



Surging Ahead

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balkrishna industries limited
45th annual report
2006-2007



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Company Information

BOARD OF DIRECTORS:

DHARAPRASAD R. PODDAR
Chairman

ARVIND M. PODDAR
Vice Chairman and Managing Director (w.e.f. 01/08/2006)

KHURSHED M. DOONGAJI

SACHIN NATH B. CHATURVEDI

SUBHASH CHAND B. MANTRI

RAKESH N. GARODIA

RAMESH D. PODDAR (w.e.f. 31/07/2006)

TRILOK CHAND D. GOEL
Whole Time Director (w.e.f. 30/01/2007)

MANAGEMENT COMMITTEE

DILIP VAIDYA
Director (Technical)

ANURAG PODDAR
Executive

RAJIV PODDAR
Executive

REGISTERED OFFICE:

H-3/1 MIDC "A" Road,
Tarapur (Boisar) 401 506
Dist. Thane (Maharashtra)

PLANTS:

PAPER/PAPER BOARD & COATING PLANT : Village : Ambivli,
P.O. Mohone 421 102
Taluka Kalyan, Dist. Thane
(Maharashtra)

TEXTILE PROCESSING PLANTS : H-3/1 MIDC "A" Road,
Tarapur (Boisar) 401 506
Dist. Thane (Maharashtra)

TYRE PLANTS	:	B-66, WALUJ, MIDC Waluj Indl. Area, Aurangabad 431 136 (Maharashtra)	SP-923, RIICO Phase-III, P.O. Bhiwadi 301 019 Dist. Alwar (Rajasthan)	RIICO, Phase VIII Chopanki, P.O. Bhiwadi 301 109 Dist. Alwar. (Rajasthan)
WIND FARM	:	Village Soda Mada, Tehsil: Fatehgarh, Dist. Jaisalmer (Rajasthan)		
MOULD SHOP	:	Plot No. TS-1, M.I.D.C, Phase No. II, Dombivali (E) 421 201 Dist. Thane (Maharashtra)		

COMPANY SECRETARY:

VIPUL R. SHAH

BANKERS:

ABN AMRO BANK
BANK OF BARODA
CORPORATION BANK
ING VYSYA BANK
STATE BANK OF INDIA
STANDARD CHARTERED BANK

AUDITORS:

M/s. JAYANTILAL THAKKAR & CO.
Chartered Accountants

COST AUDITORS:

M/s. THOLIYA & ASSOCIATES
Cost Accountants

INTERNAL AUDITORS:

M/s. DILIP A. JAIN & ASSOCIATES
M/s. K.M. GARG & CO.
Chartered Accountants

CORPORATE OFFICE:

418, Creative Industrial Estate,
72, N M Joshi Marg,
Mumbai 400 011.

Members are requested to bring their copy of the Annual Report along with them at the Annual General Meeting, as copies of the Report will not be distributed at the Meeting.

