

Think of Clutch
 ...Think of Clutch Auto



37th Annual Report 2007-2008

THIK-THIN™

TTD™ Traceability Till Death

HI-LIFE™
CLUTCHES

XTRA™
LIFE
CLUTCHES

- SCORPIO™**
GENERAL
- SAFARI™**
Special
- SANTRO**
- VAN**
- GYPSY**
- ESTEEM**
- EICHER HI**
- SWARAJ**
- MAZDA**



HI-KOPPER™
Clutch Facing

Krom-Vanadium

TurboTOP™
407 TC, 280 TC & 310 HL

turbo King™
Spacio Gold

SUMO™
Special

- MAHINDRA**
- MARUTI CAR**
- BAJAJ**
- 3 WHEELER**
- INDICA**
- ALTO**
- WAGON R**

352 Ø

azadi™
Special

SUPER352 Belleville

6212 **7+1™**

310 - 330 Ø

CON-KIT™

KIT™

**COOL
KIT**

**DOUBLE
DISC**

TurboKIT

**Tough
n
COOL**

**Tough
n
Hard**

TIGER^{3X}™

Road Raider™

COOKIE™
Clutch

UNIVERSAL™
Clutch

**DOUBLE
DISC**

CITY™
BUS CLUTCHES

SUPER15"

3X_{XTRA}

**LOCKER
DISC**

Co-axial™

Krom-Silikon™

Insulator™

Think of Clutch

Think of Clutch Auto



हम हैं जोश में
HUM HAIN JOSH MEIN

Innovation ...thy name is Clutch Auto



Late Sh. K. S. Bhatnagar, Retired IAAS
(20th Nov 1925 - 17th May 2008)

We will always remember our beloved Chairman as one of the most energetic, knowledgeable and compassionate human being. He had a magnetic personality and was a noble soul. A true devotee of Sri Satya Sai Baba, he was active & supportive in social/religious activities. In true terms, he was a Karmayogi and lived a simple life.

During his long association, our Company benefitted greatly by his acumen and wisdom. Under his able guidance, the Company recorded many notable achievements. We are confident that his vision will continue to guide the Company in the coming years.

May his soul rest in peace and pray God to give strength to his family.

BOARD OF DIRECTORS:

SH. V K MEHTA
SH. K K TANEJA
SH. SHITAL K JAIN
SH. CHANDRA SHEKHAR AGGARWAL
SH. ANUJ MEHTA
SMT. POOJA KAPUR

Chairman & Managing Director
Director
Director
Additional Director
Executive Director
Director

EX-CHAIRMAN:

LATE SH. K S BHATNAGAR

Chairman (upto 17.5.2008)

COMPANY SECRETARY:

SH. PRITAM PAUL

GM-Commercial & Company Secretary

AUDITORS:

M/s. B. Aggarwal & Co.,
Chartered Accountants,
16A/17, Ajmal Khan Road,
Karol Bagh, New Delhi – 110 005

BANKERS:

IndusInd Bank Ltd.
Development Credit Bank Ltd.
DBS Bank Ltd.
Canara Bank
Axis Bank Ltd.

REGISTERED OFFICE:

2E/14, (1st Floor)
Jhandewalan Extn.,
New Delhi – 110 055
Telefax: (91-11) 23683548

Works & Admn. Office:

Plot No.1A, Sector 27D,
12/4, Mathura Road,
Faridabad – 121 003.
Tel: (91-129) 2275246 (6 lines)
Fax: (91-129) 2276039
E-mail: cal@nda.vsnl.net.in

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DIRECTORS' REPORT

Dear Shareholders,

Your Directors have pleasure in presenting the 37th Annual Report of the Company along with the Audited Accounts for the year ended 31st March 2008.

