



BHARAT GEARS LIMITED

Geared for Life

Gearing up for the future



42nd Annual Report 2013-2014



“ Business is a race to
always be a step ahead of
competition. This is achieved by
learning from the past, working hard in
the present, with an eye on the future.
While economic cycles are a reality,
at Bharat Gears, we believe that
the future belongs to those
who prepare for it today. ”



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CHAIRMAN'S MESSAGE



Dear Shareholders,

For someone like me, who has seen several rounds of the upsides of growth and the downsides of a depressed market through a career spanning over 35 years, the business environment in the last few years has not been as alarming as it may be for many.

The growth of Indian economy has been going down gradually from the high of 9.6% in Q4 of 2010-11. It reached a bottom for 5 consecutive quarters of below 5% growth between Q3, FY 2013 and Q3, FY 2014. Industrial growth has been particularly badly affected – estimated to be a mere 0.7% in FY 2014 with manufacturing actually shrinking by 0.2%.

This environment is clearly reflected in the developments of the Indian automotive and the construction equipment sector in FY 2014. The market contraction in this space is evident – Sales of Medium and Heavy Commercial Vehicles (M&HCVs) reduced by 25%; Light Commercial Vehicles (LCVs) by 18% and Passenger Vehicles by 6%. The construction equipment industry has been on a downward spiral with sales reducing by around 16% in FY 2014 on the back of an approximately 9% de-growth in the previous year. Naturally, your Company's business was also adversely affected.

The silver lining was agriculture. The recovery of the monsoon in the season's second half in 2012 and a good monsoon in 2013 helped agriculture to grow by 4.6% in FY 2014, though growth moderated somewhat in the second half of the year. Food grain production is estimated to have increased by 2.4% in FY 2013, reaching a record of 263.2 million tons. In this backdrop, the tractor industry had a

bumper year in India recording a growth of over 20%. This helped Bharat Gears stabilise some of its business as gears for farm equipment constitute a large share of our revenues.

That the economic condition is challenging is for all of us to see. The rupee has also become very unstable. In such times, the country needs a push from its central government to infuse investments and rekindle growth. Now that the elections are over, there is much expectation from the new government under Prime Minister Mr. Modi. He has an advantage of a majority in Parliament that should ease decision-making. Already, the stock markets have displayed positive expectations and as I write to you, the BSE SENSEX has reached an all-time high, even crossing the 25,000 mark. I believe the economic turnaround is under way but the recovery will be gradual and the country is still a few years away from attaining the high growth trajectory.

There is also some good news from the global economy. Global economic activity had strengthened in the second half of 2013.

Sustainable value creation across economic cycles is the core of Bharat Gear's business ethos. That is why we have always strived to be a forward looking organisation that is geared to take on the challenges of the future. Certainly, the present market slowdown has affected our business. With long term goals our capacities are much larger than what is being utilised today, so the fixed cost structure are not in line with today's production levels. During the present slowdown we have worked very hard on managing variable costs and making adjustments to fixed costs as



much as possible, but also have continued with our efforts at augmenting technology and being ready for tomorrow's demand as and when demand conditions improve.

While in this difficult market, we have been successful in increasing revenues by 7%, in terms of profits we have managed to break even with a PAT of Rs. 60 Lakh in FY 2014, at a time when there were pressures in terms of lower demand, higher costs of power and fuel and increased employee costs post the latest round of wage settlement. In these difficult times, the Company has looked inwards and is trying to emerge even stronger to even further strengthen its competitive positioning in the next few years.

Let me now explain how Bharat Gears is building its business with a goal to be future ready.

As you are aware, our gears are mainly used in the power train and driveline of vehicles, both play an integral role in generating power and transferring it to the wheels for motion. Automotive companies are adapting to a fast-changing competitive landscape. Carbon emissions are becoming a major concern, due to increasingly tough regulations and consumer concern over pollution. Such environmental factors, combined with rising fuel prices, mean that internal combustion engine right sizing is becoming a top priority, as electric battery technology has so far failed to produce a cost-effective alternative. This has implications for transmission gear technology as well as for the shafts and bevel gears that go into drivelines in terms of contact patterns, accuracy levels, lower weights, less friction, and lesser noise/vibrations. As a gear manufacturer, we need to have the capabilities to meet these requirements. Hence, the need to constantly

upgrade to more sophisticated machinery like we are doing with C29 and C50 for bevel gears and dry cutting machines for transmission gears. There needs to be much greater stress on testing machines and we are investing in state of the art T60 gear bevel gear testing machine.

