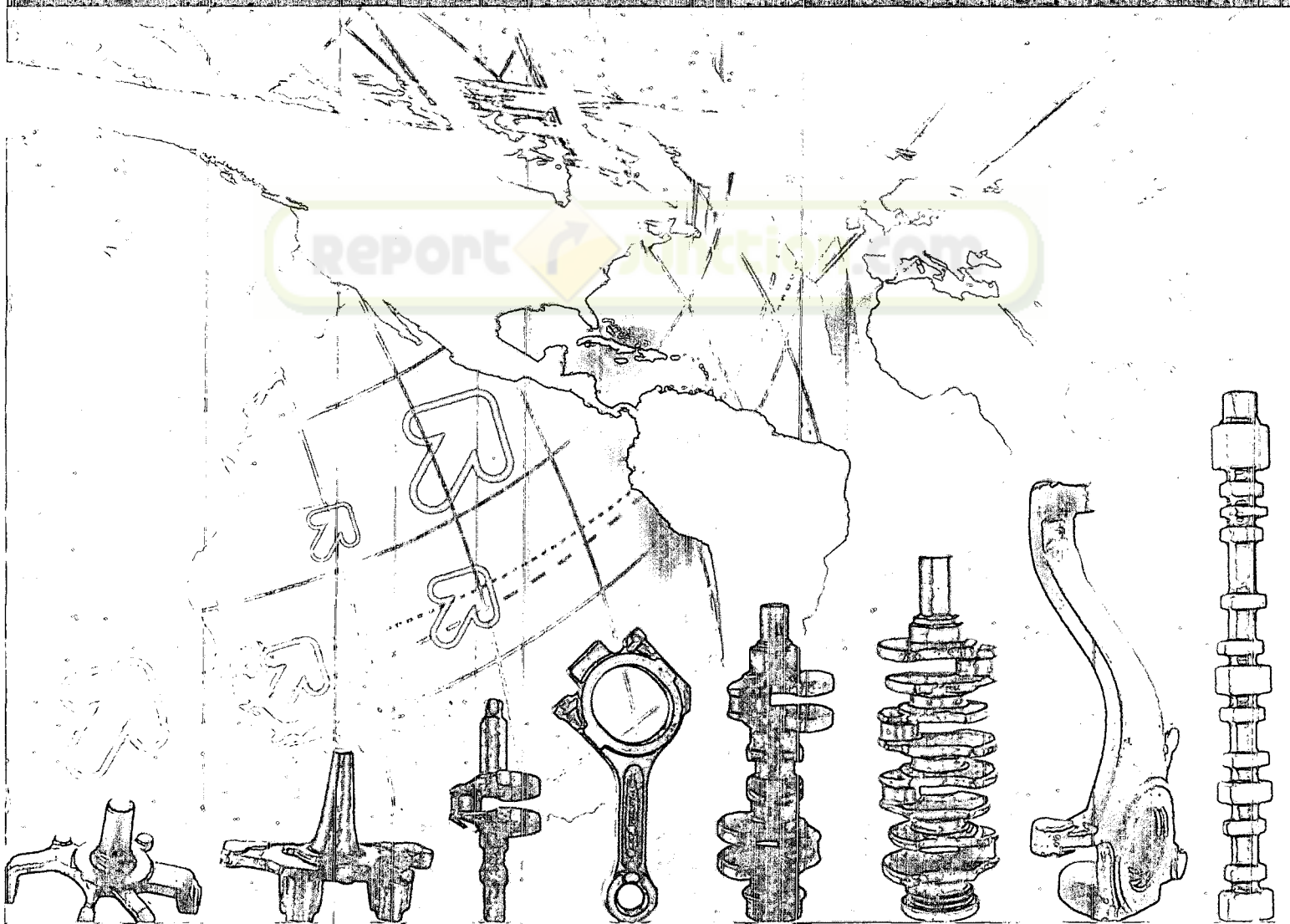


 **Mahindra Forgings**

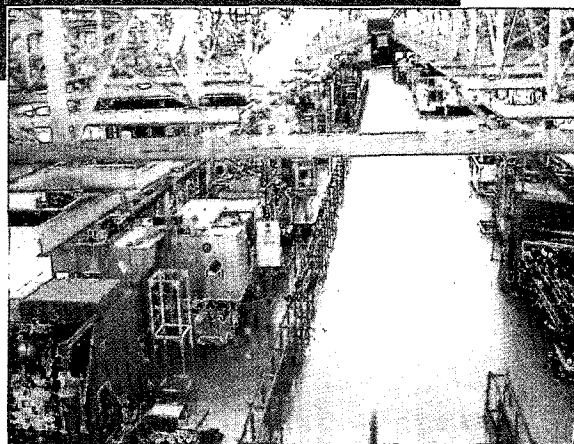
Leveraging Global Integration



Poised to excel



Mahindra Forgings Limited is among the largest forging companies in the world. Its Indian operations at Chakan, Pune with a state-of-the-art plant having excellent manufacturing facilities, cater to the requirements of leading Indian auto OEMs as well as overseas customers. The Indian operations enjoy the highest market share for passenger car crankshafts in the country.



BOARD OF DIRECTORS

Anand G. Mahindra Chairman

Hemant Luthra

Zhooben Bhiwandiwalla

R. R. Krishnan

V. K. Chanana

Mohit Burman

Fali P. Mama

Nikhilesh Panchal

Harald Korte

Oliver Scholz

COMMITTEES OF THE BOARD**Audit Committee**

V. K. Chanana

Mohit Burman

R. R. Krishnan

Nikhilesh Panchal

Fali P. Mama

Remuneration / Compensation Committee

Mohit Burman

Anand G. Mahindra

Hemant Luthra

V. K. Chanana

Nikhilesh Panchal

Share Transfer and Shareholders'/ Investors' Grievance Committee

R. R. Krishnan

V. K. Chanana

Fali P. Mama

COMPANY SECRETARY & GM - LEGAL

Krishnan Shankar

REGISTERED OFFICE

Mahindra Towers, P. K. Kurne Chowk

Worli, Mumbai – 400 018.

FACTORY

Gat No. 856 to 860

Chakan Ambethan Road

Taluka: Khed, Dist. Pune -410 501.

AUDITORS

B. K. Khare & Co.

Chartered Accountants

706/708, Sharda Chambers

Mumbai – 400 020

BANKERS

State Bank of India

Axis Bank Limited

HDFC Bank Limited

The logo for Report Junction.com is centered on the page. It features the word "Report" in a grey sans-serif font, followed by a yellow diamond icon containing a black curved arrow pointing upwards and to the right. To the right of the icon is the word "junction.com" in a green sans-serif font. The entire logo is enclosed within a light green rounded rectangular border with a subtle drop shadow.

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DIRECTORS' REPORT TO THE SHAREHOLDERS

