

DENSO



**FOURTEENTH
ANNUAL REPORT
1998-99**

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DENSO INDIA PLANT AT TILPATTA

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DEMISO

BOARD OF DIRECTORS

MANAGING DIRECTOR

Mr. Takao Yamaguchi

DIRECTORS

Mr. O. Ogawa

Mr. K. Matsumoto

Mr. T. Inaguma

(Alternate to Mr. K. Matsumoto)

Mr. Hajimu Mitsunari

Mr. M. Fukuyama

(Alternate to Mr. Hajimu Mitsunari)

Dr. Krishan Kumar

Mr. J.S. Bajjal

Mr. Yasushi Nei

(Alternate to Mr. Ogawa)

COMPANY SECRETARY

Mr. Lalit Prabhakar

AUDITORS

Price Waterhouse,

Chartered Accountants,

New Delhi

REGISTERED OFFICE

S-10, Dharma Bhawan,

Green Park Extension,

New Delhi - 110 016

WORKS

Noida-Dadri Road,

P.O. Tilpatta,

Tehsil-Dadri,

District Gautam Budh Nagar,

Uttar Pradesh - 203 207

DENSO**NOTICE**

Notice is hereby given that the Fourteenth Annual General Meeting of the Company shall be held on 5th August, 1999 at 11.00 a.m. at FICCI Auditorium, Tansen Marg, New Delhi to transact the following business:

ORDINARY BUSINESS :

1. To receive and adopt the Audited Profit and Loss Account for the year ended March 31, 1999 and the Audited Balance Sheet as at that date together with the reports of the Directors & Auditors thereon.
2. To appoint Auditors of the Company in place of those retiring and to fix their remuneration. The present Auditors are eligible for reappointment.
3. To elect a Director in place of Mr. J.S. Baijal who retires by rotation and being eligible offers himself for reappointment.

SPECIAL BUSINESS

4. To consider and if thought it, to pass with or without modification, the following resolution as an Ordinary Resolution :

Resolved that Mr. Hajimu Mitsunari be and is hereby appointed as a Director of the Company in terms of Articles of Association of the Company and pursuant to section 257 of the Companies Act, 1956 and other applicable provisions, if any.

5. To consider and if thought it, to pass with or without modification, the following resolution as an Ordinary Resolution :

Resolved that Mr. K. Matsumoto be and is hereby appointed as a Director of the Company in terms of Articles of Association of the Company and pursuant to section 257 of the Companies Act, 1956 and other applicable provisions, if any.

6. To consider and if thought it, to part with or without modification, the following resolution as an Ordinary Resolution :

Resolved that Mr. O. Ogawa be and is hereby appointed as a Director of the Company in terms of Articles of Association of the Company and pursuant to section 257 of the Companies Act, 1956 and other applicable provisions, if any

7. To consider and if thought fit, to pass with or without modification, the following resolution as an Ordinary Resolution :

RESOLVED THAT Mr. T. Yamaguchi be and is hereby appointed as a non-rotational Director of the Company under Article 70(e) of the Articles of

Association of the Company for a period of 3 years effective from 29th January, 1999.

RESOLVED FURTHER that pursuant to the provisions of Section(s) 269,309,311 and other applicable provisions of the Companies Act, 1956 and subject to approval by shareholders at a General Meeting, Mr. T. Yamaguchi be and is hereby appointed as the Deputy Managing Director of the Company for a period of 3 years effective from 29th January, 1999 and as Managing Director of the Company w.e.f. 1st May, 1999 on such terms and conditions as are set out in the Annexure to the resolution subject to approval by the Central Government in this regard.

RESOLVED FURTHER that the Board of Directors of the Company be and is hereby authorised to vary the remuneration of Mr. T. Yamaguchi subject to the limits specified and according to the provisions of Section(s) 198, 269 & 309 of the Companies Act, 1956 and any variation in the applicable statutes from time to time subject to approval by the Central Government in this regard.