Financial Highlights

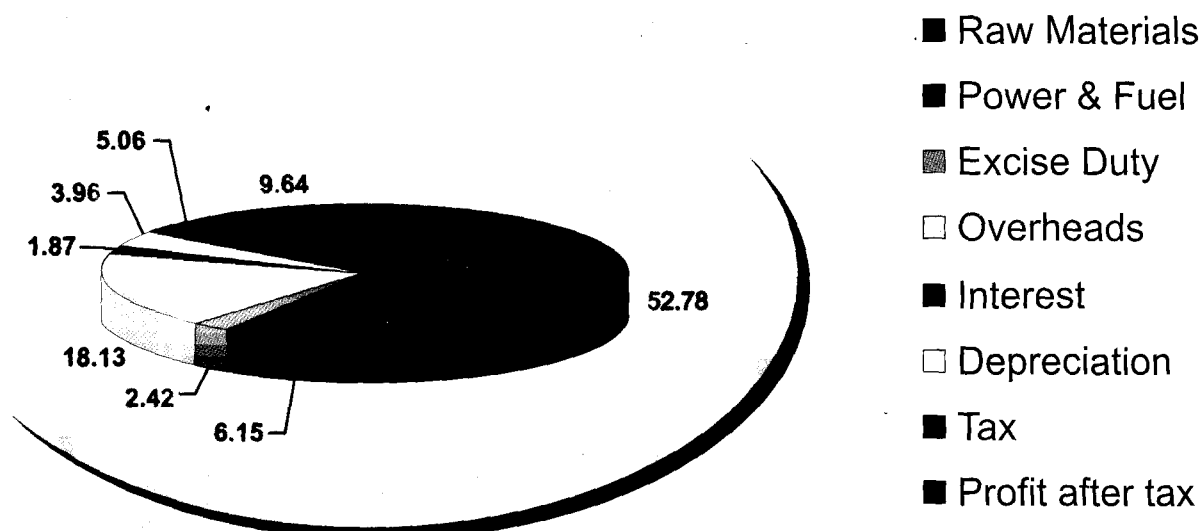
(Rs. In Crores)

Year ended 31st March	2007	2006	2005	2004	2003
Sales & Related Income	899.60	632.81	502.44	380.82	312.50
Net Sales & Income from Operations	877.66	620.01	488.04	365.20	297.37
Other Income	8.88	5.80	5.28	3.77	4.21
Total Income	886.54	625.81	493.32	368.97	301.58
PBIDT	186.49	145.81	117.71	71.67	47.31
PBDT	169.47	134.08	109.91	62.64	40.72
Depreciation	36.00	27.34	21.54	17.40	12.49
PBT	133.47	106.74	88.37	45.24	28.23
Taxes	45.91	36.79	30.89	13.74	7.33
PAT	87.56	69.95	57.48	31.50	20.90
Equity Share Capital	19.33	19.33	12.38	12.38	6.19
Dividend	105% *	100%	100%	** 55%	60%
Net Worth Per Share of Rs. 10 each	180	* 148	128	** 89	139
Earning Per Share of Rs. 10 each	42.98	* 36.95	30.96	** 24.42	33.64
Total Cash Accruals	100.41	75.55	64.97	41.22	29.20

* The Company has allotted Bonus Shares in the ratio of one Share for every two shares held during 2005-06.

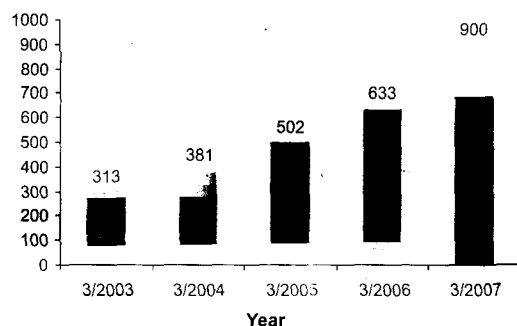
** The Company has allotted Bonus shares in the Ratio 1:1 in the year 2003-04.

RUPEES EARNED / SPENT (%)

