



ANNUAL REPORT 05-06

CEAT LIMITED

BOARD OF DIRECTORS

R. P. GOENKA	<i>Chairman</i>
H. V. GOENKA	<i>Vice Chairman</i>
PARAS K. CHOWDHARY	<i>Managing Director</i>
M. A. BAKRE	
A. C. CHOKSEY	
S. DORESWAMY	
MAHESH S. GUPTA	
J. N. GUZDER	
H. KHAITAN	
BANSI S. MEHTA	
HARI L. MUNDRA	
K. R. PODAR	

AUDIT COMMITTEE

M. A. BAKRE	<i>Chairman</i>
MAHESH S. GUPTA	<i>Member</i>
S. DORESWAMY	<i>Member</i>
HARI L. MUNDRA	<i>Member</i>

SHAREHOLDERS / INVESTORS

GRIEVANCE COMMITTEE

M. A. BAKRE	<i>Chairman</i>
PARAS K. CHOWDHARY	<i>Member</i>
MAHESH S. GUPTA	<i>Member</i>

BANKERS

Bank of India
Bank of Baroda
Indian Bank
State Bank of India
UCO Bank
Vijaya Bank
Corporation Bank
State Bank of Travancore
The Dhanalakshmi Bank Ltd.
ICICI Bank Limited
The Karnataka Bank Ltd.
The United Western Bank Ltd.
Export-Import Bank of India

COMPANY SECRETARY

H. N. SINGH RAJPOOT

REGISTERED OFFICE

463, Dr. Annie Besant Road, Worli,
Mumbai 400 030.

PLANTS

Village road, Bhandup, Mumbai 400 078.
82, MIDC, Industrial Estate, Satpur, Nasik 422 007.

LEGAL ADVISERS

Mulla & Mulla and Craigie, Blunt & Caroe

AUDITORS

N. M. Raiji & Co.

REGISTRARS

TSR Darashaw Limited
Army & Navy Building,
148, M. G. Road, Fort,
Mumbai 400 001.

CONTENTS

Sr. No.	Description	Page Nos.
1.	Financial Highlights	3
2.	Performance Highlights	4
3.	Ten-Year Operating and Financial Record	5
4.	Directors' Report	6
5.	Management Discussion and Analysis Report	14
6.	Corporate Governance Report	16
7.	Auditors' Report	29
8.	Balance Sheet	32
9.	Profit & Loss Account	33
10.	Cash Flow Statement	34
11.	Schedules to Accounts	36 - 57
12.	Balance Sheet Abstract & Company's General Business Profile	58
13.	Information regarding employees as per Section 217(2A) of the Companies Act, 1956	59

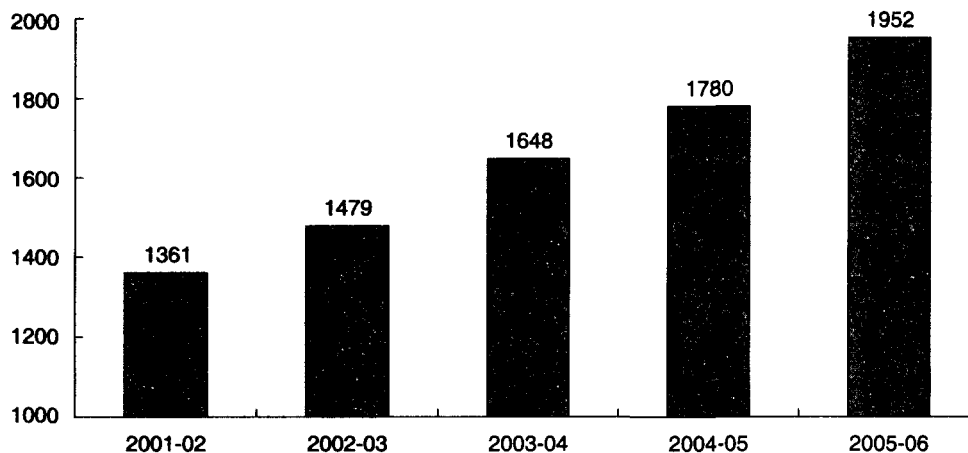
FINANCIAL HIGHLIGHTS**(Rs. in Crores)****For the year ended
31.03.2006****For the year ended
31.03.2005**

