35.61)**	(0.98)
Net Profit/(Loss)	**(88.04)**	1092.64
Provision for Current Tax (Wealth Tax)	**(0.32)**	(0.66)
Provision for Deferred Tax	**(1195.62)**	(372.29)
Profit/(Loss) after Tax	**(1283.98)**	719.69
Earlier years (short) / excess provision for tax	**(3.24)**	–
Balance Profit/(Loss) brought forward from previous year	**(3370.73)**	(4076.32)
Provision for Doubtful Debts & Advances	**43.34**	14.10
Balance carried to Balance Sheet	**(4701.29)**	(3370.73)
EPS (Rs.)	**(0.90)**	8.70

* Inter-Divisional Sales have been excluded/regrouped.

FINANCIALS

During the year under review, the Company's gross revenue is Rs. 24,907.36 Lacs (PY: Rs. 19,685.70 Lacs). Gross profit before interest, depreciation and tax amounted to Rs. 1,292.07 Lacs (PY: Rs. 2,526.25 Lacs). Operating Cash Profit before depreciation & amortization is Rs. 390.58 Lacs (PY: Rs. 1,661.91 Lacs) The Net Loss came to Rs. 88.04 Lacs (PY: Net Profit Rs. 1,092.64 Lacs). The major contributories to Net Loss in the financial year, under review, were - write-off of old / obsolete items of inventory by reason of major changes in customer requirements, changes in die designing, etc., suspension of Bhandup Operations since October, 2004 (during the whole year, production activity remained negligible but fixed expenditures like salary, fixed energy charges, etc. incurred until year-end), higher provisions of Depreciation, etc.

DIVIDEND

In view of the losses, current and accumulated, your Directors regret their inability to recommend dividend for the year 2004-2005.

MANAGEMENT DISCUSSION AND ANALYSES

As per the requirement of Clause 49 of the Listing Agreement with the Stock Exchange, the Management Discussion and Analyses of the events, which have taken place and the conditions, which prevailed during the period under review, are elucidated in Annexure 1 to this Report.

FINANCE

The financial front of the Company remained difficult.

The Company redeemed, in full, privately placed debentures with UTI, without receiving any breathable waiver, with the money raised through conversion of tradable detachable warrants into equity shares. This placed strain on the available

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funds with the Company which otherwise would have been used for working capital to finance the day to day operations. One more major lender is unwilling to yield and give any waiver although the Company as shown its inclination to settle the debts or to restructure the same with some waivers. As a result of this, the efforts made in yesteryear have not borne fruit to bring down interest burden to the extent as had been intended.

The forging business is on upward swing. It needs increase in capacity to cater to the higher demand and the Chakan Plant is experiencing a capacity crunch. The Company does not have enough funds to finance its capital expenditure. As a result of this, a strategic partner has been identified and would be entrusted with the Chakan Plant to increase its capacity and to go for forward integration by establishing machining facilities.

DIRECTORS

Shri. S.C.Bhave was nominated by State Bank of India (SBI) as Nominee Director w.e.f. 24th December, 2004.

Shri. Fali P. Mama was appointed Rotational Director in the 32nd Annual General Meeting held on 30-09-2004.

In order to broad-base the Board of Directors of the Company and to have optimum combination of Independent and non-Independent Directors pursuant to Clause 49 of the Listing Agreement, the following Directors were appointed w.e.f. 24th March, 2005 as Additional Directors:

1. Shri. Bhushan Lal Gupta
2. Shri. Sunil K. Aggarwal
3. Shri. Vijay S. Choksi
4. Smt. Reshma Makar

The above Additional Directors are going to hold the office up to the ensuing Annual General Meeting. The notices u/s 257 of the Companies Act, 1956 proposing their names for appointment as Director liable to retire by rotation have been received from members of the Company.