FINANCIAL RESULTS

	(Rs. in Lakhs)	
	<u>2007-08</u>	<u>2006-07</u>
Income from Operations	23798.03	25562.02
Excise Duty	<u>2099.90</u>	<u>2055.19</u>
Net Sales (1-2)	21698.13	23506.83
Other Income (including increase/ Decrease in value in goods in process)	<u>488.26</u>	<u>509.13</u>
Total Revenue (3+4)	22186.39	24015.96
Raw Materials and Components	13495.93	14337.80
Employees Costs	1885.69	1580.34
Other Expenses (excl. Dep. & Interest)	<u>3457.90</u>	<u>4043.12</u>
Total Expenses (excl. Dep. & Interest)	18839.52	19961.26
PBDIT (5-9)	3346.87	4054.70
Depreciation and Amortisation	<u>592.90</u>	<u>644.74</u>
PBIT (10-11)	2753.97	3409.96
Interest	<u>1149.00</u>	<u>889.84</u>
PBT (12-13)	1604.97	2520.12
Current Tax	231.21	519.25
Deferred Tax	<u>27.00</u>	<u>- 95.00</u>
PAT (14-15-16)	1346.76	2095.87
Balance Brought Forward from last year	4146.59	2050.72
Surplus carried forward to the Balance Sheet	5493.35	4146.59
Earning per Share		
(EPS in Rupees)		
- Basic	8.26	13.51
- Diluted	-	12.84

Zero Coupon Convertible Share Warrants

Out of 30,00,000 Zero Coupon Share Warrants of Rs.10/- each issued on 5th October, 2005 at a premium of Rs.108/- per warrant, remaining 8,00,000 Share warrants were converted into Shares on 4th April, 2007. With this conversion, the Paid up share Capital of the Company stood at Rs. 16.31 Crores from Rs.15.51 Crores.

Fixed Deposits

The Company has not accepted any Deposits within the meaning of Section 58A of the Companies Act, 1956.

Directors

(i) Past Chairman of the Board -

We regret to inform of the sad demise of our Hon'ble Chairman

Sh. K S Bhatnagar, who left for his heavenly abode on 17th May, 2008. During his long association, the Company has benefited greatly by his guidance, rich acumen and wisdom. Under his able supervision, Company recorded many notable achievements. His vision and spirit will continue to guide the Company in the coming years. The Board places on record its deep appreciation of the distinguished services rendered by Late Sh. K. S. Bhatnagar during his tenure as Chairman of the Company. May his soul rest in peace.

(ii) New Chairman of the Board

Your Board members elected Sh. V. K. Mehta as the Chairman of the Board with effect from 26th July, 2008.

(iii) Additional Director

To fill up the vacancy caused by the death of late Sh. K. S. Bhatnagar, your Board has appointed Sh. C. S. Aggarwal, a renowned Senior Advocate as an "Additional Director" with effect from 26th July, 2008 and now commends the said appointment of Sh. C. S. Aggarwal as a **Non Executive Independent Director**, for consideration and approval of the Shareholders at the ensuing Annual General Meeting of the Company. Brief Resume of Sh. C. S. Aggarwal is given in the Corporate Governance Report.

Disclosures regarding re-appointment of Directors

In terms of Section 256 of the Companies Act, 1956, Sh. Shital K Jain and Smt. Pooja Kapur, Directors will retire at the ensuing Annual General Meeting and being eligible, offer themselves for re-appointment.

Your Directors recommend their re-appointments for a further term from the conclusion of the ensuing Annual General Meeting in the larger business interests of your Company. The abbreviated resumes of Sh. Shital K Jain and Smt. Pooja Kapur, the Directors seeking re-appointment / appointment are as under:

Sh. Shital K Jain

Sh. Shital K. Jain was inducted as an Additional Director on the Board of Directors of the Company w.e.f. 7th July, 2005. Since then, he is playing a crucial advisory role in various matters involving Company's financial policies, Banking and its implementation. Sh. Shital K. Jain, is an M.A., B.A. (Hons.) with Distinction from Punjab University and MBA from Indiana University, U.S.A. Sh. Jain is a seasoned banker, having more than 31 years of rich experience of working with Citibank, where he has been Senior Credit Officer for more than 18 years and has spent many years in Hong Kong, Taiwan, Phillipines, Thailand and Canada during his service. He is also a Director on the Boards of M/s. R. S. Software Ltd., Kolkata and one of the Board of Trustees of Lotus Asset Management Trustee Company Pvt. Ltd., Mumbai. Sh. Jain

is a member of the Audit Committee of the Company.