Gross Sales	1951.99	1780.31
Profit/(Loss) before Taxation	5.22	(2.87)
Profit/(Loss) after Taxation	0.52	(1.87)
Total Shareholders' Equity	349.00	630.14
Total Loan Funds & Deferred Tax Liability	431.63	463.63
Market Price of Equity Share (Rs.)	65.75	98.40
Proposed Equity Dividend (%)	—	—
Proposed Dividend - Aggregate (Rs. In Crores)	—	—
Number of Shareholders (Accounts) at year end	101,182	86,676
Number of Employees at year end	5,384	5,322
Personnel Cost (Rs. In Crores)	118.26	109.44

PERFORMANCE HIGHLIGHTS

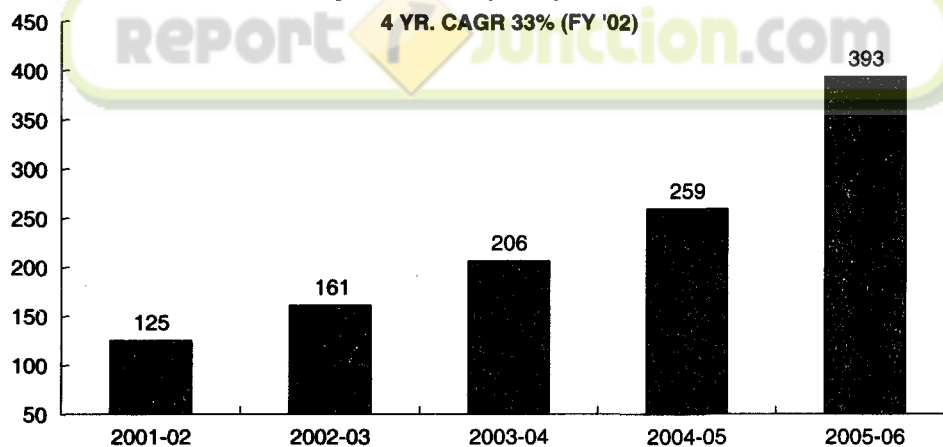
Sales Trend - Rs. Crore

4 YR. CAGR 9% (FY '02)



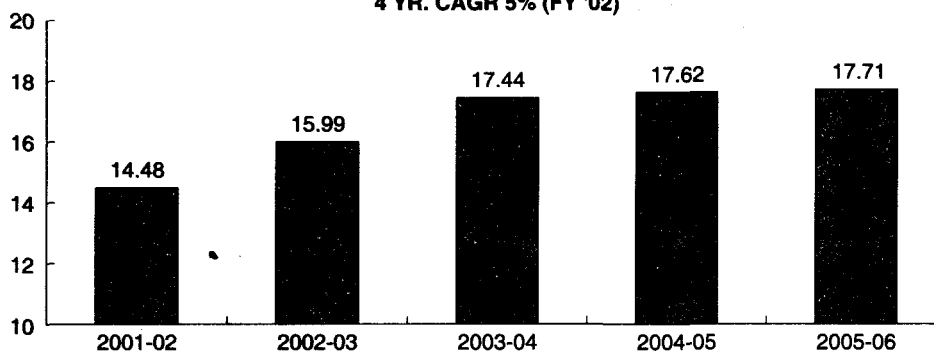
Export Sales (FOB) - Rs. Crore

4 YR. CAGR 33% (FY '02)



Truck Tyre Production - Lakh Nos.