DEMERGER OF THE CHAKAN PLANT AND ITS MERGER INTO MAHINDRA AUTOMOTIVE STEELS PRIVATE LIMITED

The Chakan Plant of the Company is having state-of-the-art manufacturing facilities. The forging business is on the upswing demanding more and more production from the existing facilities. The Chakan Plant is not able to cater to the burgeoning demand. Moreover, there is lot of scope for forward integration by establishing machining facilities to machine its raw forgings as the OEM Customers demand supply of fully machined forgings. In order to tap the potential of the market, the Company would be required, over the next few years, to make significant capital investments for increasing capacity and forward integration of the Chakan Plant. The Company is not in a position to meet the funding requirements for its expansion and forward integration plans. Mahindra & Mahindra Ltd. with its strong market standing and leading OEM in the automotive sector is ideally positioned to make the necessary capital investments in the Chakan Plant that will enable the Chakan Plant to pursue its expansion plans and capitalize on the present attractive growth opportunities in the forging business. This is sought to be achieved by drawing a Composite Scheme of Arrangement envisaging demerger of the Chakan Plant and its merger into a special purpose vehicle in the name and style Mahindra Automotive Steels Private Limited (MASPL), a wholly owned subsidiary of Mahindra & Mahindra Ltd. This will exploit the synergies resulting from combining the activities of manufacturing of forgings and machining of the forgings under a single entity. The demerger of the Chakan Plant into MASPL would make available to the Chakan Plant the financial as well as the managerial, technical and marketing resources of the Mahindra Group. The said Scheme also envisages reduction in the capital of the Company. In consideration of the demerger of the Chakan Plant, the shareholders of the Company will get :

i. 1 (one) 4% non cumulative, redeemable, non convertible Preference Share of MASPL of Rs.31/- each fully paid up for 1 (one) equity share of Amforge of Rs.10/- each fully paid (before capital reduction as contemplated in the Scheme)

ii. 1 (one) equity share of MASPL of Rs.10/- each fully paid up for every 1 (one) equity share of Amforge of Rs.10/- each fully paid up (before capital reduction as contemplated in the Scheme).

The whole of the Scheme is available on the Company's website: www.amforgeindia.com.

BHANDUP OPERATIONS

Bhandup unit also remained a significant contributory to the mounting losses of the Company. Major reasons of loss in this unit are high labour cost and government levies like octroi, etc., old and obsolete production technology and equipments (mainly Hammer-Line), pollution related problems (as the unit is located in city area) and very low operating levels resulting into high level of fixed and variable overheads. As you know, the production is currently suspended at Bhandup unit and the same is subject matter in reference before the Industrial Tribunal, Mumbai. There are pressing creditors and huge VRS outgo associated with the said unit as well. To settle these liabilities, we propose to dispose of the land admeasuring approx. 17,000 square meters with a book value of Rs.110.17 lacs (Rs.2.62 Lacs for Free Hold Land and Rs.107.55 Lacs for WDV of building) as on 31-3-2005. The disposal of land is sought to be done by means of postal ballot sent separately to the Shareholders of the Company.

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The feedback from various Consortium Meetings of all lenders is that the Company should take reasonable steps to improve its Net worth, which was decreasing since FY 1997-98 up to FY 2001-02. Also, the core outcome of various discussions was that the Company should substantially improve its operations by further reducing overheads, realigning production facilities, improving the product mix, reducing the debt burden, etc.

The said disposal is subject to the favourable order of the Hon'ble Industrial Tribunal/Appropriate Government u/s 25(o) of the Industrial Disputes Act, 1947 and consents of the lenders and the 14% non-convertible Debentureholders.

DIRECTORS' RESPONSIBILITY STATEMENT

As required under Section 217(2AA) of the Companies Act, 1956, your Directors confirm that: -

i. In the preparation of the annual accounts, the applicable accounting standards have been followed.

ii. The Directors had selected such accounting policies and applied them consistently and made judgements and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company as on 31st March, 2005 and of the profit of the Company for the year ended 31st March, 2005.

iii. The Directors have taken proper and sufficient care 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.

iv. The Directors have prepared the annual accounts on a going concern basis.

AUDITORS

M/s. Bansal & Associates, Chartered Accountants, Mumbai, will retire at the ensuing Annual General Meeting and being eligible offer themselves for reappointment. They have furnished a certificate that their reappointment, if made, will be within the limit prescribed under Section 224 (1B) of the Companies Act, 1956.