Manufacturing techniques are also changing rapidly, as modularization reduces the cost and time of assembly, and enables vehicles to be put together and marketed more easily around the world, to swiftly roll out new models that reflect changing consumer tastes. So auto-component companies need to be more active as collaborative partners, right from the stage of platform development. This also opens up opportunities to participate in providing components to the same platforms across different geographies where the automobile company (Original Equipment Manufacturer – OEM) is developing its products.

The Company has also taken a strategic decision to evolve from a pure component producer to developing composite products including sub-assemblies and assemblies that go both into the power-train and the driveline of automobiles. We are actively exploring opportunities for acquisitions and joint ventures to augment our capabilities in this endeavour.

As a component supplier, much of our growth is dependent on the progress made by the OEMs we service. Traditionally, we have grown with our customers by maintaining strong customer relationships by meeting their demand for quality, cost and delivery (QCD). While the priority on QCD remains sacrosanct, the tolerance levels across these parameters are shrinking as customer requirements become more stringent. There is also a transformation taking place in the nature of component supplier-OEM relationships.

With competition and specialisation becoming even more widespread, OEMs are fast demanding a more long term collaborative relationship with its component suppliers. Essentially, component suppliers have to start integrating into the global supply chain of the OEMs. For auto-component suppliers like us, this translates into much greater co-operation with OEMs at the design and testing stage, need to have facilities globally that support an OEM, production planning that can continuously feed the OEMs while stocks have to be optimised at the component suppliers end, and the ability to develop and upgrade one's own products to meet customer's ever changing requirements.

Bharat Gears has taken some initial steps to align its processes and business methodologies to meet these growing requirements. To begin with, the facility at Lonand has been developed not only to augment capacities but also to be closer to some of our primary customers and better service their demand. It gives me pleasure in reporting that this facility has progressed well and commenced commercial production from 31 March 2014. We are fast developing a slew of our transmission gears at this plant.



In addition, the Company proposes to invest in land in Madhya Pradesh to be part of a vendor cluster for a customer who has set up a manufacturing facility in that region.

We have taken some concrete steps including investments in software to improve the processes for design and product development with increased focus on controls.

Having successfully catered to the initial export orders, we are increasingly participating in other global programmes of some of our overseas customers. This is evident in the rapid growth in exports - export sales actually increased by 38.67% from Rs. 82.44 crore in FY 2013 to Rs. 114.32 crore in FY 2014. Today, 28% of the Company's total revenues are exports. Just 3 years back, in FY 2011 this share was only 16%. The growth into wider global markets insulates the Company from risks of a severe market downturn in India. As I have always said, in exports we have just scratched the tip of the iceberg and there continues to be major opportunities as global OEMs look to manage costs and develop lower cost partners like Bharat Gears who can also meet their stringent quality requirements. We continue to get vendor recognition in terms of awards from our major customers.

We also continue to focus on acquiring new customers. This helps us grow our business in a less risky manner.

We have also been working hard on getting the small things right across our operations. Many of these will play a critical role in our overall competitive positioning in the market. We have always been part of the ACMA cluster programmes on TQM and TPM. In FY 2014, we have increased our focus on this area to necessarily change the DNA of our production function. A new operations head has been appointed to lead all our manufacturing plants.

He is also spearheading our internal quality initiatives. Already, there have been many improvements in the look and feel of the shop floor. There is greater participation from the employees in the improvement processes, which is evident from the significant rise in number of Kaizens being undertaken.

At Bharat Gears, we are doing all the strategic and the on ground things required to be in a position to meet the requirements of the next 5-6 years. I am optimistic of an economic turnaround in the next couple of years in India, although FY 2015 might be affected by a poor monsoon. I also see our export orders continue to grow as we increase our focus on global markets.