To The Members, Mahindra Forgings Limited

Your Directors have pleasure in presenting the 9th Annual Report of the Company together with the audited statement of accounts of your Company for the year ended 31st March, 2008.

Financial Highlights

| | (Rs. in lakhs) | |
|---|----------------|---------|
| | 2007-08 | 2006-07 |
| Gross Income | 22,096 | 21,701 |
| Profit before Interest, Depreciation, Goodwill, Contingency and tax | 2,337 | 2,440 |
| Less : Depreciation | 1,159 | 891 |
| Profit before Interest, Goodwill, Contingency and tax | 1,178 | 1,549 |
| Less : Interest and Finance cost | 1,289 | 753 |
| Profit/(Loss) before Goodwill, Contingency and tax | (111) | 796 |
| Less : Goodwill | 1,739 | 1,739 |
| Less : Contingency provision | 0 | 45 |
| (Loss) before tax & before prior period expenses | (1,850) | (988) |
| Less : Provision for tax including FBT and Deferred Tax | (498) | 230 |
| (Loss) after tax & before prior period expenses | (1,352) | (1,218) |
| Less : Prior Period Expenses | 65 | 35 |
| (Loss) for the year | (1,417) | (1,253) |
| Add: Brought forward losses from earlier years | (2,448) | (1,195) |
| Add: Brought forward losses from amalgamated companies (taken over) | (17) | - |
| (Loss) carried to Balance Sheet | (3,882) | (2,448) |

Scheme of Arrangement / Amalgamation

In order to build a robust, global scale business in forging and to reap the benefits of operational synergy and enhance stakeholder value, the forging entities of the group namely, Stokes Group Limited, Jeco Holding AG and Schoeneweiss & Co. GmbH were integrated by way of a Scheme of Arrangement between Mahindra Stokes Holding Company Limited, Mahindra Forgings Mauritius Limited and Mahindra Forgings Overseas Limited with your Company. The Scheme which was approved by the Honourable Bombay High Court on 23rd November, 2007, was made Effective on 27th December, 2007 and the appointed date for the same was 1st April, 2007.

