

24th Annual Report 2005-2006



G. P. Electronics Limited



G. P. ELECTRONICS LIMITED

24TH ANNUAL REPORT 2005-2006

Board of Directors

Ms. Urvi A. Piramal Chairperson
 Mr. M. J. Tibrewala
 Mr. Ranjan Sanghi
 Vice Adml. S. Jain (*Retd*)
 Mr. S. N. Somani
 Mr. Shreyas Doshi
 Mr. Shyam Ghia

Company Secretary

Ms. Rupa D. Desai

Bankers

HDFC Bank Ltd.

Auditors

Haribhakti & Co.
 Chartered Accountants, Mumbai.

Registered Office

106, Peninsula Centre,
 Dr. S. S. Rao Road,
 Parel, Mumbai - 400 012.

Works

Plot No. B-87, M. I. D. C.,
 Ambad, Nasik-422 010
 Tel. : (O) 0253-2382238 / 2382267
 E-mail : nashik@gpelmagnet.com
 Website : www.gpelmagnet.com

Annual General Meeting will be held on
Wednesday, 23rd August, 2006 at 11.00 a.m.
 at Walchand Hirachand Hall, Indian
 Merchants' Chamber Building, Churchgate,
 Mumbai - 400 020.

Share Transfer Agent

Amtrac Management Services Limited

Administrative Unit

106, Peninsula Centre,
 Dr. S. S. Rao Road,
 Parel, Mumbai - 400 012.

Processing Unit

Plot No. 101/102, MIDC,
 19th Street,
 Satpur, Nasik - 422 007.

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MANAGEMENT DISCUSSION & ANALYSIS

Industry

Hard Ferrite Magnets are used by Consumer Electronics and Automobile Industry. Speaker Ring Magnets are used by Consumer Electronics Industry and Segment Magnets are used by Automobile Industry.

Due to the lower input costs and larger production volumes, China has become the only nation producing Speaker Ring Magnets in the world. Currently India has only two major players including ourselves, producing Segment Magnets for the Auto Industry. Almost the entire Indian requirement of Speaker Ring Magnets is met by imports from China.

Opportunities & Threats

With the Auto Industry in India growing rapidly, the Company visualizes huge potential for the Segment Magnets.

After consolidating their presence in Indian Market through the sale of Speaker Ring Magnets, China has now set its eye on the Segment Magnet market as well.

Currently, most of the Indian customers source their requirements both by way of domestic purchases and by way of imports from China.

Product Performance

As the Company has completely discontinued production of Speaker Rings, income from operations has gone down drastically. The production of Speaker Rings has been discontinued due to un-sustainability of the production costs associated with it.

The operations of the Company were also adversely affected due to the labour unrest at its plant. The strike has since been called off w.e.f. 1st March 2006 and the Company has commenced its operations.

The share of Segment Magnet in terms of production volume has increased to 87% in 2005-2006 compared to 12% in 2004-2005. Now that the labour issues have been resolved, Company is in the process of implementing its new plans and strategies. The Company has planned to double production of Segment Magnets in 2006-2007.

The share of different product groups in FY'06 was as follows:

- | | |
|-------------------|-----|
| (1) Segments | 87% |
| (2) Speaker Rings | 13% |

Financial and operational performance

The Company's sales registered a de-growth during the year. This is primarily because of complete stoppage of speaker rings and decrease in realization of segment magnets.

The sale of Segment Magnets registered a growth of 16% in the year FY'06.

Continuing the trend for last three years in a row, the interest cost was further reduced to Rs.2.65 lacs against Rs.7.14 lacs in last year.

The Company has invested Rs.77.00 Lacs in plant & machinery for enhancing Segment Magnets production. During the year 2006-2007, an amount of Rs.152.00 Lacs is earmarked towards Capital Expenditure for doubling the Segment Magnets production.



Outlook

The future outlook of the Company looks positive. The Company aims to achieve 50% of the market share as against current share of 13%. With better capacity utilization, the Company expects significant improvement in profitability.

We are expecting a drop in the price realization in 2006-2007 due to tough price competition from Chinese imports. The Company will make efforts to reduce the variable and fixed costs to face this competition.

Risks and Concerns

Increase in imports of magnet from China will lead to further reduction in price realization. Increasing cost of metal and fuel would adversely impact the margins of the Company. Increase in volumes and reduction in costs are the two strategies Company will follow to deal with this situation.

