

Mahindra Forgings Ltd.
13th ANNUAL REPORT
2011-2012

OPPORTUNITY GROWTH CAPABILITY

CONVERGENCE

VISION One Goal. One Systech.

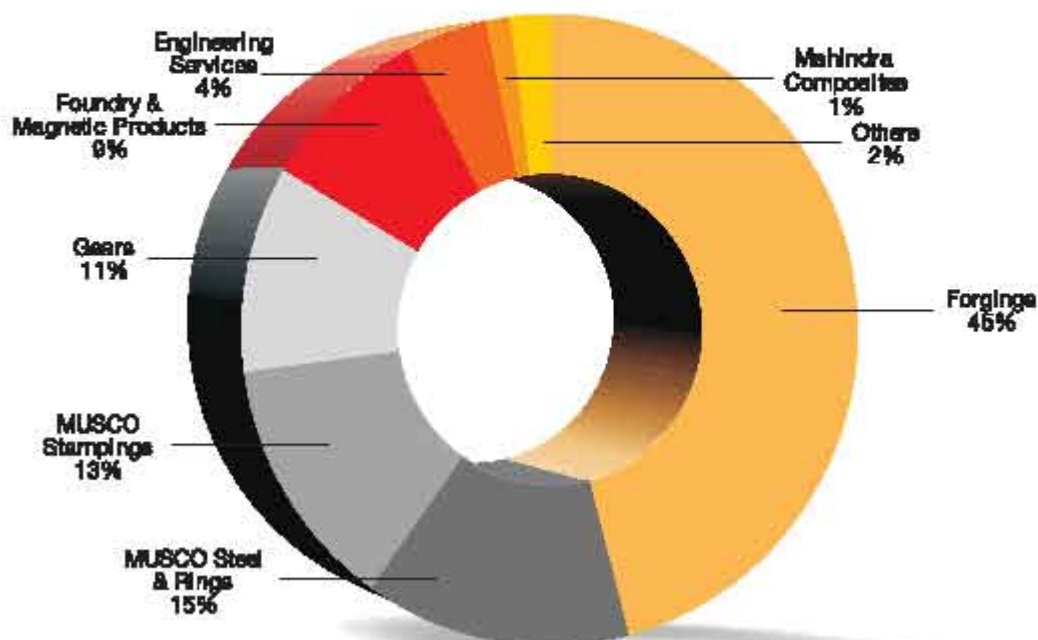


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Systech Sector Overview

Mahindra Systech was established in 2004 by the M&M Group. M&M entered into the components industry as India's global competitiveness took off. Leveraging our domain expertise in the automotive and farm equipment sectors, and with a series of acquisitions, we have grown rapidly in skill and scale.



Rising through convergence



Dear Shareholder,

In India and around the world, last year was marked by growth tempered with uncertainty.

In the US, we all saw people protesting against a political and economic model that seems to be leaving many behind. In Europe, differences in economic conditions and political responses at a national level has created anxious moments for the Euro Zone while at the same time Germany experienced healthy growth and remarkably low unemployment levels. In India, inflation-fighting interest rates and political challenges resulted in moderating growth rates. China seems to be heading towards a more stable and moderate growth rate after over a generation of rapid growth.

Despite the headwinds in the near term, we maintain a positive outlook for the global economy in general and the automotive industry in particular.

The automotive industry continues to see convergence worldwide as OEMs globalise operations and platforms, and regulations continue to emphasise improving fuel efficiency and reducing tailpipe emissions.

This convergence drives us to create growing commonality in our businesses between Europe and India and also makes us seek opportunities where we can take advantage of these changes in the marketplace.

We continue to progress on our vision of "One Systech" where the different constituent companies of the Systech Sector leverage their synergies across operations, product lines, and geographies. And this work will continue alongside the more fundamental goals of improving customer satisfaction, revenue growth and profitability in our business operations.

Best Regards,

A handwritten signature in black ink, appearing to read "Hemant Luthra". The signature is stylized and cursive.

