

41<sup>st</sup> ANNUAL REPORT 2012-2013



**BHARAT GEARS LIMITED**

Geared for Life



“ Between stimulus and response there is a space.  
In that space is our power to choose our response.  
In our response lies our growth and our sunshine.”

# CONTENT



Chairman's Message .....	2
Company Information .....	6
Business Divisions .....	8
Performance Snapshot .....	10
Investing in the Future ..	12
Management Discussion and Analysis .....	14
Corporate Social Responsibility .....	20
Notice .....	22
Directors' Report .....	30
Corporate Governance Report .....	34
Auditors' Report to the Members of Bharat Gears Limited .....	48
Financial Statements .....	52
Notes Forming Part of the Financial Statements .....	56



A portrait of Mr. Surinder P. Kanwar, Chairman & Managing Director, smiling and wearing a dark suit, white shirt, and a red tie with diagonal stripes. He is standing outdoors with a blurred background.

# CHAIRMAN'S MESSAGE

Mr. Surinder P. Kanwar  
Chairman & Managing Director

Dear Shareholders,

The concerns that I had expressed in last year's Annual Report on the slowing down of the Indian economy became even more aggravated in 2012-13. India's GDP growth reduced to 5% in 2012-13 the lowest in the last decade. Agriculture, which drives the demand of one of our important customer segments tractors saw growth reducing from 3.6% in 2011-12 to 1.8% in 2012-13. The manufacturing sector as a whole has been hit particularly hard. In 2011-12, manufacturing growth in India had already reduced to 2.7%. This came down further to 1.9% in 2012-13.

Headline and especially the non-food manufactured product inflation pressures, softened during 2012-13, even as consumer price inflation firmed up. The average headline WPI inflation during 2012-13 at 7.4% was significantly lower than the 9.0% inflation witnessed in 2011-12. While this has been a respite, the overall economic uncertainties have created a major negative sentiment in investments and consumption in India. Monetary policy eased during 2012-13, in response to some softening of inflation and significant moderation in growth. However, monetary policy response to addressing growth concerns was constrained by persistence of inflation and the twin deficit (current account deficit and fiscal deficit) risks that prevailed for the most part of the year.



Consequently, while interest rates reduced a bit, the absolute levels are still fairly high.

While interest rates matter, revival of investments and boosting GDP growth is contingent upon resolution of supply bottlenecks, governance issues impeding investments and the government's efforts towards fiscal consolidation. Domestic energy price adjustments, inadequate supply response and sustained wage pressures on inflation are expected to drag down growth for some more time. The challenge is to counter the growth slowdown by reviving investment while managing the trade-off between objectives of reviving demand and restraining the current account deficit.

The global story continues to unfold with recovery in USA and turmoil in Europe. On one hand, while the growth figure for the United States for 2012-13 may not seem very high, and indeed it is insufficient to make a large dent in the still-high unemployment rate but it will be achieved in the face of a very strong, indeed overly strong, fiscal consolidation of about 1.8 % of GDP. Underlying private demand is actually strong, spurred in part by the anticipation of low policy rates under the Federal Reserve's "forward guidance" and by pent-up demand for housing and durables. A steady revival in the USA is imminent. On the other hand, the forecast for negative growth in the euro area reflects not only weakness in the periphery but also some weakness in the core. Germany's growth is strengthening but is still forecasted to be less than 1% in 2013. France's growth is forecasted to be negative in 2013, reflecting a combination of fiscal consolidation, poor export performance, and low confidence. Most European countries, notably Italy and Spain, are expected to have substantial contractions in 2013. These developments will have a significant role in determining our export opportunities.

As you are aware, Bharat Gears caters mainly to the commercial vehicles, farm and construction equipment sectors. While India remains the primary market, the Company is steadily growing its exports, mainly to USA.

The automotive industry in India was severely affected. Medium & Heavy Commercial vehicles witnessed de-growth

in sales of (-26%), while tractor sales reduced by (-9%). The positive was the 16% growth in LCV sales and the 52.2% growth in Utility vehicles and vans. For the first time in the last decade passenger car sales dropped in a year reduced by (-6.69%) in FY2013. The negatives outweighed the positives and auto-component demand was very badly affected.

It was very difficult for your Company to insulate itself from this adverse business environment and revenues reduced by 9.4% to ₹ 395.32 crores in FY2013. The top-line contraction affected margins and profits. However, even then, the Company managed to generate a Profit after tax (PAT) of ₹ 4.97 crore in FY2013.

Such market downturns are intrinsic to a going concern over the long term. What is important is to create a business model that can withstand the adverse conditions and bounce back to make best of demand conditions once it revives. In this sense, while the reduction in profits has been disconcerting in FY2013, there is some positive in the fact that we have managed to generate profits even when there was significant erosion of orders.