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 FY 2014. 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. The future challenges will be tough but I have confidence in the people at Bharat Gears to take the Company to the next level.

Let me take this opportunity to thank our partners, customers and other stakeholders for their cooperation. And, I extend my hearty gratitude to you, the shareholders, for your continued faith in the Company.

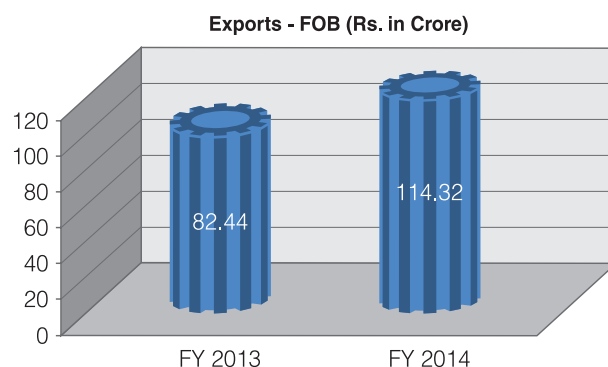
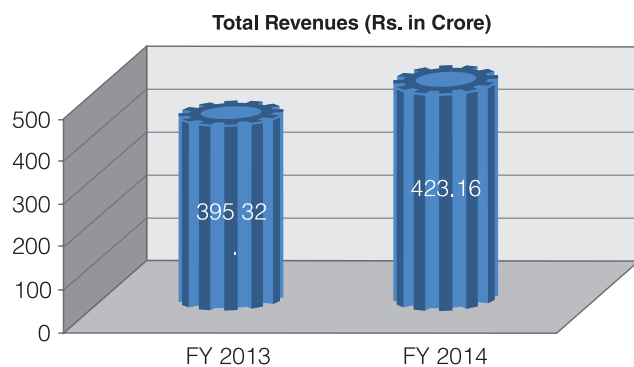
Surinder P. Kanwar
Chairman & Managing Director



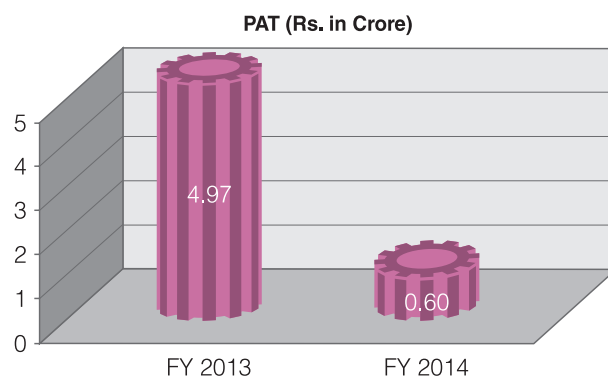
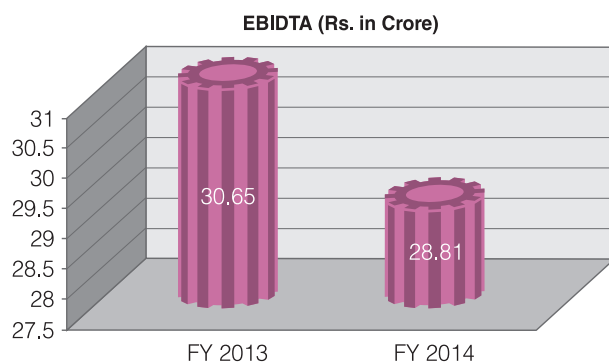
PERFORMANCE HIGHLIGHT