Hemant Luthra
President
Systech Sector

Products & Applications





■ **Board of Directors**

Hemant Luthra - Chairman
K. Ramaswami- Managing Director
Zhooben Bhiwandiwala
V. K. Chanana
Mohit Burman
Fali P. Mama
Nikhilesh Panchal
Harald Korte
Oliver Scholz
Daljit Mirchandani

Ajay Mantry - Chief Financial Officer
Krishnan Shankar - Company Secretary &
Head - Legal

■ **Committees of the Board**

Audit Committee

V. K. Chanana
Mohit Burman
Zhooben Bhiwandiwala
Nikhilesh Panchal
Fali P. Mama
Daljit Mirchandani

Remuneration/Compensation Committee

Mohit Burman
Hemant Luthra
V. K. Chanana
Nikhilesh Panchal
Daljit Mirchandani

**Share Transfer and
Shareholders'/Investors'**

Grievance Committee

Daljit Mirchandani
V. K. Chanana
Fali P. Mama

■ **Bankers**

State Bank of India
Axis Bank Limited

■ **Auditors**

B. K. Khare & Co.
Chartered Accountants
706/708, Sharda Chambers,
Mumbai - 400 020

■ **Factory**

Gat No. 856 to 860
Chakan Ambethan Road
Taluka Khed, Dist. Pune - 410 501

■ **Registrar and Share Transfer Agents**

Karvy Computershare Private Limited
Karvy House, 46, Avenue 4, Street No. 1
Banjara Hills, Hyderabad - 500 034

DIRECTORS' REPORT

To,
The Members of
Mahindra Forgings Limited

Your Directors present the 13th Annual Report of the Company together with the audited statement of accounts of your Company for the year ended 31st March, 2012.

Financial Highlights

	₹ in Lakhs	
	2011-12	2010-11
Total Income	43,468	36,002
Profit before Interest, Depreciation, Exceptional Items and tax	4,360	3,336
Less : Depreciation	2,392	2,210
Profit/(Loss) before Interest, Exceptional Items and tax	1,968	1,126
Less : Interest and Finance cost	1,134	1,444
Profit/(Loss) before Exceptional Items and tax	834	(318)
Less: Exceptional items	156	-
Profit/(Loss) before tax	678	(318)
Profit/(Loss) for the year	678	(318)
Balance of Profit & Loss Account brought forward losses from earlier years	(13,112)	(12,794)
(Loss) carried to Balance Sheet	(12,434)	(13,112)

Financials

During the year under review, your Company registered a Total income of ₹ 43,468 Lakhs as against ₹ 36,002 Lakhs in the previous year and Profit before Interest, Depreciation, Exceptional items and tax of ₹ 4,360 Lakhs as against ₹ 3,336 Lakhs in the previous year. The net profit for the year stood at ₹ 678 Lakhs as against a net loss of ₹ 318 Lakhs over the previous year. The Total Income of the Company has grown by 21% over the previous year.

Operations

During the year under review, your Company's operations in Europe were hit by press breakdowns in the last two quarters of the Financial Year 2011-12, increasing maintenance costs and lowering margins. These breakdowns have been corrected.

In India, your Company continues to stabilize operations reflected in consistent and higher quarterly EBITDA margins. Machining capacity was enhanced leading to increase in value added sales. Several projects are under implementation to reduce machine downtime and improve die management with a view to continuously improve Forging capacity utilization.

Changes in Share Capital and Issue of Shares

On 3rd March, 2010, your Company allotted 72,99,270 warrants on a Preferential basis to the Promoters of the Company, Mahindra & Mahindra Limited, with an option to convert the same within 18 months into equal number of equity shares at a price of ₹ 137/- per share. On 4th March, 2011, the Promoters exercised their option to convert 30,00,000 warrants into equal number of equity shares at the said price. Subsequently on 2nd September, 2011, the Promoters have exercised their option to convert the balance 42,99,270 warrants into an equal number of equity shares and have paid the balance amount.

The aforesaid exercise of options has resulted in the issued, subscribed and paid up equity share capital increasing from ₹ 87,86,97,860/- to ₹ 92,16,90,560/-.

As a result of the above, the shareholding of Promoters in the Company as at 31st March, 2012, stands at 52.97%.

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.

Corporate Governance

Your Company is committed to transparency in all its dealings and places high emphasis on business ethics. Your Company has been following good Corporate Governance procedures. A report on Corporate Governance along with a Certificate from the Auditors of the Company regarding the compliance of conditions of Corporate Governance as stipulated under Clause 49 of the Listing Agreement forms part of the Annual Report.

Dividend

In view of past losses, your Directors do not recommend any dividend for the year.

Stock Options

The Remuneration/Compensation Committee of your Company has granted 25,89,883 Stock Options to eligible employees of the Company 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.

Industrial Relations

Industrial Relations generally remained cordial and harmonious throughout the year.

The Management Discussion and Analysis Report gives an overview of the developments in Human Resources/Industrial Relations during the year.

Safety, Health and Environment Performance

Your Company has a Safety, Occupational Health and Environmental (SH&E) policy on occupational health, safety and environmental protection through which every employee is made responsible for the observance of the measures designed to prevent accidents, damage to occupational health and avoidable environmental pollutants.

