

21st ANNUAL REPORT

2002-03



KALYANI BRAKES LIMITED

A JOINT VENTURE OF



Board of Directors, Committees, etc.

Directors

B N Kalyani
Chairman

Andreas Nobis

V K Viswanathan

Johannes Schaefer

Hans-Michael Huber

Sanjay S. Vaidya

Satish Sekhri
Managing Director

Company Secretary

M B Ratnaparkhi

Auditors

Statutory Auditors :
M/s. Bansi S. Mehta & Co.

Internal Auditors :
M/s. Price Waterhouse

Bankers

State Bank of India
Citibank N. A.
The United Western Bank Ltd.

Registered Office

Aurora Towers, 4th Floor
9 Moledina Road
Pune 411 001

Audit Committee

Sanjay S. Vaidya, Chairman
B N Kalyani
Hans-Michael Huber

Shareholders' Grievance Committee

Hans-Michael Huber, Chairman
B N Kalyani
Satish Sekhri
Johannes Schaefer
V K Viswanathan

Stock Exchanges (where the shares of the Company are listed)

- 1) Pune Stock Exchange Ltd.
Shiv Leela Chambers
Sadashiv Peth, Kumthekar Road
Pune 411 030
- 2) The Stock Exchange
Phiroze Jeejeebhoy Towers
Dalal Street
Mumbai 400 001
- 3) National Stock Exchange of India Ltd.
Exchange Plaza
Bandra Kurla Complex, Bandra (E)
Mumbai 400 051

Plant Locations

- 1) Bambhori, Tal. Erandol
Dist. Jalgaon 425 001(Maharashtra)
- 2) Nanekarwadi (Chakan)
Dist. Pune 410 501(Maharashtra)
- 3) 9, Sector 3, IMT Manesar,
Gurgaon 122 050 (Haryana)

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NOTICE

NOTICE is hereby given that the Twenty First Annual General Meeting of KALYANI BRAKES LIMITED will be held at FORUM, Hotel Taj Blue Diamond, 11 Koregaon Road, Pune 411 001 on Monday, the 28th day of July, 2003 at 1130 Hours to transact the following business :

ORDINARY BUSINESS

1. To receive, consider and adopt the audited Balance Sheet of the Company as at March 31, 2003 and the Profit & Loss Account for the year ended on that date together with the reports of the Directors and the Auditors thereon.
2. To declare dividend for the financial year ended March 31, 2003.
3. To appoint a Director in place of Mr. V K Viswanathan, who retires by rotation; and being eligible, offers himself for reappointment.
4. To appoint Auditors and fix their remuneration.

SPECIAL BUSINESS

5. To consider and, if thought fit, to pass, with or without modification, the following resolution as an **ORDINARY RESOLUTION** :

"RESOLVED THAT in accordance with the provisions of Sections 198, 269, 309, 310, 311, Schedule XIII and other applicable provisions, if any, of the Companies Act, 1956, and subject to the approvals as may be necessary, approval of the Company be and is hereby accorded to the revision in the remuneration payable to Mr. Satish Sekhri, Managing Director of the Company with effect from 1st April, 2003 till the expiry of his present term of office i.e. 31st March, 2005, upon terms of remuneration as are set out in the draft Supplemental Agreement to be entered into by the Company with Mr. Sekhri, which draft is placed before this meeting and is hereby specifically approved.

RESOLVED FURTHER THAT the Secretary of the Company be and is hereby directed and authorized to do all acts, deeds, matters and things as may be considered necessary, usual or expedient to give effect to the above resolution."

By Order of the Board of Directors
For KALYANI BRAKES LIMITED

M B RATNAPARKHI

Dy. General Manager (Finance) &
Company Secretary

Place: Pune
Date: May 17, 2003

NOTES :

1. The relative Explanatory Statement pursuant to Section 173(2) of the Companies Act, 1956 in respect of the business under Item No. 5 of the Notice to be transacted at the Annual General Meeting is annexed hereto.
2. A MEMBER ENTITLED TO ATTEND AND VOTE AT THE ABOVE MEETING IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF AND THE PROXY NEED NOT BE A MEMBER OF THE COMPANY.
3. Members holding shares in dematerialized form are requested to intimate any change in their address, bank details etc. to their respective DPs and those holding shares in physical form are to intimate the aforesaid changes to the Secretarial Department at the Registered Office of the Company.