Financial Trends

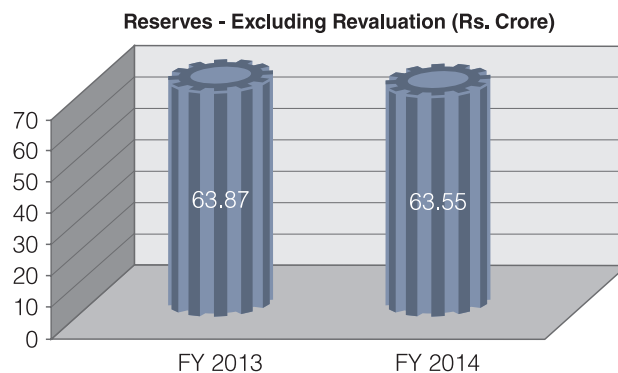
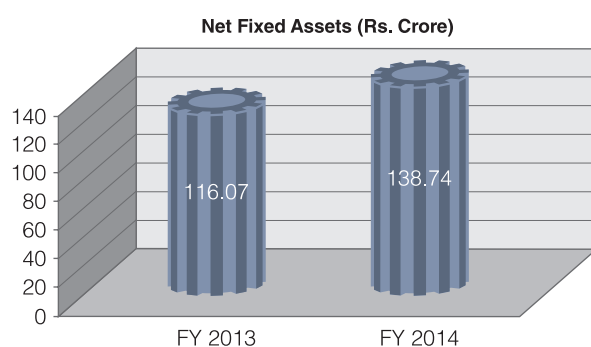
In a difficult market condition, Bharat Gears registered some growth in total revenues, driven by a strong export performance



Profits were under pressure with higher operational costs and finance costs for investments



The Company remained committed to its investment programme and continues to have a healthy reserves position





COMPANY INFORMATION



Board of Directors

Names in order from left to right: **Standing:** Ms. Hiroo Suresh Advani (Independent Director), Mr. V.K. Pargal (Independent Director), Mr. Rakesh Chopra (Independent Director), Mr. S.G. Awasthi (Independent Director), Mr. W.R. Schilha (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. Jagdeep Singh (Business Head - After Market), Mr. S.K. Mital (Head - Material & Central Purchase), Mr. P.C. Kothari (Head - Finance & Accounts), Mr. Naresh Verma (Corporate Head - HR), Mr. Sameer Kanwar (Joint Managing Director), Mr. B.L. Pansare (Head - Engineering), Mr. Milind Pujari (Chief Financial Officer), Mr. Sandeep Bathla (Head - Operations), Mr. K.K. Deshpande (Head - OE Marketing & Business Development)



AUDIT COMMITTEE

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

STAKEHOLDERS' RELATIONSHIP COMMITTEE

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

NOMINATION AND REMUNERATION COMMITTEE

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

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. Sandeep Bathla
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 - 121 003

CORPORATE OFFICE

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

BRANCH OFFICE

1009, Surya Kiran Building,
19, Kasturba Gandhi Marg, New Delhi - 110 001

Plant Locations

Kausa Shil, Mumbra, District Thane - 400 612,
Maharashtra

20 K.M. Mathura Road, P.O. Amar Nagar,
Faridabad - 121 003, Haryana

Lonand, Taluka Khandala, District Satara - 415 521,
Maharashtra





BUILDING BLOCKS



*Gearing up to
further collaborate with
established and New
Customers*

Gears Business

Has a wide range of products comprising ring gears and pinions, transmission gears and shafts, differential gears, and gear boxes for that services a marquee list of Original Equipment Manufacturers (OEMs).

Client List

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

	Agriking Tractors & Equipments (P) Ltd.
	Ashok Leyland Limited
	AVTEC Limited
	Carraro India, Italy, China
	CLAAS Tractor SAS France
	EATON Corporation - USA
	Escorts Ltd.
	Force Motors Ltd.
	GE Aviation Systems LLC - USA

	Godrej & Boyce Mfg. Co. Ltd.
	Hyva India Pvt. Ltd.
	JCB-India, UK
	John Deere - India, USA, Spain, Mexico, Brazil, China
	Mahindra & Mahindra Ltd.
	Man Trucks Pvt. Ltd.
	New Holland Fiat India Pvt. Ltd.
	Paharpur Cooling Towers Ltd.
	Rico Auto Industries Ltd.

	Spicer India Ltd. DANA India Ltd.
	SML ISUZU Ltd.
	Transaxle Manufacturing of America (TMA) USA
	Tractors and Farm Equipment Ltd.
	Toyota Kirloskar Auto Parts Ltd.
	VST Tillers & Tractors
	Voltas Ltd.
	ZF China, India, USA