There are some key elements to our long term plans of creating a growth oriented resilient business.

First, we have been focusing on diversifying our market. In the Original Equipment Manufacturing (OEM) based auto-component space this process takes some time as it entails several rounds of interactions in developing new customer relationships, getting commercial and technical approvals, understanding technological requirements, developing samples and getting orders for commercial production. Over the last few years, we have been working on this. To begin with, there has been a concerted effort at increasing exports. And, it pleases me to report that even under difficult business conditions, export sales continued to gain traction in FY2013. Export sales (FOB) actually increased by 11% in FY2013 and its share in total revenues has been rising gradually from 14% in FY2011 to 17% in FY2012 to 21% in FY2013. In this market, we have just scratched the tip of the ice-berg and there is considerable scope of leveraging the business relationships already developed and the ones that are being promoted. In terms of product segments, we have



aggressively entered the utility vehicles segment, which is witnessing healthy growth in India.

Second, we continue to remain steadfast on our commitment to continuously upgrade our technology. For bevel gears, Bharat Gears continues to invest in the state-of-the-art dry cutting technology while for transmissions it is investing in the latest high speed hobber and shaver systems. In FY2013, your Company has ordered for the highly sophisticated Klingelnberg CNC gear cutting machine (C 50), with a Robot for Loading /Unloading which uses the dry cutting technology. It has also supported the production system of high speed hobbors for transmission gears with a shaving cutter sharpening machine (SRS-410).

Third, the Company had taken a conscious decision to grow capacities while maintaining an optimal size for each individual plant. In line with this thought, it had planned the development of a third plant and had bought land at Lonand (near Pune, Maharashtra). In May 2012, the Company commenced work on constructing its third plant at this site. Development work at this plant progressed at a fast pace

through FY2013 and in May 2013, the plant was inaugurated. The Company will now start testing/commissioning of machines followed by trial production. The commercial operations/production at the plant of the Company are expected to be commenced within 2-3 months with all clearances in place, utilities set up, and some initial machinery put in place. This plant, focused on transmission gears, will particularly enhance our servicing capabilities for customers in and around Pune and also provide flexibility in capacities to grow the entire transmission gears portfolio.

The diversification into related businesses auto components after-market business and the furnace business paid rich dividends in FY2013. In a structured and concerted manner the Company has built a pan India distribution network with strengths in the East, North and West of India to sell automotive parts in the After Market. The auto components designing, sourcing and distributing business in the after-market witnessed a 4% growth in sales and generated profits for the business.

FY2013 was particularly good year for the furnace business.







The Company executed a large complex order for a global client and revenues more than doubled, albeit on a small base. What is more important is our ability to meet the complex technical requirements within strict timelines of such global clients. This is a business that the Company operates with minimal capital outlay.

We are in challenging times and have managed to keep our head above water in FY2013. To proceed to the next round of growth we need to stay focused on implementing our plans. This will need continuous emphasis on cost management, process optimisation and excellence in engineering not only to develop more business but to take on competition and gain share of business with existing customers. While we are committed to growth and our investment programme remains in place, there is considerable stress on micro-managing day to day operations to create globally competitive cost structures. Also efforts are on to further improve the speed to market of new products to be able to better service clients for new order development.

I would like to acknowledge the contribution of the workers,

the officers and management at Bharat Gears for their contribution to the Company's performance in FY2013. The members of the Executive Committee, who today operationally manage the day to day activities of the Company needs a special mention for all their efforts. It is the people at Bharat Gears, who will nurture the Company's ambitious growth plans.

We, at Bharat Gears, have embarked on a well structured growth oriented journey. As we strive forward, there will be challenges that we will have to deal with. You, our investors, stakeholders and customers have always reposed faith in our business and it is this trust that drives our team forward. I take this opportunity to thank all our stakeholders for their valued support. I am confident that with your patronage, we will continue to deliver long term sustainable value.

**Surinder P. Kanwar**  
**Chairman & Managing Director**



# COMPANY INFORMATION

## Board of Directors



Names in Order from Left to Right

Standing: Mr. W. R. Schilha (Independent Director), Mr. V. K. Pargal (Independent Director), Mr. Rakesh Chopra (Independent Director), Mr. S. G. Awasthi (Independent Director), Mr. Sameer Kanwar (Joint Managing Director);  
Sitting: Dr. Ram S. Tarneja (Independent Director), Mr. Surinder P. Kanwar (Chairman & Managing Director) & Mr. N. J. Kamath (Independent Director)