Internal controls

The Company has engaged a reputed firm of Chartered Accountants to carry out the Internal Audit. The Internal Audit is being carried out at regular intervals and the frequency is adequate considering the size and nature of the industry. An integrated oracle based system is in place to check proper flow of documents and adherence to laid down procedures. The Company is ISO 9000 certified and is taking effective steps to obtain TS16949 certification.

Cautionary Statement

Statements in this report on Management Discussion and Analysis describing the Company's objectives, projections, estimates, expectations or predictions may be forward looking statements within the meaning of applicable laws or regulations. These statements are based on certain assumptions and reasonable expectation of future events. Actual results could however differ materially from those expressed or implied. Important factors that could make a difference to the Company's operations include global and domestic demand – supply conditions, finished goods prices, raw materials cost and availability, changes in Government regulations and tax structure, economic developments within India and the countries with which the Company has business contacts and other factors such as litigation and industrial relations.

The Company assumes no responsibility in respect of the forward looking statements herein which may undergo changes in future on the basis of subsequent developments, information or events.

CORPORATE GOVERNANCE

Introduction

Your Company has complied in all material respects with the requirements of Corporate Governance Code as per Clause 49 of the Listing Agreement with the Stock Exchanges.

A report on the implementation of the Corporate Governance Code of the Listing Agreement by the Company is furnished below :

A. MANDATORY REQUIREMENTS

1. Company's Philosophy on Corporate Governance

Corporate Governance is the combination of voluntary practices and compliance with laws and regulations leading to effective control and management of the organization. Good Corporate Governance leads to long term shareholder value and enhances interest of other stake holders. It brings into focus the fiduciary and the trusteeship role of the Board to align and direct the actions of the organization towards creating wealth and shareholder value.

2. Board of Directors

The Board presently consists of all Non-Executive directors, a majority of them being Independent Directors, comprising two (2) Non-Executive Directors and five (5) Independent Directors :

The constitution of the Board is given below :

Director	Non-Executive / Independent	No. of other Directorships #	Membership of other Board Committees	
			Chairperson/ Chairman	Member
Urvi A Piramal	Non-Executive	8	4	1
Shyam B Ghia	Independent	5	2	3
Shreyas K Doshi	Independent	4	—	—
Ranjan Sanghi	Independent	7	—	5
M J Tibrewala	Independent	7	—	—
Vice Adml S Jain (Retd)	Independent	1	—	—
S N Somani	Non-Executive	—	—	—

Mr Ajay G Piramal ceased to be Chairman and Director w.e.f. 27th October, 2005 and Mr Gautam Doshi ceased to be Director w.e.f. 27th October, 2005.

This includes directorships held in Public Limited Companies and subsidiaries of Public Limited Companies and excludes directorships held in Private Limited Companies and Overseas Companies.

Attendance of Directors at Board Meetings and Annual General Meeting

The Board of the Company met four times during the last financial year, on the following dates :

27th June 2005, 28th July 2005, 27th October 2005 and 20th January 2006

The Company placed before the Board the annual operating plans, budgets, performance of the Company and various other information, including those specified under Annexure 1A to Clause 49 of the Listing Agreement.



The attendance at the Board Meetings and the last Annual General Meeting were as under:

Director	Attendance	
	Board Meeting	Annual General Meeting
Ajay G Piramal *	—	Yes
Urvi A Piramal	4	Yes
Gautam B Doshi *	2	Yes
Shyam B Ghia	3	Yes
Shreyas K Doshi	2	Yes
Ranjan Sanghi	4	Yes
M J Tibrewala	3	No
Vice Adml S Jain (Retd)	1	No
S N Somani	4	Yes

* for part of the year

(Rupees)

3. Remuneration of Directors

Details of remuneration paid / payable to directors for the year ended 31st March 2006 are as follows :

Director	Relationship with other directors	Business relationship with the Company	Loans and Advances from the Company	Sitting Fees*	Salary & Perquisites	Commission	Total
Ajay G Piramal **	Brother-in-law of Urvi A Piramal	Promoter	—	—	—	—	—
Urvi A Piramal	Sister-in-law of Ajay G Piramal	Promoter	—	14000	—	—	14000
Gautam B Doshi **	None	None	—	8000	—	—	8000
Shyam B Ghia	None	None	—	6000	—	—	6000
Shreyas K Doshi	None	None	—	4000	—	—	4000
Ranjan Sanghi	None	None	—	14000	—	—	14000
M J Tibrewala	None	None	—	8000	—	—	8000
Vice Adml S Jain (Retd)	None	None	—	2000	—	—	2000
S N Somani	None	None	—	8000	—	—	8000