RESOLVED FURTHER THAT in addition to the remuneration payable as per Schedule XIII, Mr. T. Yamaguchi be paid such perquisites and benefits as are specifically applicable to expatriate managerial personnel as specified in Section II of Part II of Schedule XIII to the Companies Act, 1956 subject to overall limit as specified under Section I Part II of Schedule XIII to Companies Act, 1956 subject to approval by the Central Government in this regard.

RESOLVED FURTHER THAT the remuneration approved by the Board from time to time within the limits specified above shall constitute the minimum remuneration payable in case of absence or inadequacy of profits during the tenure of Mr. T. Yamaguchi subject to approval by the shareholders of the Company at a General Meeting and subject to approval by the Central Government in this regard.

RESOLVED FURTHER THAT Mr. Lalit Prabhakar, Company Secretary be and is hereby authorised to file all applications, with the statutory authorities and to complete all other formalities as are required under the Companies Act, 1956.

8. To consider and if thought fit, to pass with or without modification, the following resolution as an Ordinary Resolution:

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RESOLVED THAT in supersession of earlier resolutions passed from time to time, consent of the Company be and is hereby accorded under the provisions of Section 293(1)(d) of the Companies Act, 1956 to the Board of Directors of the Company for borrowing money from time to time even though the money to be borrowed together with moneys already borrowed by the Company (apart from temporary loans obtained from the Companies Bankers in the ordinary course of business) exceeds the aggregate of the paid-up capital of the Company and its free reserves that is, reserves not set apart for any specific purpose, provided however, that the total amount of such borrowing shall not exceed the sum of Rs. 50 crores (Rupees Fifty crores only).

By Order of the Board

New Delhi
July 5, 1999

Lalit Prabhakar
Company Secretary

NOTES :

- (A) The relative Explanatory Statement pursuant to Section 173 of the Companies Act, 1956 in respect of business under item nos. 4 and 5 above, is annexed below.
- (B) A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT A PROXY TO ATTEND AND ON POLL, TO VOTE INSTEAD OF HIMSELF. THE PROXY NEED NOT BE A MEMBER OF THE COMPANY.
- (C) The Register of Members of the Company will be closed from Friday 30th July, 1999 to Thursday 5th August, 1999 both days inclusive.
- (D) Members are requested to intimate any change of registered address (including PIN code number) to the Registered Office of the Company.

ANNEXURE TO NOTICE

THE EXPLANATORY STATEMENT PURSUANT TO PROVISIONS OF SECTION 173 OF THE COMPANIES ACT, 1956 RELATING TO THE ITEMS AS STATED IN THE ACCOMPANYING NOTICE IS AS FOLLOWS :

Item No. 4

Mr. H. Mitsunari was appointed as an Additional Director of the Company w.e.f. 30.4.99. In terms of Section 260 of the Companies Act, 1956, Mr. H. Mitsunari holds office till the date of that next Annual General Meeting and Notice has been received in terms of Section 257 of the Companies Act, 1956 and other applicable provisions, if any, for his appointment as Director of the Company.

The Board recommends the resolution to the Members for their approval.

No Director other than Mr. H. Mitsunari is interested in the above resolution.

Item No. 5

Mr. K. Matsumoto was appointed as an Additional Director of the Company w.e.f. 1.7.99. In terms of Section 260 of the Companies Act, 1956, Mr. K. Matsumoto holds office till the date of that next Annual General Meeting and Notice has been received in terms of Section 257 of the Companies Act, 1956 and other applicable provisions, if any, for his appointment as Director of the Company.

The Board recommends the resolution to the Members for their approval.

No Director other than Mr. K. Matsumoto is interested in the above resolution.

Item No. 6

Mr. O. Ogawa was appointed as a Additional Director of the Company w.e.f. 1.7.99. In terms of Section 260 of the Companies Act 1956, Mr. O. Ogawa holds office till the date of that next Annual General Meeting and Notice has been received in terms of Section 257 of the Companies Act, 1956 and other applicable provisions, if any, for his appointment as Director of the Company.