4 YR. CAGR 5% (FY '02)



TEN - YEAR OPERATING AND FINANCIAL RECORD

(Rs.in Crores)

	2005-06	2004-05	2003-04	2002-03	2001-02	2000-01	1999-2000	1998-99	1997-98	1996-97
OPERATING RECORD										
Sales-Gross	19,52	17,80	16,48	14,79	13,61	11,90	13,48	11,66	11,49	12,02
Less:Excise Duty	2,05	2,52	2,47	2,73	2,47	2,06	2,45	2,08	1,88	2,55
Other Income	23	39	1,01	75	67	79	70	1,07	95	1,14
	17,70	15,67	15,02	12,81	11,81	10,63	11,73	10,65	10,56	10,61
Materials & Traded Goods	12,14	10,60	9,38	7,49	7,18	6,05	6,51	5,85	6,12	6,45
Personnel Cost	1,18	1,09	1,16	1,16	1,02	90	90	81	76	63
Expenses	3,46	3,15	3,28	2,77	2,37	2,67	2,97	2,66	2,33	2,38
Interest	64	64	76	88	1,01	99	97	1,01	1,07	95
Depreciation	23	22	22	22	19	16	15	13	13	13
Total Cost	17,65	15,70	14,80	12,52	11,77	10,77	11,50	10,46	10,41	10,54
Profit/(Loss) before taxation	5	(3)	22	29	4	(14)	23	19	15	7
As percentage of Sales (%)	0.27	(0.17)	1.33	1.96	0.26	1.17	1.71	1.61	1.27	0.55
Provision for Taxation including Fringe Benefit Tax	5 *	(1)	8	11	2	0	3	2	1	0
Profit/(Loss) after Taxation	0.52	(2)	14	18	2	(14)	20	17	14	7
Dividend	—	—	4	4	4	4	7	7**	7**	7**
Per Share (Rs)	—	—	1.00	1.00	1.00	1.00	2.00	1.92	1.92	1.92
FINANCIAL RECORD										
Share Capital	46	35	35	35	35	35	35	35	39	39
Reserves & Surplus	3,03	5,95	5,89	5,88	5,51	5,67	5,93	5,13	4,45	4,47
Shareholder's Equity	3,49	6,30	6,24	6,23	5,86	6,02	6,28	5,48	4,84	4,86
Loan Funds & Deferred Tax Liability	4,32	4,64	5,13	5,21	5,57	5,89	5,43	5,04	4,66	4,77
Capital & Loan Funds employed	7,81	10,94	11,37	11,44	11,43	11,91	11,71	10,52	9,50	9,63
Fixed Assets- Gross	11,11	9,05	8,40	8,23	7,50	7,69	7,27	5,91	5,01	4,78
Depreciation	3,85	3,60	3,31	3,03	2,62	2,44	2,21	2,01	1,80	1,60
Fixed Assets- Net	7,26	5,45	5,09	5,20	4,88	5,25	5,06	3,90	3,21	3,18
Investments	1,28	1,91	1,91	1,93	1,93	1,99	2,05	2,11	2,46	2,30
Current Assets - Net	(73)	3,58	4,37	4,31 *	4,62	4,67	4,60 *	4,51 *	3,83 *	4,15 *
Capital & Loan Funds applied	7,81	10,94	11,37	11,44	11,43	11,91	11,71	10,52	9,50	9,63

* Inclusive of Miscellaneous Expenditure to the extent not written off or adjusted

** Includes preference share dividend

Includes Fringe Benefit Tax

Figures regrouped wherever necessary

DIRECTORS' REPORT

The Directors have pleasure in presenting their forty-seventh report, together with the audited accounts for the year ended 31st March, 2006.

FINANCIAL HIGHLIGHTS

	For the year ended 31 st March, 2006 *	For the year ended 31 st March, 2005
	(Rs. in crore)	(Rs. in crore)
Operating Profit (Profit before Interest, Depreciation and Taxation)	91.22	78.52
Less: Interest	63.55	64.19
Depreciation	22.45	22.05
Extraordinary Item	-	(4.85)
Profit/(Loss) before Taxation	5.22	(2.87)
Less :Provision for Taxation:		
Current Tax	0.69	-
Deferred Tax	1.00	(1.00)
Fringe Benefit Tax	3.01	-
Net Profit / (Loss)	0.52	(1.87)
Surplus brought forward from previous year	26.82	52.36
Debenture Redemption Reserve Written Back	-	12.00
Provision for Additional Excise	-	(35.67)
Sum available for Appropriation	27.34	26.82
Appropriations:		
Proposed Dividend on Equity Shares	-	-
Tax on Dividend	-	-
Balance carried forward	27.34	26.82

* The figures of the previous year are not comparable as the figures for the financial year 2005-06 include the results of three amalgamated wholly owned subsidiary companies.