* includes sitting fees paid for Committee Meetings

** Part of the year

Details of shares of the Company held by the Non-Executive Director is as given below :

Name	No. of Equity Shares held
M J Tibrewala	104

4. Audit Committee

During the financial year 2005-2006, three Audit Committee Meetings were held, one of which was before finalisation of account. The dates on which the said meetings were held are as follows :

27th June, 2005, 27th October, 2005 and 20th January, 2006

The constitution of the Committee and the attendance of each member of the Committee is given below :

Name	Designation	Non-Executive/ Independent	Committee Meetings Attended
Gautam B.Doshi (ceased on 27.10.05)	Chairman	Independent Director	2
Ranjan Sanghi	Chairman	Independent Director	3
Urvi A. Piramal	Member	Non-Executive Director	3
M J Tibrewala (appointed as Member on 27.10.05)	Member	Independent Director	1

The terms of reference of the Audit Committee include the following :

1. Overview of the company's financial reporting process and the disclosure of its financial information to ensure that the financial statement are correct, sufficient and credible.
2. Recommending to the Board, the appointment, re-appointment and, if required, the replacement or removal of the statutory auditor and the fixation of audit fees.
3. Approval of payment to statutory auditors for any other services rendered by the statutory auditors.
4. Reviewing, with the management, the annual financial statements before submission to the board for approval, with particular reference to:
 - a. Matters required to be included in the Director's Responsibility Statement to be included in the Board's report in terms of clause (2AA) of section 217 of the Companies Act, 1956
 - b. Changes, if any, in accounting policies and practices and reasons for the same
 - c. Major accounting entries involving estimates based on the exercise of judgment by management
 - d. Significant adjustments made in the financial statements arising out of audit findings
 - e. Compliance with listing and other legal requirements relating to financial statements
 - f. Disclosure of any related party transactions
 - g. Qualifications in the draft audit report.
5. Reviewing, with the management, the quarterly financial statements before submission to the Board for approval
6. Reviewing, with the management, performance of statutory and internal auditors, adequacy of the internal control systems.
7. Reviewing the adequacy of internal audit function, if any, including the structure of the internal audit department, staffing and seniority of the official heading the department, reporting structure coverage and frequency of internal audit.
8. Discussion with internal auditors any significant findings and follow up thereon.
9. Reviewing the findings of any internal investigations by the internal auditors into matters where there is suspected fraud or irregularity or a failure of internal control systems of a material nature and reporting the matter to the Board.
10. Discussion with statutory auditors before the audit commences, about the nature and scope of audit as well as post-audit discussion to ascertain any area of concern.



11. To look into the reasons for substantial defaults in payment to depositors, debenture holders, shareholders (in case of non payment of declared dividends) and creditors.
12. To review the functioning of the Whistle Blower mechanism, in case, the same is existing.
13. Carrying out any other function as is mentioned in the terms of reference of the Audit Committee.

5. Investors Grievance Committee

The Investors Grievance Committee looks into shareholders and investors grievances. The following are the members of the Committee :

Name	Designation	Executive/Non-executive/ Independent
M J Tibrewala	Chairman	Independent
S N Somani	Member	Non-Executive

Rupa Desai, the Company Secretary, is the Compliance Officer.

Share Transfers (Physical Form)

- All shares have been transferred and returned within 10-12 days from the date of receipt of complete documents.
- The Share Transfer Committee considers share transfer approvals approximately once a week.
- Total number of shares (physical form) transferred during the year 2005-2006 were 30,15,642 compared to 8,425 during 2004-2005.
- As at 31st March 2006, there were no Equity Shares pending for transfer or for demat as lodged with the Company.
- The Company conducts a Secretarial Audit on a quarterly basis in accordance with SEBI requirements. M/s Haribhakti & Co., Chartered Accountants, have been appointed by the Company to conduct such audit. The Secretarial Audit Reports of M/s Haribhakti & Co., which have been submitted to the Stock Exchanges within the stipulated period, *inter alia* confirms that the equity shares of the Company held in dematerialized form and in physical form tally with the issued and paid-up equity share capital of the Company.

Investor Relations

- The following table shows the nature of complaints received from shareholders during 2005-2006 and 2004-2005.