4. The Share Transfer Books and the Register of Members of the Company will remain closed from 15th July, 2003 to 28th July, 2003 (both days inclusive).
5. Dividend, if declared at the meeting, will be paid to those shareholders whose names appear in the Register of Members of the Company on 15th July, 2003 or in the Register of Beneficial Owners maintained by the Depositories as at the close of their business hours on 15th July, 2003.
6. Documents referred to in any of the items of the Notice are available for inspection at the Registered Office of the Company on any working day upto 28th day of July 2003 during business hours of the Company.
7. Equity Shares of the Company are under compulsory demat trading by all investors. Those shareholders who have not dematerialized are advised to dematerialize their shareholding, to avoid inconvenience in future.

ANNEXURE TO THE NOTICE

Explanatory Statement as required by Section 173 of the Companies Act, 1956.

The following Explanatory Statement sets out, as required by Section 173 of the Companies Act, 1956, the material facts relating to Item No. 5 mentioned in the accompanying Notice dated May 17, 2003.

Item No. 5

Mr. Satish Sekhri was re-appointed as Managing Director of the Company w.e.f. April 1, 2000 for a period of 5 years by the Board of Directors at its meeting held on January 19, 2000. The re-appointment of Mr. Sekhri as Managing Director of the Company and the terms of his remuneration were approved by the members of the Company at the 18th Annual General Meeting held on July 28, 2000.

Under the leadership of Mr. Sekhri, the Company has turned out good performance. To reflect the performance, future expectations and to be in line with the compensation trends in the industry, the Board at its meeting held on May 17, 2003 has revised the remuneration of Mr. Sekhri with effect from April 1, 2003 upon the terms and conditions which are set out in the draft Supplemental Agreement to be entered by the Company with Mr. Sekhri.

The main terms and conditions of the Supplemental Agreement to be entered into by the Company with Mr. Sekhri are as under :

A. Period : From 1st April, 2003 to 31st March, 2005

B. Remuneration :

(1) Basic Salary : Basic Salary per month of Rs.190,000/- (Rupees One Lac Ninety Thousand only).

(2) Housing : The expenditure by the Company on hiring Residential Accommodation shall be upto Fifty per cent of the Basic Salary i.e. Rs.95,000/- (Rupees Ninety Five Thousand only) per month.

Where no accommodation is provided by the Company, the Managing Director shall be entitled to house rent allowance upto Fifty per cent of the Basic Salary i.e. Rs.95,000/- (Rupees Ninety Five Thousand only) per month.

The expenses on furniture, fittings and furnishings at residence will be borne by the Company.

- (3) Medical Reimbursement : Expenses incurred for the Managing Director and his family, subject to a ceiling of one month's Basic salary in a year.
- (4) Leave Travel Concession : For the Managing Director and his family, once in a year incurred in accordance with rules specified by the Company upto one month's Basic salary.
- (5) Club Fees : Fees of Clubs subject to a maximum of Two Clubs. This will not include Admission and Life Membership Fees.
- (6) Personal Accident Insurance : Premium not to exceed Rs.4,000 per annum.
- (7) Other Facilities : The Managing Director shall also be entitled to :-
 - Car for use on Company's business and
 - Telephone at Residence (including payment for local calls and long distance official calls)
- (8) Terminal Benefits
 - i) Company's contribution to Provident Fund at the rate of 12% of the basic salary per month.
 - ii) Company's contribution to Superannuation Fund at the rate of 15% of the basic salary per month.
 - iii) Gratuity at the rate of not exceeding 15 days basic salary for each completed year of service.
 - iv) Encashment of Leave at the end of the tenure.
- (9) Performance Bonus : Annual Performance Bonus, based on the overall performance and profitability of the Company in a particular year, as may be determined by the Board of Directors of the Company at the end of each financial year, subject to the overall ceiling stipulated in Sections 198 and 309 of the Companies Act, 1956.
- (10) Minimum Remuneration : Notwithstanding anything contained herein, where, in any financial year, during the currency of tenure of the Managing Director, the Company has no profits or its profits are inadequate, the Company will pay him remuneration by way of Salary, Perquisites and Performance Bonus specified above.