DIVIDEND

In view of the inadequacy of profit for the financial year under review, the directors consider it prudent not to recommend a dividend.

INDUSTRY SCENARIO

A double digit growth in automobile sales and improved economic activity has helped the Indian tyre industry register a healthy revenue growth during the year under review.

However, the management of input costs was a very challenging task due to unprecedented increase in prices of natural rubber and petroleum based raw materials. Natural rubber prices touched record levels whereas crude oil continued to remain high thereby leading to higher prices of carbon black and nylon, key ingredients for tyre business. A significant part of the rise in costs had to be absorbed within operating margins due to the highly competitive market scenario, leading to an increased pressure on overall profitability.

CEAT'S PERFORMANCE

CEAT's sales performance was generally in line with that of the industry. The Company registered a revenue growth of 14 % during the year under review. The key driver of this growth was exports, which registered a healthy growth of 52 %.

CEAT sustained its focus on market development, particularly new markets in Europe and Australia and a commitment to total quality management across the organization has improved operating cost efficiencies. Consequently, operating profit of the company increased from Rs. 78.52 crore in the previous year to Rs.91.22 crore in the year under review, despite the steep rise in input costs.

EXPORTS

The steps taken in the past towards consolidation of existing markets and development of newer markets in Europe and Australia have paid dividends and the Company's exports (FOB) for the year stood at Rs. 394 crore, higher by 52% over last year. Exports will continue to receive close attention and is expected to contribute to a great extent in the future revenue growth of the Company.

FUTURE OUTLOOK

Tyre industry is expected to maintain its robust growth buoyed by the increase in demand for automobiles and encouraging growth in key sectors of the Indian economy.

The Central Government's continued thrust on road and infrastructure projects will give a much anticipated boost to the overall movement of goods and vehicles across the important trading and consumer destinations of the country leading to an increase in demand for tyres. The recent legislation imposing load restrictions and safety standards has also led to an improved discipline in usage and replacement of tyres and also strengthened demand in the domestic market. CEAT has ensured a balanced product portfolio in order to tap the opportunities presented by these developments.

CEAT's business plan for financial year 2006-07 takes into account a focus on greater value addition to its product portfolio and expansion of its car radial capacity, which together should reflect in improved margins in the coming year.

ASSOCIATED CEAT - KELANI VENTURE

CEAT's joint venture in Sri Lanka, registered a modest revenue growth of 7%, up from SL Rs. 2713 million in the previous year to SL Rs. 2910 million for the year under review. The profit for the year at SL Rs. 54 million was lower as compared to the profit of SL Rs. 83 million for the previous year. The earnings could have been substantially higher but for the loss of production in one of the two manufacturing units on account of labour issues, which have since been settled through a long term productivity linked wage settlement.

This venture is already a market leader in the bias segment with a market share of over 50%. It is currently implementing a new project to manufacture 26,000 passenger car radial tyres per month. With substantial increase in productivity and the foray into radial segment, revenue and profitability of this venture are expected to see significant improvement in the coming years .

SCHEME OF AMALGAMATION OF SUBSIDIARY COMPANIES

The scheme of amalgamation of CEAT Ventures Limited, CEAT Holdings Limited and Meteoric Industrial Finance Company Limited, the wholly owned subsidiaries, with the Company, with effect from the appointed date i.e. 1st April, 2005, was approved by the Hon'ble High Court of Judicature at Bombay on 30th June, 2006. The scheme, after obtaining all the necessary statutory approvals and compliances, has become effective on 21st July, 2006. Accordingly, the assets of the transferee companies and assets and liabilities of the transferor companies have been carried over at their respective fair values. The resultant difference has been adjusted from the revaluation / capital reserves as per terms of the said scheme.

The audited accounts presented herein have been prepared after taking effect of the said scheme.