Safety and Health

The Safety Committee of your Company meets periodically to review the status of safety training and reporting of accidents to resolve the safety issues. Various initiatives such as emergency mock drills and advanced fire protection system for improving the Safety Performance have been taken.

Your Company has achieved significant reduction in accidents/injuries by ensuring a safety culture throughout all levels of organization.

Safety week and Fire Service day are being celebrated. Safety Audits/Inspection along with Safety awareness training on safety are conducted regularly.

Your Company's plant continue to focus on improving the well being of the employees and contract workmen by organizing Occupational Health Examination Camps, Medical Check-ups etc.

Certification

Your Company's Plant have been certified with the amended standards of ISO 14001:2004 & OHSAS 18001. Implementation of Occupational Health & Safety Management Standard has re-enforced the Company's commitment to Safety and Occupational Health. In 2010-11, your plant have been certified under OHSAS 18001:2007 which is the best existing safety standard. Your Company has completed a two year cycle of continual improvement in Environment, Health & Safety (EHS) Management certification. The OHSAS system aims to eliminate or minimise risk to employees and other interested parties who may be exposed to Occupational Safety risks in the Company. Sustainable development is promoted through sharing of best practices in the fields of Safety, Occupational Health & Environment.

Environmental Initiatives

With a clear focus on the need for clean environment, your Company is now in the process of calculating its carbon foot print and take adequate measures to mitigate the causes. Your Company is also reporting its performance on Sustainable Development as a part of Global Reporting Initiative (GRI).

Waste and Waste Water Management

Your Company has taken various initiatives to dispose its waste in an environmentally sound manner and achieve waste reduction. Awareness of water conservation programmes is enhanced through events like observing the World Water Day. Environment monitoring is done by implementing initiatives such as effluent treatment, increased Green Zones etc. The plan is to comply and go beyond applicable environment legislations and regulations in a phased manner.

Corporate Social Responsibility

As part of Corporate Social Responsibility (CSR) initiatives, the employees of your Company participated in upgrading the skills of local community by involving them in education, environmental and health related programs. Your Company had also organized Blood Donation drives and participated in Nanhi Kali activities of Mahindra Group.

Your Company encourages its employees in participating in local community schemes such as Health checkup camps, tree plantation etc. The Company is planning a sustainable tree plantation and nurturing programme under Mahindra Hariyali.

Employee Social Options

Your Company is tapping the hidden potential in each one of its employees to make a sustainable society; one which is healthier, cleaner, greener and more literate. Through your Company's Employee Social Options (ESOPs) program many employees are contributing towards making a difference to Society.

Your Company's ESOPs program encourages employees in supporting volunteering projects based on the needs of underprivileged communities in and around their places of work.

'Sustainability' Initiatives

In line with the philosophy of the Mahindra group, your Company recognises the importance of sustainability in business, and is committed to reduce its environmental foot print and enhance its commitment towards society. For instance, for the past 3 years, your Company has continued to voluntarily disclose its performance on the Triple Bottom lines of 'People, Planet & Profit' based on the framework designed by the Global Reporting Initiative (GRI). During the year, the report for the year 2010-11 was published which was externally assured by Ernst & Young with an A+ rating and GRI checked. The report for the year 2011-12 will be released shortly.

During the year under review, your Company continued with its efforts to conserve natural resources and reduce waste. Specific projects in this regard were identified and implemented.

Directors

Mr. Hemant Luthra, Mr. Fali P. Mama and Mr. Daljit Mirchandani retire by rotation and, being eligible, offer themselves, for re-appointment.

During the year, Mr. Deepak Dheer retired as Managing Director and Director of the Company with effect from 31st August, 2011. The Board has placed on record its appreciation of the services rendered by Mr. Dheer during his tenure as the Managing Director of the Company.

The Board of Directors of the Company had, by a resolution dated 4th October, 2011 appointed Mr. K Ramaswami as an Additional Director of the Company with effect from 4th October, 2011. He holds office up to the date of ensuing Annual General Meeting. The Company has received Notice from a Member under Section 257(1) of the Companies Act, 1956 alongwith requisite amount of deposit, signifying his intention to propose the candidature of Mr. Ramaswami for the office of Director of the Company at the ensuing Annual General Meeting.

Mr. Ramaswami was also appointed as Managing Director of the Company with effect from 4th October, 2011 for a period of 3 years subject to approval of the members of the Company.