Draft Supplemental Agreement to be entered into by the Company with Mr. Sekhri and the resolution of the Board dated 17th May, 2003 revising remuneration of Mr. Sekhri are available for inspection by the members of the Company at the registered office of the Company during working hours of the Company till 28th July, 2003.

Approval of the Members is sought at this Annual General Meeting for the revision in the remuneration payable to Mr. Sekhri as set out above.

None of the Directors of the Company is concerned or interested in the resolution except Mr. Sekhri as the resolution relates to his remuneration.

This statement read alongwith the resolution may be regarded as an abstract of the terms of remuneration, Supplemental Agreement and Memorandum of Interest under Section 302 of the Companies Act, 1956.

By Order of the Board of Directors
For KALYANI BRAKES LIMITED

M B RATNAPARKHI
Dy. General Manager (Finance) &
Company Secretary

Place: Pune
Date: May 17, 2003

DIRECTORS' REPORT

To
The Members

Your Directors have pleasure in presenting their Twenty First Annual Report and Audited Accounts of your Company for the financial year ended March 31, 2003.

The year under review

During the year ended on March 31, 2003, your Company achieved a total income of Rs. 2 528 Million as compared to Rs. 1 939 Million in the previous year, thus recording a growth of 30%. The profit before tax grew by 46% to Rs. 241 Million against Rs.165 Million during the previous year. This overall growth was possible mainly on account of your Company's strategy to pursue new business segments like two and three wheelers, After Market and Exports. Your Company plans to further build on these growth avenues and therefore looks at coming years with optimism for overall improvement in performance.

FINANCIAL RESULTS

	2002-2003	2001-2002
	Rupees	Rupees
Sales and Other Income	2 528 381 587	1 939 312 392
Profit for the year	241 430 457	164 942 413
Profit After Tax	157 672 829	124 358 413
Add : Balance brought forward from last year	86 761 428	116 082 015
Profit available for appropriation	227 073 818	161 640 428
<u>Appropriation</u>		
Dividend	83 172 000	62 379 000
Tax on Dividend	10 656 413	—
Transfer to General Reserve	16 000 000	12 500 000
Transfer to Deferred Tax Reserve	17 360 439	78 800 000
Surplus retained in Profit & Loss Account	117 245 406	86 761 428

Dividend

Your Directors are pleased to recommend for your consideration payment of 80% dividend on equity shares (Rs. 8 per equity share of Rs.10 each) for the year ended March 31, 2003.

Subsidiary

A statement pursuant to Section 212 of the Companies Act, 1956, relating to Precision Seals Manufacturing Limited, a subsidiary of the Company, as on March 31, 2003, is attached to the Accounts of the Company.

Consolidated financial statements of the Company (alongwith its Subsidiary) and the Auditors' Report thereon, as on March 31, 2003, are also attached to the Accounts of the Company.

OPERATIONS**> Conservation of Energy :**

As a measure of energy saving and cost control, your Company took various actions. For electrical energy saving, the following measures were taken.

DIRECTORS' REPORT

At Jalgaon plant -

- (i) replacing Forced Draft cooling tower by Natural Draft cooling tower for air compressor and machine tools, thereby eliminating use of electric motors,
- (ii) installing lower HP pumps on package ACs & cooling towers for use during the winter,
- (iii) installing energy efficient metal halide lighting system for new facilities resulting into reduced number of fittings as compared to conventional HPMV lighting system,
- (iv) installing photo-sensor control units on Air Gauge units to prevent wastage of compressed air due to leakages and
- (v) controlling use of AC, monitoring of power factor etc.