The shareholders of Transferor companies were allotted 4,05,47,150 equity shares of Rs. 10/- each, as of 27th December, 2007 (i.e. the Effective Date of the Scheme). Consequent upon the allotment the paid up share capital of the Company stands increased to Rs.68,56,77,360/- comprising of 6,85,67,736 equity shares of Rs. 10 each.

In accordance with the Scheme, the authorised share capital of your Company stands increased from Rs. 78,94,26,386/- to Rs. 117,94,26,386/-.

Consequent upon allotment of equity shares by the Company to the shareholders of the Transferor Companies, the shareholding of Mahindra & Mahindra Limited (M&M) stands increased to 60.56% of the Company's enhanced equity capital as a result of which your Company has become a subsidiary of M&M effective from 27th December, 2007.

The merger strengthens your Company and all its constituent companies and enables them to compete more effectively in the global market place by capitalizing on their collective presence in both developed and developing countries with the respective advantage of sophisticated technology and lower cost.

Financials

During the year under review, your Company registered a total income of Rs.22,096 Lakhs and an operating profit of Rs.2,337 Lakhs. The net loss before taxes stood at Rs.1,850 Lakhs. The non operating expenses during the year include amortisation of Goodwill of Rs.1,739 Lakhs. The gross income of the Company has grown by 1.82 % over the previous year.

Operations

Your Company's operations were hampered due to major breakdown of 5000 ton press which adversely affected the operating profits.

The said press is being overhauled thoroughly and will be operational by end September, 2008. The commissioning of two 4000 tons press and one 6300 tons press during the first quarter of the current year would provide necessary back up and your Company expects to compensate the loss of production and revenue in the first half of the FY 2008-09 resulting from the break down of 5000 ton press.

The Company has also set up a World class Tool Room and Die shop to upgrade operations. The effective capacity of the machine shop has also been enhanced significantly.

Management Discussion and Analysis

A detailed analysis of the Company's performance is contained in the Management Discussion and Analysis Report which forms part of the Annual Report.

Dividend

In view of the net loss for the year your Directors do not recommend any dividend.

Stock Options

Pursuant to the authority of the members granted at the last Annual General Meeting of your Company held on 25th July, 2007, the Remuneration/Compensation Committee of the Board of Directors of the Company ("the Committee") has formulated Mahindra Forgings Limited Employee's Stock Option Scheme. On the recommendation of the Committee your Company has granted 7,87,000 options to Eligible Employees during the year under review.

Details required to be provided under the Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999 are set out in Annexure I to this Report.

Directors' Responsibility Statement

Pursuant to Section 217(2AA) of the Companies Act, 1956, your Directors, based on the representation received from the Operating Management, and after due enquiry, confirm that:

- (i) in the preparation of the annual accounts, the applicable accounting standards have been followed ;
- (ii) they have, in the selection of the accounting policies, consulted the Statutory Auditors and these have been applied consistently and reasonable and prudent judgments and estimates have been made so as to give a true and fair view of the state of affairs of the Company as at 31st March, 2008 and of the loss of the Company for the year ended on that date;
- (iii) proper and sufficient care has been taken 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) the annual accounts have been prepared on a going concern basis.

Directors

Mr. S. Ravindran resigned as Managing Director of the Company with effect from 22nd April, 2008. The Board has placed on record

its appreciation of the services rendered by Mr. Ravindran during his tenure as Managing Director of the Company.

Mr. Oliver Scholz was appointed as an Additional Director by the Board of Directors at its meeting held on 9th May, 2008. He holds office up to the date of the forthcoming Annual General Meeting. The Company has received a Notice from a Member signifying his intention to propose Mr. Scholz as a Director of the Company at the forthcoming Annual General Meeting.

Mr. Nikhilesh Panchal, Mr. V. K. Chanana, and Mr. Zhooben Bhiwandiwalla, Directors of the Company, retire by rotation and, being eligible, offer themselves for re-appointment.