AUDITORS' REPORT

The Directors give the following comments on para 4 (e) of the Auditors' Report:

The Directors, other than the Nominee Director and the director, appointed by the Company after the date of default, had acquired disqualification by reason of default in redemption of debentures privately placed with the UTI Asset Management Co. Pvt. Ltd. (UTI) for more than one year in 2002-03 by virtue of Section 274 (1)(g) of the Companies Act, 1956.

The Company has since redeemed all the aforesaid debentures, in full, in the year 2004-05.

CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION, ETC.

The information required in terms of Section 217 (1) (e) of the Companies Act, 1956 read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 is given in the Annexure-2 forming part of this Report.

CORPORATE GOVERNANCE

A report on Corporate Governance as per the requirement of Clause 49 of the Listing Agreement is annexed to this Report as Annexure - 3.

PARTICULARS OF EMPLOYEES

None of the employees of the company is covered under Section 217 (2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975.

ACKNOWLEDGMENT

Your Directors wish to place on record their sincere thanks to the valued customers, suppliers, bankers, and financial institutions for their continued support, co-operation and guidance. Your Directors also wish to thank the employees and executives at all levels for their contribution.

For and on behalf of the Board of Directors

Place : Mumbai,
Dated : 29th July, 2005.

PUNEET MAKAR
Chairman & Managing Director

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ANNEXURE - 1 TO THE DIRECTORS' REPORT

MANAGEMENT DISCUSSION AND ANALYSES

Macro and Micro Economics of Forging Industry

Forging is a manufacturing process where metal is pressed, pounded or squeezed under great pressure into high strength parts largely catering to the requirement of automotive, power and oil sectors. A scope has been created for its forward integration by establishing machining facilities and supply fully finished forgings instead of raw forgings. The Forging Industry which caters mainely for the automotive industry is very much dependent on steel cost and the performance and growth of the automobile industry.

Amforge after having crossed the barriers in 2000-01 and 2001-02, improved its performance in 2002-03 and 2003-04. However, as a strategic step and by reason of write-off of old / obsolete items of inventory due to major changes in customer requirements, die designing, suspension of Bhandup Operations since October, 2004 with continued fixed cost, higher provisions of Depreciation bore these expenses and adjustments against the generated internal accruals and opted to post net loss of eighty eight lacs rupees.

The proposed Demerger of Company's Chakan Division will definitely add good value to shareholders' worth for reasons already explained in this report. Also, once the Demerger Scheme is approved by the Mumbai High Court, the remaining company with mainly its Chinchwad (Forgings) Division and Faridabad (Connecting Rods' Machining) Division will try to maximize the return in the near future. Sale of Land at Bhandup also will generate some profits in the current year.

The Re-organization & Synergy:

After consolidating the focus on profitable units, implementing the Employee Retirement Scheme for the bleeding units, getting entire Debt Restructured, concentrating on higher yield products, selling non-productive assets, infusing new capital by conversion of Tradable Detachable Warrants into Equity Shares, etc., the Company looks forward in the new dimension. Demerger of Chakan Division will enable all its all Customers and stakeholders viz. Human Resources, Lenders, Creditors, Shareholders, etc. to see more business value.

Therefore, the Company, after completing restructuring in major operational areas, is proposing to join hands with Mahindra Automotive Steels Private Ltd. (MASPL, a wholly owned subsidiary of Mahindra & Mahindra Ltd.) to bring more synergy and focus to the forging business. On one hand, the current stakeholders in Amforge will get more business values in MASPL, which on the other hand, MASPL will have advantage of backward / forward integration once the proposed Demerger Scheme is approved by Bombay High Court. With modern machining lines and extra forging capacity being installed by MASPL. The customers in MASPL will be catered for fully finished forged components. Moreover, Mahindra Group with large talent pool at their disposal, are well placed to realize the true value in Chakan Division of Amforge.

Segment wise Performance

The Company has only one segment and that is 'forgings'. As such the whole of the performance of the Company is attributable to one segment only.