At Chakan plant -

- (i) replacement of compressors with new technology, energy efficient, screw compressors thereby reducing the energy required for air generation,
- (ii) thermal insulating heat lines and tanks to reduce electrical load in process plants,
- (iii) installing PID controllers instead of simple on/off controllers to improve efficiency of heating system,
- (iv) using in-built refrigerated air driers to reduce energy consumption and
- (v) monitoring energy consumption at product group level and making the necessary changes in electrical distribution, thereby facilitating energy saving etc.

These efforts resulted in significant reduction in consumption of energy. Our Industry is not specified in the Schedule to Form "A" of the Annexure to Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988. We have, however, planned further actions for energy conservation.

➤ **Technology Absorption :**

The efforts made in technology absorption are given in the prescribed Form "B" as Annexure to this Report.

➤ **Foreign Exchange Earnings and Outgo :**

- a) During the year, the Company increased its exports and earned Foreign Exchange equivalent to Indian Rs. 105 903 747.
- b) The foreign exchange outgo on account of import of Components, Capital Goods, Spares, Royalty etc. was of the order of Rs. 233 220 422.

DIRECTORS

- Mr. Bernhard Bihr, Director, nominated by Robert Bosch Corporation, USA, resigned from the Board w.e.f. 28th October, 2002. Consequently, Mr. Atsumu Harada also ceased to be an Alternate Director to Mr. Bernhard Bihr w.e.f. 28th October, 2002.

The Directors place on record their sincere appreciation of the valuable contributions made by Mr. Bernhard Bihr and Mr. Atsumu Harada for Company's growth during their association with the Board.

- Mr. Johannes Schaefer was nominated on the Board, with effect from 28th October 2002, as a nominee of Robert Bosch Corporation, USA in place of Mr. B Bihr. Mr. Schaefer, has a Masters Degree in Mechanical Engineering from University of Karlsruhe, Germany. He is currently Vice President, Sales (Chassis Systems - France & Asia) of Robert Bosch GmbH, Germany.
- In accordance with the provisions of the Companies Act, 1956 and the Articles of Association of the Company, Mr. V K Viswanathan, Director of the Company retires by rotation and being eligible, offers himself for re-appointment.

Mr. Viswanathan, a Chartered Accountant, is the Joint Managing Director of Motor Industries Co. Ltd., Bangalore (MICO) and is associated with Robert Bosch for over 6 years.

DIRECTORS' REPORT**DIRECTORS' RESPONSIBILITY STATEMENT**

Pursuant to the requirements of Section 217(2AA) of the Companies Act, 1956, with respect to Directors' Responsibility Statement, it is hereby confirmed :

- (i) That in the preparation of the annual accounts, the applicable accounting standards have been followed;
- (ii) That the Directors have 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 at the end of the financial year ended March 31, 2003 and of the profit of the company for that period;
- (iii) That 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) That the Directors have prepared the annual accounts on a "going concern" basis.

INDUSTRIAL RELATIONS

Industrial relations at all plants and offices of your Company continue to be cordial. A three years' Wage Agreement was signed with the union of bargainable employees in July 2002.

AUDITORS

M/s. Bansi S. Mehta & Company, Chartered Accountants, Mumbai, retire as Auditors of the Company at the conclusion of the Twenty First Annual General Meeting and are eligible for re-appointment.

PARTICULARS OF EMPLOYEES

The information required under the provisions of Section 217(2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975 as amended from time to time and forming part of this Report, is annexed herewith.

CORPORATE GOVERNANCE

The Companies Act, 1956 and the Listing Agreement with the Stock Exchanges require compliance with specified Corporate Governance practices. These practices have been fully implemented and a certificate from the auditors of the Company as well as a detailed Report on Corporate Governance, is set out in the Annexure to the Directors' Report.

A Management Discussion and Analysis Report also accompanies this Report.

ACKNOWLEDGEMENTS

Your Directors wish to place on record their appreciation for the co-operation received from the Central Government and the Governments of Maharashtra and Haryana, Bankers, Financial Institutions, our esteemed customers and suppliers, and the timely help and assistance from our Promoters, Kalyani Steels Limited, its Associates and Robert Bosch Corporation. The Directors would like to place on record their appreciation of the unstinted efforts and contributions made by the Management Team and the employees of the Company at all levels.