The Board recommends the resolution to the Members for their approval.

No Director other than Mr. O. Ogawa is interested in the above resolution.

Item No. 7

The Board of Directors of the Company vide resolution dated 29th January, 1999 have appointed Mr. T. Yamaguchi



as the Deputy Managing Director of the Company and vide resolution dated 30th April, 1999 have re-designated Mr. T. Yamaguchi as the Managing Director of the Company.

The terms of appointment as approved by the Board of Directors are set out below :

Terms of appointment of Mr. T. Yamaguchi, Managing Director

- A. Period of Employment : 3 Years w.e.f. 29th January, 1999
- B. Salary : Rs. 40,000/- per month w.e.f. 29th January, 1999.
: Rs. 63,000/- per month w.e.f. 1st May, 1999.
- C. Other : DNIN shall for Mr. Yamaguchi and his family.
1. Accommodation
- a) Provide fully furnished (including furniture, soft furnishing, electrical equipment like Air conditioner with stabilizer, UPS, transformer, refrigerator, oven and further kitchen appliances and color T.V. and telephone connection with ISD) accommodation.
- b) Repair & maintain such premises.
- c) Reimburse expenses relating to electricity, gas and water.
- d) Reimburse expenses of servants.
- e) Provide telephone facilities and meet all related expenses except expenses on long distance personal calls.
2. Car : At the cost of DNIN to be provided with a car with driver for official and private use. Cost of car including expenses of maintenance and running of the vehicle will be borne by DNIN. If, however, Mr. Yamaguchi wishes to import his own car, he may do so at his cost. Expenses towards maintenance and running of the car, even in this case, shall be borne by DNIN.
- D. Business Travel, Medical, Special Language Training, Working Rules, Regulation and Return Expenses : As per DNIN rules for category of Managing Director as per DNIN designation or equivalent subject to Govt. regulations as may be applicable.

NOTE : To the extent that these salaries, perquisites and facilities are taxable under the Income Tax Rules, the tax will be borne by Mr. Yamaguchi and will be deducted at source by DNIN.

All references to DNIN in the above are to DENSO INDIA LIMITED, NEW DELHI.

In order to give effect to the above, the terms and conditions of such appointment have to be approved by the Members.

The Board recommends the resolution to the Members for their approval.

None of other directors except Mr. T. Yamaguchi is interested in the resolution.

Item No. 8

Subsequent to the lapse of the Rights Issue and in order to part finance the expansion plan, it is proposed to borrow from banks, financial institutions. This resolution is proposed to enable the Board of Directors of the Company to borrow money exceeding the paid-up capital and free reserves of the Company, as the earlier limit of Rs. 30 crores (Rupees Thirty Crores only) is inadequate to meet the planned targets of the Company and it is proposed to increase it to Rs. 50 crores (Rupees Fifty crores only).

The Board recommends the resolution to the Members for their approval.

None of the directors are interested in the above resolution.

By order of the Board

Date : July 5, 1999

Place: New Delhi

Lalit Prabhakar
Company Secretary

DIRECTORS' REPORT

Your Directors are pleased to present their Annual Report for the year ended March 31, 1999.

HIGHLIGHTS :

1998-99 was a very difficult year for the auto industry with our annual Net Sales growing by only 5.7% and profits dipping to near zero.

The financial results of the Company are summarised below:-

	Rs.'000 for the year ended <u>31.03.99</u>	Rs.'000 for the year ended <u>31.03.98</u>
Gross Sales	168,00,58	159,63,53
Sales (Net of Excise)	142,92,02	135,09,77
Gross Profit (before depreciation and miscellaneous expenditure write-off)	6,62,50	11,26,17
(% on Net Sales)	(4.63)	(8.33)
Depreciation & Miscellaneous expenditure written off	6,42,00	4,43,61
Profit for the year before Taxation	20,50	6,82,56
Tax Provision	2,20	90,00
Profit after Tax	18,30	5,92,56

As the profits for the year 1998-99 are inadequate, the Directors do not recommend any dividend for the year ending 31st March,1999.