Auditors

Messrs. B. K. Khare & Co., Chartered Accountants retire as Auditors of the Company at the forthcoming Annual General Meeting and have given their consent for re-appointment. The shareholders will be required to elect Auditors for the current year and fix their remuneration.

As required under the provisions of Section 224(1B) of the Companies Act, 1956, the Company has obtained a written certificate from Messrs. B. K. Khare & Co., Chartered Accountants to the effect that their re-appointment, if made, would be in conformity with the limits specified in the said section.

Industrial Relations

Industrial Relations generally remained cordial and harmonious throughout the year. The Management Discussion and Analysis gives an overview of the developments in Human Resource / Industrial Relations during the year.

Safety, Health and Environment Performance

Your Company has undertaken various initiatives on safety, health and environmental issues to ensure optimum safety of the employees and plant & equipment of the Company. Your Company has also taken steps for imparting training to its employees, carrying out safety audits of the various facilities of the Company, conducting regular medical checkups of its employees and promoting eco-friendly activities.

The requirements relating to various environment legislations and environment protection have been duly complied with by your Company.

Subsidiary Companies

Pursuant to the Scheme of Arrangement (the Scheme) Mahindra Stokes Holding Company Limited (MSHCL), Mahindra Forgings Overseas Limited (MFOL), Mahindra Forgings Mauritius Limited (MFML) (MSHCL, MFOL and MFML jointly referred to as "Transferor Companies") were amalgamated with your Company. Consequent upon the amalgamation the following subsidiary companies of Transferor companies became subsidiaries of your company:

1. Stokes Group Limited
2. Stokes Forgings Dudley Limited
3. Jensand Limited
4. Stokes Forgings Limited
5. Mahindra Forgings International Limited
6. Mahindra Forgings Europe AG
7. Gesenkschmiede Schneider GmbH
8. Jeco-Jellinghaus GmbH
9. Falkenroth Umformtechnik GmbH
10. Mahindra Forgings Global Limited
11. Schoeneweiss & Co. GmbH.

These subsidiaries are moving from strength to strength and contributing to the overall growth of the Company.

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

The Consolidated Financial Statements of the Company and its subsidiaries, prepared in accordance with Accounting Standard AS21 form part of the Annual Report.

The Company has made an application to the Central Government seeking exemption from attaching the accounts, etc., of its subsidiary companies with the Balance Sheet of the parent company. If, in terms of approval granted by the Central government, the accounts, etc., of the subsidiary companies are not required to be attached with the Balance Sheet of the parent company, these documents will be submitted on request to any member wishing to have a copy, on receipt of such request by the Company Secretary at the Registered Office of the Company.

Public Deposits and Loans/Advances

The Company has not accepted any deposits from the public or its employees during the year under review.

The particulars of loans/advances and investments in its own shares by listed companies, their subsidiaries, associates, etc. required to be disclosed in the Annual Accounts of the company pursuant to Clause 32 of the Listing Agreement are furnished separately.

Conservation of Energy, Technology Absorption and Foreign Exchange Earnings and Outgo.

The particulars relating to energy conservation, technology absorption and foreign exchange earnings and outgo, as required under Section 217(1)(e) of the Companies Act, 1956 read with the

Companies (Disclosures of Particulars in the Report of Board of Directors) Rules, 1988 are provided in the Annexure II to this Report.

Particulars of Employees

As required under Section 217 (2A) of the Companies Act, 1956 and Rules thereunder a statement containing particulars of Company's employees who are in receipt of remuneration of not less than Rs.24,00,000/- during the year ended 31st March, 2008 or not less than Rs.2,00,000/- per month during any part of the said year is given in the Annexure III to this report.

Acknowledgement

Your Directors wish to place on record their sincere appreciation of the financial institutions and consortium of banks led by State Bank of India and Company's customers, vendors and investors for their continued support during the year.

The Directors also wish to place on record their appreciation for the dedication and contribution made by employees at all levels and look forward to their support in future as well.

For and on behalf of the Board

Hemant Luthra
Director

Zhooben Bhiwandiwala
Director

Mumbai, 9th May, 2008.