For and on Behalf of the Board of Directors,

Pune
May 17, 2003

B. N. KALYANI
Chairman

ANNEXURES TO THE DIRECTORS' REPORT**FORM "B" : FORM FOR DISCLOSURE OF PARTICULARS WITH RESPECT TO ABSORPTION****Research and Development (R & D)**

1. Specific areas in which R&D carried out by the Company : During the year, design, development and application engineering was carried out mainly for the new motorcycles and mini trucks.
2. Benefits derived as a result of the above R & D : The technology for initial applications was imported from respective collaborators. Thereafter its application to other models is done locally. If this was to be imported, it would have attracted significant outflow in foreign exchange.
3. Future plan of action : Development of Tractor and Two Wheeler brakes of different sizes and types. Development of items for various European and Japanese origin cars being launched in India.
4. Expenditure on R&D
 - a) Capital : Rs. 2.58 million
 - b) Recurring : Rs.28.25 million
 - c) Total : Rs.30.83 million
 - d) Total R&D expenditure as a percentage of total turnover : 1.44%

Technology absorption, adaptation and innovation -

1. Efforts, in brief, made towards technology absorption, adaptation : and innovation : For motorcycle brakes, Brembo designs were adapted and application on different Indian models. For agriculture tractors, application engineering was done with Indian tractor manufacturers to homologate Titan design brakes.
2. Benefits derived as a result of the above efforts e.g. product : improvement, cost reduction, product development, import substitution, etc. : Due to such innovative adaptation, the Company could -
 - a) get business from Indian customers and
 - b) substitute imports and save valuable foreign exchange.
3. In case of imported technology (imported during the last 5 years reckoned from the beginning of the financial year), following information may be furnished
 - (a) Technology imported
 - i) Motorcycle brakes - The technology, acquired in 1998-99, has been absorbed to a large extent. Full absorption will happen in next 2 years.
 - ii) Tractor brakes- Various applications of the technology, acquired in 1998-99, will continue for next 2 to 3 years.
 - iii) Brake shoes - Technology for Bonded brake shoes, acquired in 2000-01, has been absorbed.
 - (b) Year of Import
 - (c) Has technology been fully absorbed?
 - (d) If not fully absorbed, areas where this has not taken place, reasons therefor and future plans of action. : Commercial application of above technologies has started. Full benefits will be received over the next 2 to 3 years.

Information required as per Section 217 (2A) (b) (ii) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975 and forming part of the Directors' Report for the year ended March 31, 2003

Sr. No.	Name	Age	Qualifications & Experience	Designation/ Nature of duties	Gross Remuneration	Date of commencement of employment	Particulars of past Employment, Designation held, Organisation and Period
1	2	3	4	5	6	7	8
1	MATSUMURA K.*	50	B.E.(MECH.) 29 years	TECHNICAL ADVISOR	5 830 842	19/01/1996	MANAGER NABCO LTD., JAPAN, 22 Years
2	SEKHRI S.	53	B.E.(MECH.), M.B.A. 29 years	MANAGING DIRECTOR	5 483 450	04/08/1994	VICE PRESIDENT (ENGG. DIVISION) ESCORTS LTD., 3 1/2 years

Notes :

- 1) * Employed for part of the year.
- 2) Designation denotes the nature of duties also.
- 3) Gross remuneration includes salary, Company's contribution to provident fund and superannuation scheme, allowances, perquisites, etc.
- 4) Perquisites are generally valued on the basis of actual cost to the Company. Wherever actual cost is not ascertainable, perquisite value as per Income Tax Rules is considered.
- 5) Nature of employment and terms and conditions are contractual.
- 6) None of the above employees is related to any of the Directors of the Company.

For and on Behalf of the Board of Directors,

Pune
May 17, 2003B. N. KALYANI
Chairman**Kalyani Brakes Limited**