

22nd ANNUAL REPORT

2003-04

KBX

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KALYANI BRAKES LIMITED

A JOINT VENTURE OF



Board of Directors, Committees, etc.

Directors

B N Kalyani
Chairman

Albert Hieronimus

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 Second 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 26th day of July, 2004 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 31st March, 2004 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 31st March, 2004.
3. To appoint a Director in place of Mr. Satish Sekhri, who retires by rotation; and being eligible, offers himself for reappointment.
4. To appoint a Director in place of Mr. Johannes Schaefer, who retires by rotation; and being eligible, offers himself for reappointment.
5. To appoint Auditors and fix their remuneration.

SPECIAL BUSINESS

6. To consider and, if thought fit, to pass, with or without modification, the following resolution as a **SPECIAL RESOLUTION** :

"RESOLVED THAT subject to the provisions of the Companies Act, 1956, Securities Contracts (Regulation) Act, 1956, Securities and Exchange Board of India Act, 1992 and the Rules framed thereunder, Listing Agreement as also Securities and Exchange Board of India (Delisting of Securities) Guidelines, 2003 and all other applicable laws (including any statutory modification(s) or re-enactment thereof for the time being in force) and subject to such approvals, permissions and sanctions, as may be necessary and upon such conditions and modifications as may be prescribed or imposed by any authority while granting such approvals, permissions and sanctions, which may be agreed to by the Board of Directors of the Company (hereinafter referred to as "the Board") the consent of the Company be and is hereby given to the Board to delist equity shares of the Company from The Pune Stock Exchange Ltd."

By Order of the Board of Directors
For KALYANI BRAKES LIMITED

Place : Abstatt, Germany.
Date : May 19, 2004

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

NOTES :

1. 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.
2. The relative Explanatory Statement pursuant to Section 173(2) of the Companies Act, 1956 in respect of the business under Item No. 6 of the Notice to be transacted at the Annual General Meeting is annexed hereto.
3. The Register of Members and the Share Transfer Books of the Company will remain closed from Thursday, 15th July, 2004 to Monday, 26th July, 2004 (both days inclusive).
4. The dividend, if declared, will be paid to those members whose names appear in the Register of Members of the Company as on 26th July, 2004 being the date of the Annual General Meeting of the Company.

In respect of shares held in dematerialized form, the dividend will be paid to those beneficial owners as per details furnished by the Depositories for the purpose.

5. 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.
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 26th day of July 2004 during business hours of the Company.
7. Members desirous of obtaining any information concerning the accounts and operations of the Company are requested to send their queries to the Company Secretary at least seven days prior to the meeting so that the required information can be made available at the meeting.
8. Dividends which remain unencashed/unclaimed over a period of 7 years will have to be transferred by the Company to Investor Education and Protection Fund (IEPF) constituted by the Central Government under Section 205 A and 205 C of the Companies Act, 1956. Further, under the amended provisions of Section 205B of the Companies Act, 1956, no claim by the shareholders shall lie for the unclaimed dividend transferred by the Company to IEPF.
9. Equity Shares of the Company are under compulsory demat trading by all investors. Those shareholders who have not dematerialized their shareholding are advised to dematerialize the same, 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. 6 mentioned in the accompanying Notice dated May 19, 2004.

Item No. 6

The equity shares of the Company are presently listed on The Stock Exchange, Mumbai (BSE), The Pune Stock Exchange Ltd. (PSE) as also National Stock Exchange of India Ltd. (NSE).

It is observed that during the last few years, the trading volumes of the Company's equity shares on PSE have been insignificant. Moreover, online trading facility is being made available on BSE and NSE. As such, continued listing on PSE will not result in any additional advantage to the shareholders. It would, therefore, be appropriate to de-list Company's equity shares from PSE.

The Company's equity shares shall continue to be listed on BSE and NSE which will enable the investors to trade on these Exchanges.

The Board recommends the resolution for approval by the members as a Special Resolution.

None of the Directors of the Company is concerned or interested in the resolution.

By Order of the Board of Directors
For KALYANI BRAKES LIMITED

Place : Abstatt, Germany.
Date : May 19, 2004

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

DIRECTORS' REPORT

To
The Members

Your Directors have pleasure in presenting their Twenty Second Annual Report and Audited Accounts of your Company for the financial year ended 31st March, 2004.