ANNEXURE I TO THE DIRECTORS' REPORT FOR THE YEAR ENDED 31ST MARCH, 2008

Information to be disclosed under the Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999 :

| | | | |
|--|--|--|---|
| (a) Options granted | 7,87,000 | | |
| (b) The pricing formula | 1 st Tranche | 2 nd Tranche | |
| | 3,84,000 Options granted at a fixed price of Rs. 197/- per share. | 3,91,000 Options granted at a fixed price of Rs. 83/- per share. | 12,000 Options granted at a fixed price of Rs. 197/- per share. |
| | <ul style="list-style-type: none"> The Options for the 1st tranche were granted at the Remuneration/ Compensation Committee Meeting held on 26th October, 2007. | | |
| | <ul style="list-style-type: none"> The Options for the 2nd tranche were granted at the Remuneration/ Compensation Committee Meeting held on 26th February, 2008. | | |
| (c) Options vested | Nil | | |
| (d) Options exercised | Not Applicable | | |
| (e) The total number of shares arising as a result of exercise of Option | Not Applicable. | | |
| (f) Options lapsed | 47,000 | | |
| (g) Variation of terms of Options | Nil | | |
| (h) Money realised by exercise of Options | Nil | | |
| (i) Total number of Options in force | 7,40,000 | | |
| (j) Employee-wise details of Options granted to : | | | |
| (i) Senior managerial personnel | As per statement attached. | | |
| (ii) Any other employee who receives a grant in any one year of Option amounting to 5% or more of Option granted during the year. | Nil | | |
| (iii) Identified employees who were granted Option, during any one year, equal to or exceeding 1% of the issued capital (excluding outstanding warrants and conversions) of the Company at the time of grant. | Nil | | |
| (k) Diluted Earnings Per Share (EPS) pursuant to issue of share on exercise of Option calculated in accordance with Accounting Standard (AS) 20 'Earnings per Share'. | Rs. (2.07) | | |
| (l) Where the Company has calculated the employee compensation cost using the intrinsic value of the stock Options, the difference between the employee compensation cost so computed and the employee compensation cost that shall have been recognised if it had used the fair value of the Options, shall be disclosed. The impact of this difference on profits and on EPS of the Company shall also be disclosed. | The Company has adopted the intrinsic value method of accounting for determining compensation cost for its stock based on compensation plan. Had the Company adopted Fair Value Method in respect of Options granted, the employee compensation cost would have been lower by Rs. 10.32 Lakhs, Profit after tax higher by Rs. 10.32 Lakhs, and the basic and diluted earning per share would have been higher by Rs. 0.02. | | |
| (m) Weighted-average exercise prices and weighted-average fair values of Options shall be disclosed separately for Options whose exercise price either equals or exceeds or is less than the market price of the stock. | Options Grant Date | Exercise Price (Rs.) | Fair Value (Rs.) |
| | 26 th October, 2007 | 197/- | 103.95/- |
| | 26 th February, 2008 | 197/- | 105.72/- |
| | 26 th February, 2008 | 83/- | 148.25/- |

| | | | |
|--|---|-------------------------------|-------------------------------|
| (n) A description of the method and significant assumptions used during the year to estimate the fair values of Options, including the following weighted-average information: | The fair value of stock Options granted on 26 th October, 2007 and 26 th February, 2008 have been calculated using Black-Scholes Options pricing Formula and the significant assumptions made in this regard are as follows : | | |
| | Options Grant Date - 26/10/07 | Options Grant Date - 26/02/08 | Options Grant Date - 26/02/08 |
| (i) risk-free interest rate, | 7.64% | 7.41% | 7.41% |
| (ii) expected life | 3.5 years | 3.5 years | 3.5 years |
| (iii) expected volatility | 44.84% | 44.84% | 44.84% |
| (iv) expected dividends, and | NIL | NIL | NIL |
| (v) the price of the underlying share in market at the time of option grant. | Rs.195 | Rs.197.90 | Rs.197.90 |

STATEMENT ATTACHED TO ANNEXURE I TO THE DIRECTORS' REPORT FOR THE YEAR ENDED 31ST MARCH, 2008

| Name of the Senior Managerial Persons of the Company to whom Stock Options have been granted | Number of Options granted |
|--|---------------------------|
| Hemant Luthra | 2,00,000 |
| S. Ravindran | 40,000 |
| R. R. Krishnan | 10,000 |
| Zhooben Bhiwandiwalla | 10,000 |
| Nikhilesh Panchal | 10,000 |
| V. K. Chanana | 10,000 |
| Fali Mama | 10,000 |
| Mohit Burman | 10,000 |

For and on behalf of the Board

Hemant Luthra
Director

Zhooben Bhiwandiwalla
Director
Mumbai, 9th May, 2008.