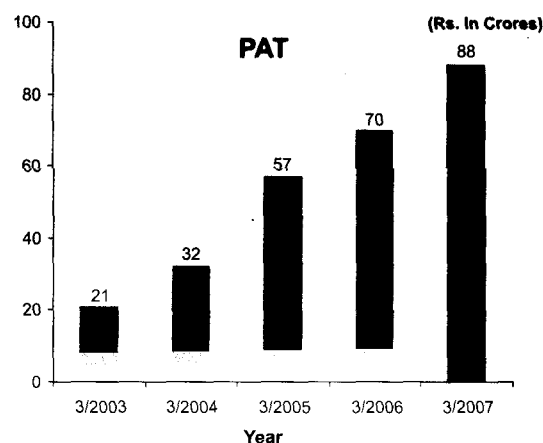


Financial Highlights

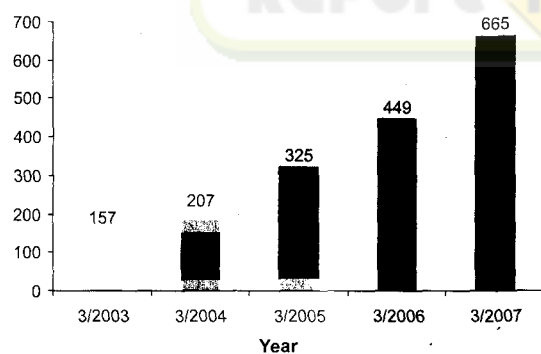
Sales & Related Income (Rs. In Crores)



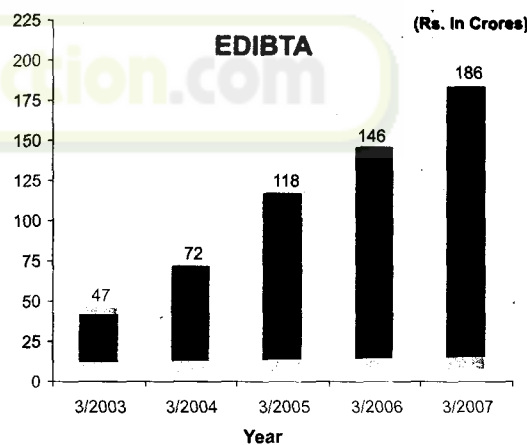
PAT (Rs. In Crores)



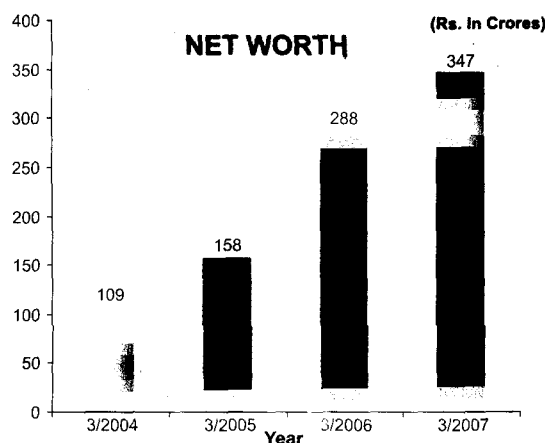
Export Sales (Rs. In Crores)



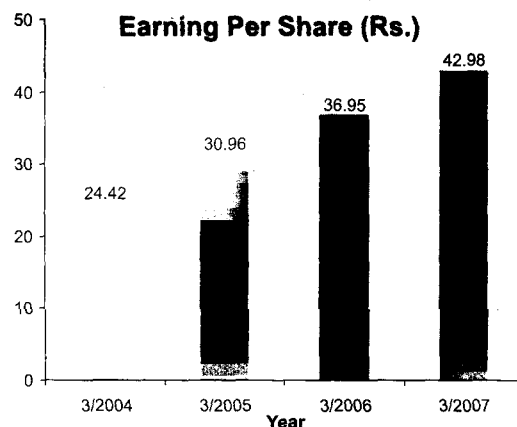
EDIBTA (Rs. In Crores)



NET WORTH (Rs. In Crores)



Earning Per Share (Rs.)



Directors' Report

DIRECTORS' REPORT & MANAGEMENT DISCUSSION AND ANALYSIS

Dear Shareholders,

Your Directors are pleased to present the 45th Annual Report and Audited Statement of Accounts for the year ended 31st March 2007.