Smt. Pooja Kapur

Smt Pooja Kapur is an MA from the Delhi University. Smt. Kapur was inducted as an Additional Director w.e.f. 24.02.2006 and possess wide experience in Automotive Industry. She is a relative of the "Chairman & Managing Director" and 'Executive Director" of the Company and the Proprietor of M/s. Kanav Engineering, a Faridabad based engineering company engaged in manufacturing of Automobile parts and has a considerable experience in manufacturing of Auto parts and general management. Smt. Kapur is the member of the Audit Committee and Shares Servicing & Shareholders' Grievance Committee of the Company.

Management Discussion & Analysis

The Board presents Management Discussion and Analysis as **Annexure – A** to this Report.

Corporate Governance Report

Your Company has been complying with good Corporate governance in terms of Listing Agreement by maintaining highest level of transparency, accountability and fairness in all facets of its operations. To achieve highest internal standards in corporate governance, the Company believes in attaining the best business interests to enhance overall shareholders' value by adopting good business practices.

Annexure - B on Company's Corporate Governance is annexed herewith.

A separate statement on Corporate Governance is included as a part of the Annual Report along with the Practicing Company Secretary's Certificate on its compliance as **Annexure – C**.

Auditors

M/s. B. Aggarwal & Co., Chartered Accountants, New Delhi the Statutory Auditors of the Company, hold office until the conclusion of the ensuing Annual General Meeting and being eligible, offer themselves for re-appointment. Your Directors recommend their re-appointment, subject to approval of the shareholders of the company, for a further term at such remuneration as may mutually be agreed between the Board and the Auditors.

Regarding queries relating to Auditors' Report for the year ended 31st March, 2008, Management has submitted clarification in the Notes on Accounts to the Annual Report, wherever applicable.

Directors' Responsibility Statement

Pursuant to 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 for the financial year ended 31st March, 2008, the applicable accounting standards have been followed along with appropriate explanation relating to material departures;
- (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 and of the profit or loss of the Company for the year under review;
- (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 frauds and other irregularities;
- (iv) that the Directors have prepared the accounts for the financial year ended 31st March, 2008 on a "going concern" basis.

Employees

During the year under report, the Employees relations throughout the year continued to be cordial and harmonious and on behalf of your Board, I would like to express appreciation of the good work done and co-operation extended by employees at all levels in accomplishing Company's tasks and goals.

The information required under the provisions of Section 217(2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975 and forming part of the Report is placed as **Annexure - D**.

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

A Statement as required under the Companies (Disclosure of Particulars in the Report of Directors) Rules, 1988 as part of the Directors' Report for the year ended 31st March, 2008 is submitted in **Annexure - E**.

Acknowledgement

Your Directors place on record their thanks for the assistance, guidance and cooperation extended from time to time by our revered Customers, Financial Institutions, Banks, Central & State Governments and our dear Shareholders during the year under report. They also wish to convey deep appreciation of the loyal and devoted services rendered by the employees at all levels.

For and on behalf of the Board of Directors

New Delhi
26th, July, 2008

V K Mehta
Chairman & Managing Director

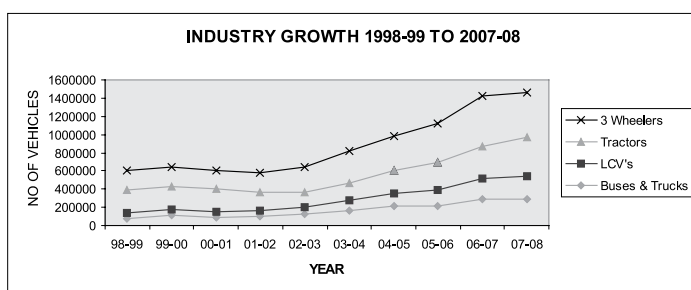
MANAGEMENT DISCUSSION & ANALYSIS

I. INDUSTRY STRUCTURE & OPPORTUNITIES

After witnessing consistent growth in the previous five years, our Country could achieve a growth of 7.5% against a projection of 8.5%. Global real GDP growth also slowed down at 3.7% compared to 4.9% year before. Current year Economy is expected to grow @ 8.1%, however due to inflationary pressure, it could slide to 7.0 to 7.50%.