AUTHORISED SHARE CAPITAL

Pursuant to Article 5 of The Articles of Association of the Company, the Board of Directors at its meeting held on 23rd September 2005 have re-classified 108,86,680 as equity shares of Rs. 10/- each out of total 208,86,680 unclassified shares of Rs. 10/- each as mentioned in the last balance sheet in order to facilitate issue of equity shares of Rs. 10/- each on rights basis in terms of Letter of Offer dated 8th December 2005.

RIGHTS ISSUE

In terms of the Letter of Offer dated 8th December, 2005 and in consultation with the Bombay Stock Exchange Ltd., the Company had, on 20th February, 2006, allotted 1,05,34,347 equity Shares of Rs. 10/- each for cash at a premium of Rs. 40/- per share, on rights basis in the ratio of 3 new equity shares for every 10 equity shares held on the record date.

The amount of Rs. 52.67 crore so raised has been fully utilised for the stated purposes of the above issue.

RESEARCH & DEVELOPMENT

The year 2005-06 saw significant R&D efforts to develop new products and enhance quality of tyres. The new products so developed have performed well in the domestic as well as international markets. Successful efforts were made into re-engineering the products and to reduce costs and optimise material consumption.

CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION, FOREIGN EXCHANGE EARNINGS AND OUTGO

A statement giving details of conservation of energy, technology absorption, foreign exchange earnings and outgo, in accordance with the Companies (Disclosure of Particulars in the Report of the Board of Directors) Rules, 1988, is annexed hereto and forms part of this report.

HUMAN RESOURCES

The Company continues its efforts towards ensuring employee engagement and involvement. HR initiatives during the year have focused on creating a new culture for performance, as well as ensuring that the requisite skill and knowledge level within the organisation is commensurate with the achievement of the Company's goals.

Control of attrition and retention of critical talent within the organisation have been accorded high priority.

Long term productivity linked wage settlements were concluded at Bhandup and Nasik plants. The settlements were concluded in an atmosphere of mutual trust.

EMPLOYEE STATEMENT

As required under Section 217(2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975, a statement showing names and other particulars of employees of the Company, is annexed hereto and forms part of this report.

DIRECTORS

Dr. G. Accornero and Mr. N. Srinivasan have resigned from the Board of Directors of the Company with effect from 8th December, 2005 and 12th June, 2006 respectively. The directors would like to place on record their appreciation for the valuable services rendered by Dr. Accornero and Mr. Srinivasan during their tenure as Directors of the company.

In accordance with the Companies Act, 1956 and Articles of Association, Mr. H.V. Goenka, Mr. J.N. Guzder, Mr. Haigreave Khaitan and Mr. K.R. Podar retire by rotation and have offered themselves for re-election.

DIRECTORS' RESPONSIBILITY STATEMENT

Pursuant to Section 217 (2AA) of the Companies Act, 1956, your directors, to the best of their knowledge and belief confirm that :

- i) the applicable Accounting Standards have been followed in the preparation of the annual accounts.

- ii) such accounting policies have been selected and applied consistently and such judgements and estimates have been made that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company in the Balance Sheet as at 31st March, 2006 and of the Profit and Loss Account for the said financial year viz. 1st April, 2005 to 31st March, 2006.
- iii) the 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 have been taken.
- iv) the annual accounts have been prepared on a going concern basis.

CORPORATE GOVERNANCE

A report on corporate governance, along with a certificate from the auditors of the Company, regarding the compliance of conditions of corporate governance, as also the Management Discussion and Analysis Report, as stipulated under Clause 49 of the Listing Agreement, are annexed to this report.

AUDITORS

Messrs. N.M. Raiji & Co., auditors of the Company, retire at the ensuing Annual General Meeting and being eligible, offer themselves for re-appointment.

ACKNOWLEDGEMENT

The directors place on record their appreciation for the continued support they have received from customers, suppliers, dealers, financial institutions, banks, shareholders and employees towards conducting the business of the Company during the year under review.

On behalf of the Board of Directors,

Mumbai,
Date : 31st July, 2006

H. V. GOENKA	PARAS K. CHOWDHARY
Vice Chairman	Managing Director