ANNEXURE II TO THE DIRECTORS' REPORT FOR THE YEAR ENDED 31ST MARCH, 2008

PARTICULARS AS PER THE COMPANIES (DISCLOSURE OF PARTICULARS IN THE REPORT OF BOARD OF DIRECTORS) RULES, 1988 AND FORMING PART OF THE DIRECTORS' REPORT FOR THE YEAR ENDED 31ST MARCH, 2008.

A. CONSERVATION OF ENERGY

(a) During the year, the Company has taken the following initiatives for conservation of energy:

Electrical Energy

1. Completion of Centralised Air Management with installation of energy efficient screw compressors. The latest addition is oil free, giving an additional saving in running costs which is also more environment friendly.
2. The new air ring main will provide a more constant and controlled volume to all areas of the plant.
3. The induction heaters installed on the new press lines are more efficient and will have lower power consumption per Kg.
4. The new water cooling towers do not require an electrical motor driven fan, therefore power consumption is eliminated. In addition, there will be a reduction in the water lost due to evaporation. A new ring main has also been installed to control volumes and reduce stoppages.
5. Energy efficient 3T gas fired heat treatment furnace is complete and the same conversion will be carried out on the 2T and 1T furnaces.
6. The introduction of the 132 KV power stations will provide a more stable supply, thus eliminating fluctuations that results in lost production and process losses.
7. Controlled cooling conveyors are installed on all press lines for micro alloy forging.
8. The new Rosler shot blasting machine is installed and operational.

(b) Additional investments and proposals, if any, being implemented for reduction of consumption of energy :

1. Improvement actions will be taken to reduce the number of billets that are heated but not forged. (Commonly called, dropouts). These actions will be driven by the introduction and adherence to the correct process controls.
2. Greater emphasis will be given to making quality parts that will not require additional operations. (Elimination of rework).
3. All die and tooling designs will be interrogated to identify ways to improve yield and reduce the number of defectives being produced.
4. Training will be given to all employees associated with the production process in order that they can contribute to the reduction in waste, improvements in quality, and productivity.
5. Preventive maintenance will be carried out on all press lines to reduce lost time and identify when corrective actions will be required.

(c) Impact of the measures taken / to be taken at (a) & (b) above for reduction of energy consumption and consequent impact on the cost of production of goods :

The measures taken as mentioned in (a) & (b) above have resulted in lower energy consumption.

(d) Total energy consumption and energy consumption per unit of production as per Form – A of the Annexure to the Rules in respect of Industries specified in the Schedule.

| Power & Fuel consumption | | 2007-08 | 2006-07 |
|---|------------------|-----------|-----------|
| 1 Electricity Purchased | | | |
| Quantity (KWH in Lakhs) | | 320.56 | 289.55 |
| Total Amount (Rs. in Lakhs) | | 1,539.90 | 1,336.81 |
| Average Rate Per Unit (Rs) | | 4.87 | 4.62 |
| 2 Furnace Oil | | | |
| Quantity (Lakhs of Litres) | | 0.00 | 0.99 |
| Total Amount (Rs. in Lakhs) | | 0.00 | 19.34 |
| Average Rate per Litres (Rs.) | | 0.00 | 19.57 |
| 3 Light Diesel Oil | | | |
| Quantity (KL.) | | 1,796.84 | 2,115.55 |
| Total Amount (Rs. in Lakhs) | | 481.24 | 627.09 |
| Average Rate per KL.(Rs) | | 26,782.00 | 29,641.94 |
| 4 Consumption per unit of Production | | | |
| Production (Tons) | | 24,636 | 23,674 |
| Fuel Used | | | |
| Electricity | | | |
| | Units KWH/Ton | 1,300.44 | 1,223.08 |
| Furnace Oil | | | |
| | Lit/Ton | 0.00 | 4.17 |
| Light Diesel Oil | | | |
| | Lit/Ton | 72.94 | 89.36 |

B. TECHNOLOGY ABSORPTION

I Research & Development :

Areas in which Research & Development is carried out :

- Investigate the benefits of cavity welding of dies.
- Standardisation of dies and tools.