Automotive Industry, a prominent segment of the national economy was also affected and had to face flat growth during the 2nd half of the year. Hardening of interest rates coupled with higher inflationary pressures and industrial slowdown affected the input costs and availability of essential raw materials very adversely resulting in both bottom and top lines in the Automotive industry. However, on global platform, key Indian Automotive Companies continued the momentum in mergers & acquisitions. Joint Ventures by foreign companies with Indian counterparts and opening of IPO's by MNC's, would help the Industry to take lead in years ahead. Some of the products launched by Indian Companies have created new segments of competition in the Industry, giving a good preface and foundation to achieve the notified 10 year "Automotive Mission Plan" targeted to make Indian Automotive Industry as a global Hub for small Cars and a favourite destination for sourcing of components.

Ancillary and Allied industries supporting and depending on Automotive Industry are contributing substantially to the higher economic growth. Automotive Industry witnessed marginal growth across all segments especially in the heavy vehicle segment, the thrust sector for the Company.



[Source – ACMA]

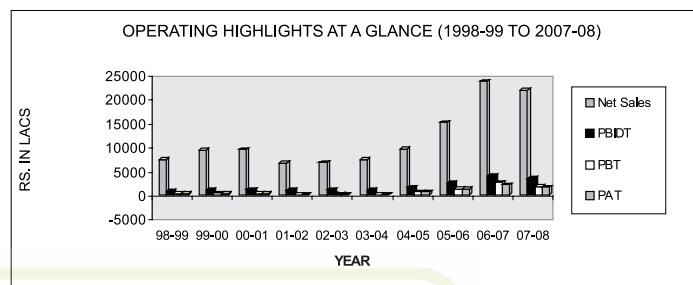
During the later part of the year, Automobile, Heavy Duty Commercial Vehicle and Motor Cycle Industries witnessed demand recession leading to dislocation in the growth of these sectors. The overall demand in commercial vehicle industry dropped by 0.8% during 2007-08 as against growth of 25.3% in the previous year. Other segments viz. three wheelers, tractors and LCV's showed marginal growth in 2007-08. The year continued with the sustained spending

on infrastructure by Govt. of India, downtrend in the growth platform is a part of general economic cycle.

Clutch Auto is catering to three sectors viz. OEM, Replacement Market and Exports. The Company was able to make good the shortfall in OEM sales by supplying to aftermarket segment. At Exports front, Clutch Auto has made long term commitments to OEMs' in Commercial Vehicle & Tractor segments including a Co-Manufacturing Agreement with a MNC Clutch Manufacturer.

II. FINANCIAL PERFORMANCE OF THE COMPANY

Clutch Auto has maintained a constant growth rate snapshot as under:



There was downfall in Company's financial performance during this Financial Year due to slowdown in heavy-duty segment, coupled with sharp increase in the raw material prices and increase in administrative costs. The Company has struggled to maintain margins, mainly by cost reduction and improvement of internal efficiencies.

Turnover, net of excise duties, at Rs. 216.98 Cr. vs. Rs. 235.07 Cr. in 2006-07 was lower by 7.7% due to sluggish demand both in Indian heavy duty segment and as deliberate withdrawal from the US market for a short duration.

Raw Material consumption i.e. to Rs. 134.96 Cr (62.20%) in 2007-08 was Rs. 143.38 Cr (60.99%) in 2006-07. This was largely a result of unchecked high steel & Pig Iron prices during the last two quarters of the year. However, the Company has continued its VA & VE exercises as part of an on going cost reduction program and initiated global sourcing of key inputs at lower costs, maintaining stringent Quality norms as per customer needs. Major initiatives have been taken towards vendor rationalization and value engineering during the year.