Forging - Growth

Future outlook on the forging industry is emerging in terms of the expected surge in global demand. As a result of liberalization, more MNCs have entered the domestic automobile market. This opens more business opportunities for the forging industry.

Estimated demand for the Indian Auto Component Industry by 2015.

- Targeted exports of auto component industry US $ 20 billion in absolute terms by 2015.
- Estimated exports of the auto component industry is US $ 1 billion.
- Current estimated exports of Indian forgings US $ 180 million.
- Projected exports of forging industry by 2015 US $ 3 billion (15% of Auto component exports).

Source: Association of Indian Forging Industry

India has emerged as a preferred source of auto components, especially forgings and castings. Largely, one can expect better growth potential only on a solid ground, which India has offered to global OEMs. In the domestic scenario as well, forging demand has increased exponentially. The vehicles' demand has shifted from "an item of luxury" to "an item of necessity". More and more new models are being launched regularly.

In India, growth in demands for Utility vehicles and Cars have sustained at 28% and 22% Y-o-y respectively, whereas Commercial Vehicles' demand has surged to 35%. Three wheeler demands has slumped to 5%. In the bi-wheeler

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segment, growth in demand for Motorcycle has increased to 19% but that for Scooter / Mopeds strangled at 4% by reason of increase in spending habits. Rain remained good throughout the country and so was the agriculture resulting into impressive come back of Tractor demand growth at 30%.

(Source : ACMA Statistics)

Advantage: Amforge

- One of the most competitive manufacturers of critical forgings like Crankshafts since past four decades having top ratings from the key customers;
- Technologically equipped with modern Press-lines with strong design capabilities and Commitment to honour customers' schedule;
- All quality accreditations in place, excellent up-scaling potential and looking upward with exports potential
- Units located in close vicinity of major customers and proximity to JNPT / Mumbai Port for Exports;

Risks and Concerns

The economic spurt and industrial growth are playing their positive role as is evident from the present scenario. The Government is also going ahead with its liberalization policies and making the resources available. At the same time, it is expected that oscillatory trend in steel and fuel prices will act as a deterrent to the aspirations of a consumer.

Internal Control System and their Adequacy

Independent firm of Chartered Accountants has been appointed to carry out internal audit functions to ensure adherence to various policies and procedures already introduced and followed in the Company. This is also ensuring compliances with various statutory requirements. The Audit Committee has reviewed the internal control systems.

Material Developments in Human Resources/Industrial Relations Front

Human Resources are the most valuable assets of a Company. Our Company provides challenges, encourages initiative and recognizes and rewards excellence in performance. The Company reviews and evolves policies / processes to attract the best technical and managerial talent.

ANNEXURE - 2 TO THE DIRECTORS' REPORT

***Particulars Required Under the Companies (Disclosure of Particulars in the Report of Board of Directors)* Rules, 1988.**

A. CONSERVATION OF ENERGY

a) Energy conservation measures taken:

(i) Auto stop circuit installed to all induction heater for panel water pump during idle hour.
(ii) Real Time Automatic Power factor controller installed to improve the P-F from .96 to .98
(iii) Installed 2000KW INDUCTOTHERM induction heater replacing the old.
(iv) High - Low water level controller installed incooling tower to control wastage of water.
(v) Lighting system converted to CFL lamp system.
(vi) Connected load and maximum demand has been increased to get M.D. advantage.
(vii) Procured new 115 Rcs coil for 2000 KW induction heater.
(viii) New Small forging furnace with one burner installed on 0.75 ton hammer to reduce FO consumption.
(ix) New basket split type casting trays developed to increase continuous line Heat Treatment capacity.
(x) Reduction in LDO consumption per ton with modified heat treatment cycles.
(xi) Reduction in quenching oil consumption with proper process monitoring.

b) Additional investments and proposals, if any, being implemented for reduction of consumption of energy:

It is an ongoing process to upgrade the existing equipments from time to time in line with the new developing technologies.

***Impact of the measures taken / to be taken at (a) & (b) above for reduction of energy consumption and* consequent impact on the cost of production of goods:**

Not ascertainable.

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