During the year under review, Mr. Piyush Mankad retired as a Director of the Company with effect from 2nd August, 2011. The Board has placed on record its appreciation of the services rendered by Mr. Mankad during his tenure as Director of the Company.

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, 2012 and of the profit 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.

Subsidiary Companies

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

The Consolidated Financial Statements of the Company and its subsidiaries prepared in accordance with Accounting Standard AS 21 forms a part of the Annual Report.

In accordance with the general circular issued by the Ministry of Corporate Affairs, Government of India, the Balance Sheet, Statement of Profit and Loss and other documents of the subsidiary companies are not being attached with the Balance Sheet of the Company. The Company will make available the Annual Accounts of the subsidiary companies and the related detailed information to any member of the Company and the subsidiary companies who may be interested in obtaining the same. Further, the Annual Accounts of the subsidiaries would also be available for inspection by any Member at the Registered Office of the Company and at the Office of the respective subsidiary companies, during working hours upto the date of the Annual General Meeting.

Auditors

Messrs. B. K. Khare & Co., Chartered Accountants retire as Auditors of the Company 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 the above Auditors proposed to be re-appointed to the effect that their re-appointment, if made, would be in conformity with the limits specified in the said section.

Cost Audit Report

The Company has come under the purview of Cost Audit for the first time in Financial Year 2011-12. Accordingly, the Board of Directors of your Company has, upon recommendations of the Audit Committee, appointed M/s. Dhananjay V. Joshi & Associates, Cost Accountants as Cost Auditors for conducting an audit of Cost Accounting Records maintained by the Company for the Financial Year 2011-12 with the approval of Central Government. As required under the provisions of Section 224(1B) read with Section 233B(2) of the Companies Act, 1956, the Company has obtained a written confirmation from M/s. Dhananjay V. Joshi & Associates to the effect that they are eligible for appointment as Cost Auditors under Section 233B of the Companies Act, 1956. The Audit Committee has also received a certificate from the Cost Auditor certifying their independence and arm's length relationship with the Company. The Cost Auditors shall forward their report to the Central Government, Ministry of Corporate Affairs, New Delhi for the Financial Year 2011-12, within the prescribed time limit.

Public Deposits and Loans/Advances

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

The particulars of loans/advances and investment 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 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 were employed throughout the financial year and who were in receipt of remuneration of not less than ₹ 60,00,000/- per annum during the year ended 31st March, 2012 or employees who were employed for a part of the financial year and were in receipt of remuneration of not less than ₹ 5,00,000/- per month during any part of the said year is given in 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, 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 the employees at all levels and look forward to their support in future as well.

For and on behalf of the Board

Hemant Luthra
Chairman

Mumbai, 25th May, 2012

ANNEXURE I TO DIRECTORS' REPORT FOR THE YEAR ENDED 31ST MARCH, 2012

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	Mahindra Forgings Limited Employees' Stock Option Scheme - 44,64,883								
(b)	The pricing formula	1 st Tranche	2 nd Tranche		3 rd Tranche	4 th Tranche	5 th Tranche	6 th Tranche	7 th Tranche	8 th Tranche
		3,84,000 Options granted at a fixed price of ₹ 197/- per share.	3,91,000 Options granted at a fixed price of ₹ 83/- per share.	12,000 Options granted at a fixed price of ₹ 197/- per share.	2,50,000 Options granted at a Discount of 15% on the average price preceding the specified date – 9 th May, 2008	2,45,000 Options granted at a Discount of 15% on the average price preceding the specified date – 29 th July, 2008	5,00,000 Options granted at a Discount of 15% on the average price preceding the specified date – 26 th August, 2008	93,000 Options granted at a Discount of 15% on the average price preceding the specified date – 12 th May, 2010	20,00,000 Options granted at a Discount of 15% on the average price preceding the specified date - 1 st April, 2011	5,89,883 Options granted at a Discount of 15% on the average price preceding the specified date – 20 th January, 2012
		Average price – Average of the daily high and low of the prices for the Company's Equity Shares quoted on Bombay Stock Exchange Limited during the 15 days preceding the specified date.								
		The specified date - Date on which the Remuneration/Compensation Committee granted the Options.								
(c)	Options vested	9,19,580								
(d)	Options exercised	60,750								
(e)	The total number of shares arising as a result of exercise of option	60,750 Equity Shares of ₹ 10/- each.								
(f)	Options lapsed	6,68,421								
(g)	Variation of terms of options	Nil								
(h)	Money realised by exercise of options	₹ 53,22,500/-								
(i)	Total number of options in force	37,35,712								
(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 that year,	None								
	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.	None								
(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'.	₹ 0.75								