Employee Cost increased to Rs. 18.86 Cr. (8.69%) from Rs. 15.80 Cr. (6.72%) last year due to inflation and other employee welfare initiatives taken during the year. The Company maintained the number of employees at its previous year's level. However, increase in productivity of the employees was neutralized by the decrease in turnover.

Profit Before Depreciation, Interest, Exceptional items and Tax decreased to Rs. 33.46 Cr. (15.42%) from Rs. 40.55 Cr. (17.25%) in 2006-07.

Depreciation for the year 2007-08 increased to Rs. 5.86 Cr. (2.70%) from Rs. 5.17 Cr. (2.20%) in 2006-07.

Interest Cost increased to Rs. 11.49 Cr. (5.29%) in 2007-08 from Rs. 8.89 Cr. (3.78%) in 2006-07 due to increase in PLR coupled with additional short term borrowings.

Profit Before Tax (PBT) stood at Rs. 16.05 Cr. from Rs. 25.20 Cr. in 2006-07. The tax provision for current year is at Rs. 2.58 Cr. as compared to Rs. 4.24 Cr. in 2006-07.

Profit After Tax (PAT) stood at Rs. 13.47 Cr. vs. Rs. 20.96 Cr. in 2006-07 resulting in decline in Earning Per Share (EPS) at Rs. 8.26 compared to Rs.13.51 last year.

Balance Sheet

As on March 31, 2008, the **Ordinary Share Capital** stood at Rs. 16.31 Cr. vs. Rs. 15.52 Cr. as on March 31, 2007, due to conversion of 8,00,000 Share Warrants to promoters on Preferential basis.

Gross Secured Debt stood at Rs. 83.48 Cr. as on March 31, 2008 as compared to Rs. 80.27 Cr. as on March 31, 2007.

Current Assets of the Company increased to Rs. 192.31 Cr. in 2007-08 from Rs. 183.62 Cr. in 2006-07, mainly due to increase in Inventories at Rs. 44.68 Cr. in 2007-08 from Rs. 38.06 Cr. in 2006-07 to support enhanced turnover.

Current Liabilities of the Company increased at Rs.47.24 Cr. in 2007-08 from Rs.40.61 Cr. in 2006-07.

III. SWOT ANALYSIS

1. Initiatives taken during last couple of years give a long term edge to CAL in the Industry. Its selection by CSIR in association with distinguished Research Laboratories viz. International Advance Research Center (ARCI), Hyderabad; Central Glass and Ceramic Research Institute (CGCRI), Kolkata; National Chemical Laboratory (NCL), Pune and IIT-Delhi has opened linkages between the Company and the Research Establishments and industry leaders to develop new technologies with long term ramifications in the Clutch Industry.

2. Opportunities offered currently by leading passenger car and automotive manufacturers have opened up windows, which were so far denied to the Company has a self imposed strategy, concentration have been on the commercial vehicle segment.

3. Steps taken during the last one year for increasing the Foundry capacity will supplement Company's efforts to tap new opportunities in the years to come.

4. Engineering base created with the support of the Foreign Consultants and In-house development have given opportunities with the domestic truck manufacturers for a product to product technology which can offer opportunity and more extended life to the clutches.

5. OEM's target to have total control on the Aftermarket can significantly impact company's Replacement Market operations.

Competition from Chinese low cost manufacturers can be a threat to Company's business in some segments.

6. Vertical integration exercises give a long term edge to the Company as a preferred low cost supplier in international market.

7. Timely assistance from International Bankers is likely to help establish need based capacities and test capabilities to meet the Company's International multifarious opportunities.

IV. TECHNOLOGY

1. 77 new items launched during 9th International Auto Expo, 2008 (New Delhi) have opened up new vistas / opportunities with an edge in such segments where the Company has not pursued business opportunities.

2. A new product "**Self Adjusting Clutch**" introduced in the US market has been extensively tested and proven its performance in field operations.

3. New proposals under consideration with leading Truck Manufacturers giving options of additional service life and cost reduction have given valuable opportunities for long term business.

4. Following comments from a leading International Truck Manufacturer are encouraging:

"Clutches are critical components and the performance of our components is a key priority."