FINANCIAL RESULTS:

	(Rs. in crores)	
	Current Year ended 31.03.07	Previous Year ended 31.03.06
Gross Turnover and Other Income	908.48	638.61
Less: Excise Duty Recovered on Sales	21.94	12.80
Net Turnover and Other Income	886.54	625.81
	169.47	134.08
Less: Depreciation and Amortisation	36.00	27.34
	133.47	106.74
Less: Provision for Taxation		
Current Tax	37.67	31.91
Deferred Tax (Net)	7.65	4.29
Fringe Benefit Tax	0.59	0.59
	45.91	36.79
Profit after Tax	87.56	69.95
Less : Adjustments relating to earlier years	0.05	0.87
Profit before Exceptional Item	87.51	69.08
Less : Exceptional Item (Net of Tax)	4.42	NIL
Profit after Exceptional Item	83.09	69.08
Balance brought forward from last year	17.10	19.76
PROFIT AVAILABLE FOR APPROPRIATIONS:	100.19	88.84
APPROPRIATIONS:		
Transfer to General Reserve	50.00	50.00
Transfer to Capital Profit Reserve	0.27	NIL
Interim Dividends	20.30	13.27
Proposed Final Dividend	NIL	5.80
Tax on Dividends	2.85	2.67
	73.42	71.74
Balance Carried Forward to Balance Sheet	26.77	17.10



Directors' Report

OPERATIONS:

The Gross Turnover and Other Income of your Company for the year ended 31st March, 2007 is higher at Rs.908.48 Crores as compared to Rs. 638.61 Crores in the previous year, reflecting an increase of over 42%. The Gross Profit is placed at Rs. 169.47 Crores as compared to Rs. 134.08 Crores in the previous year, and the Profit after taxes is Rs. 87.56 Crores, as against Rs.69.95 Crores in the previous year.

Your Company operates mainly in three business segments namely; manufacturing of Pneumatic Tyres, Coated/un-coated Paperboards and Processing of Textile Fabrics.

DIVIDEND:

Your Directors have declared Interim Dividends of 35% and 70%, in its Board Meetings held on 27th October, 2006 and 12th March, 2007 respectively totaling to 105% as against 100% during previous year. The total payout on account of Interim Dividends and tax there on has been Rs. 23.15 Crores during the year.

The Board has decided to treat said Interim Dividends as Final Dividend for the financial year 2006 – 07.

TYRE DIVISION:

Your Company is focused on the production of a wide range of "Off Highway Tyres" that includes Agricultural, Forestry, Industrial, Material Handling, Lawn & Garden, ATV, Construction and Earth Moving Tyres (OTR). The Company continues to develop new sizes and ranges in all these segments, and currently has in production over 1700 Stock Keeping Units (SKUs) to meet the diverse needs and applications.

The Company exports over 90% of its production and balance production is sold mainly to OEMs into local market. The Company's brand "BKT" enjoys excellent reputation worldwide.

During the year under review, Sales and related income of the Division was higher at Rs. 752.49 Crores as against

Rs. 514.49 Crores in the previous year, out of which Exports and Export related income stood at Rs. 685.23 Crores as against Rs. 490.24 Crores in the previous year.

CAPITAL EXPENDITURE AT THE TYRE DIVISION:

During the year under review, the Company has commissioned the following projects:

At Bhiwadi:

- i) Increase in production capacity from 45,000 TPA to 48,000 TPA.

At Chopanki:

- i) Mixing plant,
- ii) Production facility of 30,000 TPA.

At Waluj:

- i) Increase in production capacity from 18,000 TPA to 22,000 TPA.

EXPANSION PROGRAMS IN TYRE BUSINESS FOR F.Y. 2007 – 08:

At Bhiwadi:

- i) Increase in the existing capacity by 4,500 TPA.

At Chopanki:

- i) To set up OTR Radial plant of 11,500 TPA capacity,
- ii) Increase in the existing capacity by 13,000 TPA,
- iii) Increase in the mixing capacity to support the increase in tyre production facility, and
- iv) To set up new warehouse admeasuring 1,60,000 sq.ft. to store finished goods and raw materials.

PAPER DIVISION:

The Paper and Paper Board plant operates in the "Coated Duplex/Triplex Boards" segment. The segment has

Directors' Report

witnessed a healthy growth over the past decade and expected to witness growth rate of 7% in times to come.