Nature of Complaints	2005-2006	2004-2005
Non receipt of shares	1	—
Non receipt of dividends	1	—
Others	3	—
Total	5	—

- The complaints are generally replied to within 7 days from their lodgement with the Company.
- No court cases are filed against the Company relating to shareholder / investors complaints.

24th Annual Report 2005-06**6. General Body Meetings**

The location and time of the Annual General Meetings held during the last 3 years are as follows :

Annual General Meeting (AGM)	Date	Time	Venue	No. of Special Resolutions passed
21 st AGM	9 th July 2003	11.30 a.m.	Walchand Hirachand Hall, Indian Merchants' Chambers Building, Churchgate, Mumbai - 400 020	—
22 nd AGM	16 th September 2004	2.30 p.m.		—
23 rd AGM	31 st August 2005	11.30 a.m.		—

Presently, the Company does not have any proposal for postal ballot.

7. Note on Directors re-appointment

Brief resume, experience and the details of other directorships in public companies and subsidiaries of public companies, in respect of the directors being re-appointed are given below :

a) Mr Shyam Ghia

Mr Ghia is a Management Graduate from Bowling Green University, USA. He is an industrialist with interests in variety of fields including chemicals, fibre and polymers and softwares. He is currently the Chairman and Managing Director of Futura Polyesters Ltd and Chairman of Sonata Software Limited and Innovasynth Technologies Limited. Presently, he is on the Board of the following other public limited companies, namely :

Sr No	Name of the Company	Designation / Membership of Board Committees
1.	Futura Polyesters Limited	Chairman and Managing Director Member – Investor Grievance Committee
2.	Sonata Software Limited	Chairman Chairman – Audit Committee Chairman - Investor Grievance Committee
3.	AVT Natural Products Limited	Director Member – Audit Committee
4.	Innovasynth Technologies Limited	Chairman
5.	Alkyl Amines Limited	Director Member – Investor Grievance Committee

b) Mr S N Somani

Mr. S N Somani, who has done his Masters in Business Management from IIM, Ahmedabad, and his degree in Mechanical Engineering from IIT, Kanpur, has been instrumental in bringing TDK, Japan to India. He has 26 years of experience with multinational companies and the Piramal group. He does not hold any Directorships in other Public Limited Companies.

8. Disclosures

- No transaction of material nature has been entered into by the Company with its Directors or Management and their relatives, etc. that may have a potential conflict with the interests of the Company. The Register of Contracts containing transactions in which directors are interested, is placed before the Board regularly.



- Transactions with related parties are disclosed in Note No 1(l) to Schedule XIV - Notes to the Accounts in the Annual Report.
- There has been no instance of non-compliance by the Company on any matter related to capital markets. Hence, the question of penalties or strictures being imposed by SEBI or the Stock Exchange does not arise.
- Implementation of the Whistle Blower Policy is in process and the report of the same would be placed before the Board.
- The Company is fully compliant with the applicable mandatory requirements of the revised Clause 49. Although it is not mandatory, a Remuneration Committee of the Board is in place. Details of the Remuneration Committee has been provided under the Section "Remuneration Committee".

9. Means of communication

- The annual, half-yearly and quarterly results are regularly posted by the Company on its website, www.gpelmagnet.com. These are also submitted to the Stock Exchanges in accordance with the Listing Agreement and published in Free Press Journal and Navshakti.
- Management Discussion and Analysis forms a part of this Annual Report.

10. General Shareholder Information

a) Annual General Meeting

- Date and Time Wednesday, 23rd August, 2006 at 11.00 a.m.
- Venue Walchand Hirachand Hall, Indian Merchants' Chamber Building, Churchgate, Mumbai - 400 020.

b) Financial Calendar

Financial reporting for

- | | |
|---|-------------------------------------|
| • Quarter ending 30 th June 2006 | By 31 st July, 2006 |
| • Half year ending 30 th September 2006 | By 31 st October, 2006 |
| • Quarter ending 31 st December 2006 | By 31 st January, 2007 |
| • Year ending 31 st March 2007 | By 30 th June, 2007 |
| • Annual General Meeting
for the year ending 31 st March 2007 | By 30 th September, 2007 |

c) Date of book closure

Thursday, 17th August, 2006 to Wednesday, 23rd August, 2006

d) Registered Office

106 Peninsula Centre, Dr S S Rao Road,
Parel, Mumbai 400 012

e) Listing of Equity Shares on Stock Exchanges

Bombay Stock Exchange Limited (Code : 504286)
National Stock Exchange of India Limited
(Code : GPELECT)