OPERATIONS :

Barring Hero Honda Motor Limited, which grew by 32%, other major customers were hit by the recessionary trend in the automobile industry with Maruti Udyog Limited showing a 4.7% decrease in production and Bajaj Auto Limited showing a negative 2.6%.

New Customers - Honda Siel Limited (Rs. 528.72 lacs), Hindustan Motors Lancer (Rs. 164 lacs) contributed to the 5% growth in the turnover of the Company despite fall in production of other major customers viz. Maruti Udyog Limited and Bajaj Auto Limited.

The sharp fall in profits from Rs. 682.56 lacs to Rs. 20.50 lacs is for the following reasons -

due to intense competitive pressures we have had to concede a net price reduction of Rs. 111 lacs to our customers;

as a result of the heavy capital investment depreciation cost has increased by Rs. 199.29 lacs;

as a result of heavy capital investment, interest cost has risen by Rs. 221.73 lacs. Efforts are on to secure a capital infusion from Denso Japan and reduce the interest burden;

The personnel costs have risen on account of increases in manpower and structured salary & wage increases.

Selling, General and Administration expenses have been controlled and have risen only marginally.

The cost to the Company on account of exchange rate fluctuation was Rs. 2.95 crores, which works out to 14.08% (annualised) on f.o.b. cost at 6 months usance payment terms as compared to our average cash credit rate of 16%. This cost of 14.08% itself is extra-ordinary, resulting from the meltdown of the financial and forex markets in October 1998 consequent to the Russian payments crisis and the Brazilian economy jitters.

As a measure to further reduce costs, the Company is maintaining stress on indigenisation and efforts are being made to break into areas of difficult indigenisation where technology is a constraint.

OUTLOOK :**Current Operations :**

After a recessionary phase for last 2 years, the automobile industry is looking up and accordingly, the current year Net Sales has been projected at Rs.159 crores (growth of 12% over 1998-99) based on customer projections and should be achieved barring unforeseen circumstances. This includes (Honda Siel- Rs. 5.88 crores, Hindustan Motors Lancer - Rs. 4.14 crores.)

There will however be a severe pressure on margins if we are to retain and enhance our market share and coupled with higher depreciation there may be a severe negative influence on margins.

DENSO**EXPANSION, CAPITAL INVESTMENT & FUNDING :**

The Rs. 70.47 crores expansion plan of the Company is 70% complete. During the year the Company has invested Rs. 16.73 crores in Plant and Machinery comprising of Rs. 3.95 crores for new products, Rs. 9.20 crores for inhouse activities and Rs. 3.42 crores for jigs and tools.

The above expansion was partly funded by the Preferential Issue of Rs. 18.5 crores. The Right Issue of 36,25,929 equity shares of Rs. 10/- each at a premium of Rs. 40/- per share was under subscribed and lapsed. Alternate sources of funding mainly by way of bank loans are being explored with the balance of the expansion being funded by internal accruals. As a result the expansion plan has been rescheduled and shall be completed over a period of three financial years ending March, 2000. This will however not affect the operations of the Company.

MARKETING ARRANGEMENTS :

In order to integrate the marketing function of all affiliate Companies of Denso in India, a new Company namely Denso Sales India Pvt. Ltd. has been incorporated.

The new Company will consolidate the marketing activities for customers common to the production facilities of Denso Corporation, Japan in India to provide better quality of service to customers. The new Company shall act on behalf of other manufacturing Companies of Denso Corporation, Japan viz. Denso Haryana Pvt. Ltd. (Multi-point Fuel Injection System), Denso Kirloskar Industries Pvt. Ltd. (Radiators and Car A/C) and our Company.

Alongwith this new Company, Denso Corporation, Japan will now have three production facilities and two investee affiliates.

The total capital of this new marketing Company shall be Rs. 7 crores.

The process of shifting of personnel and other activities related to the marketing department is under progress and is expected to be completed by 31st August, 1999. This will enhance the competitiveness of the Denso Group in India and will be beneficial to our Company.