The Sales and related income of the Division for the year under review is Rs. 118.36 Crores as against Rs. 88.71 Crores in the previous year. The exports stood at Rs. 3.38 crores as against Rs. 4.37 Crores in the previous year.

During the year, the Company has introduced new item "Premium Super Chromo Board" that is considered as a premium item that caters to premium segment of the market.

The Company continues to work towards improving plant efficiency and cost reductions through removing de-bottleneck in the plant.

TEXTILE PROCESSING DIVISION:

During the year under review, the Division earned Rs. 28.74 Crores towards processing charges as compared to Rs. 29.61 Crores in the previous year.

OPPORTUNITY & THREATS:

OPPORTUNITIES:

The Company's focused line of activity is its Tyre business, which accounts for more than 80% of its revenue. Within tyre business, the Company is focused on Agricultural and Construction tyres which is a niche segment with very few players across the globe. The said segment is predominantly represented by large varieties and low volumes, making it un-attractive for fresh investments by major players. The segment has witnessed exit of many players in the recent past. Your Company is fully geared up to take advantage of the peculiarities of the said segment and has developed more than 1700 SKUs in the last few years and is adding new SKUs every year in its basket.

The Company has incremental opportunity to incubate the "Earth Moving Tyres" (OTR) markets, wherein the Company has already made some in-roads and increasing its presence into that segment.

Radialisation of tyres is another positive development in the industry which has come as a new opportunity for the Company. The Company has already initiated steps to encash said opportunity by increasing its Agri Radial Tyre capacity and setting up of new OTR Radial plant. The Company would be the first one to come up with OTR Radial plant in India.

The Company exports across the globe with major exports to European region.

THREATS:

Like any other Company, your Company is also exposed to various threats like competition from small players, retention of employees, increase in raw material prices etc. However the segment in which the Company is operating is not exposed to any technological obsolescence and wild fluctuations in demand of its products.

RISKS / CONCERNS AND RISK MITIGATION:

Fluctuation in Raw Material prices: The Company's major raw material is Natural Rubber, which is an agricultural commodity and its prices have moved upward very significantly in this year.

Though the spurt in Natural Rubber prices is more of a speculative nature and the Company enjoys the pricing power, it is not possible to pass on the increase in prices immediately and to the full extent. Thus, the Company has to bear the brunt of the said fluctuations to some extent.

In order to minimize such risks, the Company not only enters into medium-term contracts but also adopts the policy of "Buy and Stock" large quantities during the lean period.

As regards prices of other raw materials, these have also been subject to increase; however, these increases were manageable and the Company does not foresee any problems out of it.

Labour Relations: Since the nature of Company's manufacturing process are that of batch processing, it requires lot of skilled as well as un-skilled workmen. Maintaining a huge work force always poses a risk.

In order to mitigate the said risk, the Company follows good HR practices and spends a lot of money and Management's time for their welfare, safety and up-liftment. All workers are paid more than adequate remuneration for their work.

Retention of skilled Manpower: This is not a unique area of concern for the Company and it is being faced by all the Companies.

The Company is able to manage the said risk by good HR practices and rewarding its employees handsomely.

Currency fluctuation: Approximately 90% of the Company's tyre division's revenue is generated through exports and the Company also imports lot of its raw materials and capital equipments, hence it is exposed to risks due to currency fluctuations.

The Company follows the system of hedging its receivables and major payments well in advance by entering into Forward Contracts, thereby protects itself to an extent from fluctuations in currencies.

The Company has adequate system of internal controls to ensure that all the assets are safeguarded and are productive. Necessary checks and balances are in place to ensure that transactions are adequately authorised and reported correctly. The Internal Auditors of the Company conduct Audits of various departments to ensure that internal controls are in place. These are being reviewed by the Audit Committee of the Board and corrective actions are taken by the Company, when needed.