"Partnering with Clutch Auto will allow us to better manage performance and quality to deliver differentiation and value to our customers. Clutch Auto will help us deliver innovation in clutch design not available elsewhere."

5. New concept "**Traceability Till Death**" (TTD), currently under implementation, is going to have long term ramifications.

6. Fresh look at existing designs ab initio has resulted in development of **Hi-Life & Extra Life** Clutches, specialized **CA City** and universal Clutches which are giving a performance edge to the Company in the domestic market.

7. Two leading truck manufacturers have already accepted Cushion Organic Clutches as standard fitment for Commercial Vehicles.

V. IPR PORTFOLIO

The ONLY Indian Auto Component Manufacturer with domestic & overseas Patents & Trade Marks

Patents	Approved	Pending	Under filing
Overseas			
USA	1	-	11
Mexico	1	-	-
Australia	1	-	-
Total overseas	3	-	11
Domestic	2	10	11

Designs			
India	15	-	8
Trade Marks			
USA	8	4	13
India	9	32	13

Vibro Kits
Catcher Disc
Floating Clutch
Xtra Life
City Bus
Wavy Fulcrum Ring
Million Mile Clutch
Krom-Silikon
Hi-Kopper

UNDER FILING

Enclosed Window discs
Long Life Clutches – Bonded.
Dual Sintered Clutches
NVL Discs. (Noise Vibration Limiters)

Self aliening clutches developed by the company are gaining increasing acceptance in International Markets.

PATENTS & TRADE MARKS

Patents

APPROVED

EZ N LITE - Low Pedal Pressure Clutch
Pre-Damp High Torque Clutch discs

Trade Marks

APPROVED

EZ N LITE
INTERLOCK CLUTCH
ECO CLUTCH
PRE DAMP HIGH TORQUE
WHISPER
PDHT
MONO

CURRENTLY FILED

Wear Indicator Assembly (Pin Type)
Clutch Wear Adjustment Indicator
Clutch Wear Adjustment Tool
Improved Clutch Disc Direct/Dual Sintering

Improved Clutch Disc with Spot Welding Bonded Disc
Electronic Wear Adjustment for A Clutch Clutch Adjuster
Clutch Packing cum Setting Guage
Self-Adjusting clutch Assembly

CURRENTLY FILED

ROAD RAIDER
NVL
AUTO COOL N EZ
SELF ALIGNING CLUTCH
ECO N AUTO
AUTO
AUTO N COOL
TWIN N QUIK
Hi-life
The Clutch that thinks it does not require a Mechanic
Tiger 3X
Turbo King
Angle Spring
Co-axial
Hi-Sink
Cookie Clutch
Thik-Thin
Gold Kits
Turbo Top
TTD
Angle ring
Universal Clutch
Insulator

VI. RESEARCH & DEVELOPMENT

1. New products introduced, and the IPR Portfolio, VA & VE exercises and other steps mentioned in the SWOT Analysis are pillars of strengths of CAL's R&D activities being actively supported by world renowned Consultants and Experts in the Clutch Industry.

2. Company is developing 'Virtual' Design Development & Testing Softwares for improving its Development & Certification capabilities.

3. New products development with technology support from HAL will have long term impact in the domestic and international Truck Clutch opportunities.

VII. INTERNAL CONTROL SYSTEMS AND THEIR ADEQUACY

Clutch Auto has a proper and adequate system of internal controls to ensure that all assets are safeguarded and protected against loss from unauthorized use or disposition and that transaction are authorized, recorded and reported quickly.

Company's Internal control is supplemented by an extensive program of strong and independent internal audits, review by management and documented policies, guidelines and procedures.

Based on the nature of business and size of operations, the Company's internal control system has been designed to provide for:

- ✓ Accurate recording of transactions with internal checks and prompt reporting.
- ✓ Adherence to applicable Accounting standards and policies.
- ✓ Review of capital investments and long term business plans.
- ✓ Periodic review meetings to manage effectively, all working capital elements.
- ✓ Compliance with applicable statutes, policies,