The year under review

During the year ended on 31st March, 2004, your Company achieved a total income of Rs. 3 470 Million as compared to Rs. 2 528 Million in the previous year, thus recording a revenue growth of 37%. The profit before tax grew by 70% to Rs. 411 Million against Rs.241 Million during the previous year. It may be recalled that this 37% growth in total income is on top of the 33% growth recorded in the previous year. This was possible on account of your Company's strategy of pursuing opportunities in new business segments and our emphasis on Exports. Buoyant domestic market demand, particularly from our OEM customers, also contributed to all-round growth in 2003-04. Your Company plans to build further on the strong platform that has been created and therefore looks at the future with great optimism for superior performance and growth.

FINANCIAL RESULTS

| | 2003-2004 Rupees | 2002-2003 Rupees |
|--|---------------------|---------------------|
| Sales and Other Income | 3 469 534 847 | 2 528 381 587 |
| Profit for the year | 410 843 175 | 241 430 457 |
| Profit After Tax | 264 536 899 | 157 672 829 |
| Add : Balance brought forward from last year | 117 245 405 | 86 761 428 |
| Profit available for appropriation | 381 782 304 | 244 434 257 |
| Appropriation | | |
| Dividend | 124 758 000 | 83 172 000 |
| Tax on Dividend | 15 984 619 | 10 656 413 |
| Transfer to General Reserve | 27 000 000 | 16 000 000 |
| Transfer to Deferred Tax Reserve | — | 17 360 439 |
| Surplus retained in Profit & Loss Account | 214 039 685 | 117 245 405 |

Dividend

Your Directors are pleased to recommend a dividend of 120% on equity shares (Rs. 12 per equity share of Rs.10 each) for the year ended 31st March, 2004.

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 31st March 2004, is attached to the Accounts of the Company. Consolidated financial statements of the Company (alongwith its Subsidiary) and the Auditors' Report thereon, as on 31st March 2004, 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 effecting savings in the electrical energy, following specific measures were taken.

DIRECTORS' REPORT

At Jalgaon plant –

- (i) installing automatic temperature controller in central assembly area thereby reducing power consumption,
- (ii) rationalizing the plant layout thereby resulting in substantial reduction of the air conditioning load,
- (iii) replacing overhead HPMV lighting system by energy efficient metal halide lamp system,

At Chakan plant –

- (i) using variable feed system for compressed air for reduction in both the compression ratio and running time of compressors,
- (ii) installing constant pressure control system on centralized coolant system,
- (iii) installing solar water heating system for the canteen,
- (iv) using one power pack for 20 CNC machines and
- (v) adding capacitors to improve the power factor of the system.

These efforts resulted in significant reduction in consumption of energy. Our Industry is not specified in the e3chedule 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 an 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. 176 172 258, an increase of 66% over the previous year.
- b) The foreign exchange outgo on account of import of Components, Capital Goods, Spares, Royalty etc. was of the order of Rs. 232 521 403.

DIRECTORS

- Mr. Andreas Nobis, the Non-retiring Director, nominated by Robert Bosch Corporation, USA, resigned from the Board w.e.f. 20th October, 2003.

The Directors place on record their sincere appreciation of the valuable contributions made by Mr. Andreas Nobis for Company's growth during his association with the Board.

With effect from 20th October, 2003, Dr. Albert Hieronimus was appointed as Non-retiring Director on the Board representing Robert Bosch Corporation.

Dr. Hieronimus, 56, holds a Diploma in Mathematics from the University of Cologne. He received a Doctorate in Business Administration also from the same University. He has rich international experience of over 24 years.

- In accordance with the provisions of the Companies Act, 1956 and the Articles of Association of the Company, Mr. Satish Sekhri & Mr. Johannes Schaefer, Directors of the Company retire by rotation and being eligible, offer themselves for re-appointment.

Mr. Satish Sekhri is a Bachelor of Mechanical Engineering and an MBA. He is the Managing Director of the Company since 1995.

Mr. Johannes Schaefer, a nominee of Robert Bosch Corporation has been on KBX Board since October 2002, has a Masters Degree in Mechanical Engineering from University of Karlsruhe, Germany. He is currently Vice President, Sales (Chassis Systems) of Robert Bosch GmbH, Germany. His responsibility includes Asia.

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, 2004 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 with no disruptions.