The Company's human resources continue to be the

biggest asset of the Company. The team has remained as committed as ever and produced results that are considered significant. Quality, quick delivery and focus on resolving customer issues are the hallmark of the team performance. There is a strong focus on TEAM spirit. During the year, many events were conducted to develop the personality and outlook of its employees. Employee's relations continue to be cordial.

As regards tyre business, the Company has, over past few years, made its presence in almost all kind of tyres in Off Highway tyre segment in which it is operating. The Company is continuously developing its production base and has expanded its product range significantly. The Company is also expanding its market base not only through increase in its business with its existing customers but also through new customers in existing markets as well as new markets.

The Company has established its brand image through quality and after sales services and its brand "BKT" enjoys good reputation in the domestic as well as International market that is reflected through the growth rate of Company's business as well as a healthy order position of its products throughout the year.

The Coated Paperboard business is highly competitive and margins are under pressure. However, the Company will be able to protect its margins as it has decided to go into value added products where margins are better and competition is less. Further, the Company has planned to set up cogeneration plant to save on electricity cost that will further boost the margins of the Company.

The performance of the Textile Processing Division business is stable and likely to improve in times to come.

Currently, the Company has three business activities under its umbrella namely tyre, paper and textile processing. The tyre business is a focused business activity of the

Directors' Report

Company that constitutes more than 80% of Company's total business and by virtue of this it becomes its core business. In order to pay more attention to its various business activities, the Company has decided to transfer its Paper business and Textile Processing business to two separate wholly owned subsidiary companies through a Court approved scheme. After such transfer, each business activity will have separate management team looking after their respective businesses separately. The Company believes that this arrangement will add value into the workings of those businesses. The Company has appointed KPMG as an advisor and consultant to frame the appropriate scheme and execute it.

SUBSIDIARY COMPANIES

1. BKT (EUROPE) LTD.

This Company was incorporated in UK as a wholly owned subsidiary Company during last financial year to provide marketing support services to the Company in the European region.

The total income and profit before tax for the current financial year stood at GBP 78,023 and GBP 3,701 respectively.

2. BKT EUROPE s.r.l

This Company was incorporated on 30th August 2006 in Italy as a wholly owned subsidiary Company during current financial year to provide marketing support services to the Company in Italy and surrounding region.

The accounts for the current financial year have been prepared for the period beginning with its date of incorporation to 31st March 2007. The total income and profit before tax for the current financial year stood at Euro 1,98,009 and Euro 5,100 respectively.

3. BKT EXIM LTD.

This Company was incorporated in India in the month of January 2007 as a wholly owned subsidiary

Company and has not carried out any commercial activities during the year. The first financial year of this Company will be for the period beginning from the date of its incorporation to 31st March 2008. The Company intends to sell its investments in its overseas subsidiary companies to this subsidiary Company.

4. BALKRISHNA PAPER MILLS LTD. & BALKRISHNA SYNTHETIC LTD.

The above Companies were incorporated in India in the month of March 2007 as wholly owned subsidiary Companies to facilitate the transfer of its paper and textile processing business respectively through a court approved scheme. No commercial activities were carried out by them during current financial year and their first financial year will be for the period beginning from the date of their incorporation to 31st March 2008.

The Statement pursuant to Section 212 of the Companies Act, 1956 containing details of the Company's Subsidiaries, to the extent applicable, is attached.

Further pursuant to Accounting Standard AS-21 issued by the Institute of Chartered Accountants of India, Consolidated Financial Statements of the Company and its Subsidiaries form part of the Annual Report and Accounts.

The Company has made application under section 212(8) of the Companies Act, 1956 to the Department of Company Affairs, Ministry of Finance seeking their exemption from attaching the Balance Sheet, Profit and Loss Account, and Report of the Board of Directors and Auditors of its Foreign Subsidiaries Companies with the Balance Sheet of the parent Company. The Company has received approval from Department of Company Affairs vide its letter No.47/208/2007-CL-III DT. 22nd May, 2007. However, these documents will be submitted to any shareholder wishing to have a copy on receipt of such request. These documents