## Executive Committee



Names in Order from Left to Right

Mr. S. K. Mittal (Head: Material & Central Purchase), Mr. B. L. Pansare (Location Head: Faridabad), Mr. P. C. Kothari (Head: Finance & Accounts), Mr. B. P. Shah (Location Head: Mumbra), Mr. Jagdeep Singh (Business Head: After Market), Mr. Milind Pujari (Chief Financial Officer), Mr. Sameer Kanwar (Joint Managing Director), Mr. Naresh Verma (Corporate Head: HR) & Mr. K. K. Deshpande (Head: OE Marketing and Business Development)





#### **AUDIT COMMITTEE**

Dr. Ram S. Tarneja, Chairman  
Mr. V. K. Pargal  
Mr. N. J. Kamath  
Mr. Rakesh Chopra

#### **SHAREHOLDERS'/INVESTORS' GRIEVANCE COMMITTEE**

Mr. N. J. Kamath, Chairman  
Mr. Sameer Kanwar  
Mr. Rakesh Chopra

#### **REMUNERATION COMMITTEE**

Mr. N. J. Kamath, Chairman  
Dr. Ram S. Tarneja  
Mr. V. K. Pargal

#### **FINANCE COMMITTEE**

Mr. Rakesh Chopra, Chairman  
Mr. Surinder P. Kanwar  
Mr. Sameer Kanwar  
Mr. S.G. Awasthi

#### **REVIEW COMMITTEE**

Mr. Surinder P. Kanwar  
Mr. V. K. Pargal  
Mr. Sameer Kanwar  
Mr. N. V. Srinivasan

#### **EXECUTIVE COMMITTEE**

Mr. Sameer Kanwar  
Mr. B. L. Pansare  
Mr. B. P. Shah  
Mr. Jagdeep Singh  
Mr. K. K. Deshpande  
Mr. Milind Pujari  
Mr. Naresh Verma  
Mr. P. C. Kothari  
Mr. S. K. Mital

#### **AUDITORS**

Deloitte Haskins & Sells  
Chartered Accountants  
"Heritage" 3rd Floor  
Near Gujarat Vidhyapith  
Off Ashram Road  
Ahmedabad - 380 014

#### **CHIEF FINANCIAL OFFICER**

Mr. Milind Pujari

#### **HEAD (LEGAL) & COMPANY SECRETARY**

Mr. Prashant Khattry

#### **BANKERS**

State Bank of India  
IDBI Bank Limited  
Export-Import Bank of India

#### **REGISTRAR & TRANSFER AGENT**

Link Intime India Pvt. Ltd.  
44 Community Centre  
2nd Floor, Naraina Industrial Area,  
Phase-I, Near PVR Naraina  
New Delhi - 110 028

### **OFFICE LOCATIONS**

#### **REGISTERED OFFICE**

20 K. M. Mathura Road,  
P. O. Amar Nagar,  
Faridabad - 121003

#### **CORPORATE OFFICE**

14th Floor, Hoechst House,  
Nariman Point,  
Mumbai - 400 021

#### **BRANCH OFFICE**

1009, Surya Kiran Building,  
19, Kasturba Gandhi Marg,  
New Delhi - 110001

### **PLANT LOCATIONS**

Kausa Shil, Mumbra,  
District Thane - 400 612  
Maharashtra

20 K.M. Mathura Road,  
P. O. Amar Nagar,  
Faridabad - 121003  
Haryana

Lonand, Taluka Khandala,  
District Satara,  
Maharashtra - 415521



# BUSINESS DIVISIONS

## Core Business

Manufactures ring gears and pinions, transmission gears and shafts, differential gears, and gear boxes for Original Equipment Manufacturers (OEMs) in the automotive space.



Kausa Shil, Mumbra, Maharashtra



## Client List

BGL products are trusted by reputed companies in India and around the world for years for quality and service.

	Ashok Leyland Limited		Godrej & Boyce Mfg. Co. Ltd.		Spicer India Ltd. DANA India Ltd.
	AVTEC Limited		Hyva India Pvt. Ltd.		SML ISUZU Ltd.
	Carraro India, Italy, China		JCB-India, UK		Transaxle Manufacturing of America (TMA) USA
	CLAAS Tractor SAS France		John Deere - India, USA, Spain, Mexico, Brazil, China		Tractors and Farm Equipment Ltd.
	EATON Corporation - USA		Mahindra & Mahindra Ltd.		Toyota Kirloskar Auto Parts Ltd.
	Escorts Ltd.		Man Trucks Pvt. Ltd.		VST Tillers & Tractors
	Force Motors Ltd.		New Holland Fiat India Pvt. Ltd.		Voltas Ltd.
	GE Aviation Systems LLC - USA		Paharpur Cooling Towers Ltd.		ZF China, India, USA
			Rico Auto Industries Ltd		