AUDITORS

M/s. Bansi S. Mehta & Company, Chartered Accountants, Mumbai, retire as Auditors of the Company at the conclusion of the Twenty Second 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,

Abstatt, Germany
May 19, 2004

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 SUVs.
2. Benefits derived as a result of the above R & D : The technology which was imported initially from collaborators was applied to other models locally. If this was to be imported, it would have involved significant outflow of foreign exchange.
3. Future plan of action : Development of brakes for SUVs, Two Wheelers and also new model cars of European and Japanese origin.
4. Expenditure on R&D
 - a) Capital : Rs 8.89 million
 - b) Recurring : Rs.12.69 million
 - c) Total : Rs.21.58 million
 - d) Total R&D expenditure as a percentage of total turnover : 0.74%

Technology absorption, adaptation and innovation -

1. Efforts, in brief, made towards technology absorption, adaptation and innovation : For SUVs, available products were adapted to new requirements. For motorcycle brakes, Brembo designs were adapted and modified to meet new model requirements. For agriculture tractors, application engineering was done with Indian tractor manufacturers using Titan designs.
2. Benefits derived as a result of the above efforts e.g. product improvement, cost reduction, product development, import substitution, etc. : Due to product improvements, cost reduction etc., the Company could -
 - a) get / retain 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 next year.
 - ii) Tractor brakes- Various applications of the technology, acquired in 1998-99, will continue for next two to three years.
 - iii) Brake shoes - Technology for Bonded brake shoes, acquired in 2000-01, has been absorbed.
 - iv) Hydraulic brakes - Technology for brake systems for various Indian passenger cars, acquired in 2003-04, will be absorbed in next three to four years. These brake systems are under phased localisation.
 - (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. Recurring benefits will continue to be received over next few 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, 2004.

| 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 | Sekhri S | 54 | B.E.(MECH.) , M.B.A. 30 years | Managing Director | 7 075 668 | 04/08/1994 | Vice President (Engg.Division) Escorts Ltd. 3.1/2 years |

Notes :

- 1) Designation denotes the nature of duties also.
- 2) Gross remuneration includes salary, Company's contribution to provident fund and superannuation scheme, allowances, perquisites etc.
- 3) 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.
- 4) Nature of employment and terms and conditions are contractual.
- 5) The above employee is not related to any of the Directors of the Company.

For and on Behalf of the Board of Directors,

Abstatt, Germany
May 19, 2004B. N. KALYANI
Chairman

REPORT ON CORPORATE GOVERNANCE**I. Company's Philosophy on Code of Governance**

Company's philosophy on corporate governance envisages attainment of the highest levels of transparency, accountability and equity in all facets of its operations, and in all interactions with its stakeholders including the shareholders, employees, government and lenders. The Company is committed to achieve these standards and would constantly endeavour to improve on the same.

II. Board of Directors

The present strength of the Board of Directors is 7, with following composition :

a. Composition and category

| | |
|------------------------|--|
| B N KALYANI | Chairman, Promoter, Non-Executive Director |
| A HIERONIMUS | Promoter, Non-Executive Director |
| V K VISWANATHAN | Promoter, Non-Executive Director |
| J SCHAEFER | Promoter, Non-Executive Director |
| H M HUBER | Independent, Non-Executive Director |
| S S VAIDYA | Independent, Non-Executive Director |
| S SEKHRI | Managing Director, Executive |

The attendance of each Director at the Board meetings, last Annual General Meeting and Number of other Directorships and Chairmanship/Membership of Committees of each Director in various Companies is as under :

| Name of Director | Pecuniary Business Relationship | Attendance | | Number of other Directorships and Committee Member/Chairmanships | | |
|--------------------------------------|---------------------------------|----------------|----------|--|-------------|---------------|
| | | Board Meetings | Last AGM | Other Directorships | Committee | |
| | | | | | Memberships | Chairmanships |
| B N Kalyani Chairman | Nil | 4 | Yes | 12 | 7 | 2 |
| A Hieronimus | Nil | 2 | No | 2 | 1 | — |
| V K Viswanathan | Nil | 4 | Yes | 5 | 2 | — |
| J Schaefer | Nil | 1 | No | — | 1 | — |
| H M Huber | Nil | 2 | No | — | 1 | 1 |
| S S Vaidya | Nil | 4 | Yes | 4 | 6 | 5 |
| S Sekhri Managing Director | N. A. | 4 | Yes | 1 | 1 | — |

Mr. Andreas Nobis, Director of the Company, resigned with effect from 20th October 2003.

Dr. Albert Hieronimus was appointed as Non-retiring Director of the Company in place of Mr. Nobis with effect from 20th October 2003.