Y2K COMPLIANCE :

The Company has established a detailed programme to address and minimise the impact of Year 2000(Y2K) related issues. The program also covers customers, key suppliers and other business associates in view of the potential widespread impact of this issue. In the Management's opinion, the Company expects to be Y2K compliant in areas which might otherwise vitiate the capacity of the Company to operate as a going concern in the year 2000. The total expenditure for this project is estimated at Rs. 25.00 lacs.

FIXED DEPOSITS :

The Company has not invited or availed Fixed Deposits from the public during the year under review.

SHARE CAPITAL :**Forfeiture of 1300 Equity Shares**

Despite repeated reminders holders of 1300 equity shares did not pay the call money of Rs. 5 per share. These shares have been forfeited and shall be re-allotted at Rs. 10 per share as per the provisions of Articles of Association of the Company.

DIRECTORS :

Due to organisational changes in Sumitomo Corporation, Japan, Mr. Keiji Nakajima has resigned from the Board of the Company and Mr. K. Kobayashi was appointed in his place. Mr. K. Kobayashi has since resigned from the Board. Mr. Hajimu Mitsunari has been appointed w.e.f. 30.4.99.

As Mr. H. Mitsunari is not expected to visit in India in the near future, Mr. M. Fukuyama has been appointed as the alternate director to Mr. H. Mitsunari.

Mr. J.S. Baijal retires by rotation at the forthcoming Annual General Meeting and being eligible offers himself for re-appointment.

Mr. I. Hirao, Alternate Director to Mr. Uchiyama has ceased to be the Director of the Company.

Mr. Jiro Kusano has ceased to be the Deputy Managing Director of the Company. We place our deep

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appreciation for the services rendered by Mr. Kusano during his tenure as Deputy Managing Director of the Company.

Mr. T. Yamaguchi was appointed as Deputy Managing Director of the Company in place of Mr. Kusano w.e.f. 29th January, 1999.

Mr. Isao Imagawa ceased to be the Managing Director as well as the Director of the Company w.e.f. 1st May, 1999 as he was assigned other responsibilities of the parent company in India. We place our deep appreciation for the services rendered by Mr. Isao Imagawa during his tenure as Managing Director of the Company.

Mr. T. Yamaguchi was re-designated as Managing Director of the Company w.e.f. 1st May, 1999 following the cessation of Directorship of Mr. Isao Imagawa. Application to the Central Government has been made for approval of this appointment and payment of remuneration to Mr. Yamaguchi and the same is awaited as mentioned by the Auditors in their Audit Report and Notes to Accounts.

AUDITORS :

Messrs. Price Waterhouse, Chartered Accountants, New Delhi, retire at the ensuing Annual General Meeting and being eligible offer themselves for re-appointment. They have furnished a certificate to the effect that the proposed re-appointment, if made, will be in accordance with the provisions of Section 224 (1-B) of the Companies Act, 1956.

PARTICULARS OF CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION & FOREIGN EXCHANGE EARNINGS AND OUTGO :

The Statement pursuant to Section 217 (1) (e) of the Companies Act, 1956 read with the Companies (Disclosure of Particulars in the Report of the Board of Directors) Rules, 1988 is given in the Annexure forming part of this Report.

PERSONNEL :

The Statement showing particulars of employees as required under Section 217 (2-A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975 as amended to date, forms an integral part of this report.

ACKNOWLEDGEMENTS :

Your Directors take this opportunity to thank the customers, vendors, shareholders, the bankers, the Central and State Governments and other agencies for their continued support, co-operation and contribution during the year under review. Your Directors place on record their deep appreciation of the managements of Denso Corporation, Japan, Sumitomo Corporation and Maruti Udyog Ltd. & ASMO Co. Ltd. for their assistance and support during the year. Your Directors wish to place on record their appreciation of the contribution made by the employees at all levels.

For and on behalf of the Board

New Delhi
4th June, 1999

T. Yamaguchi
Managing Director