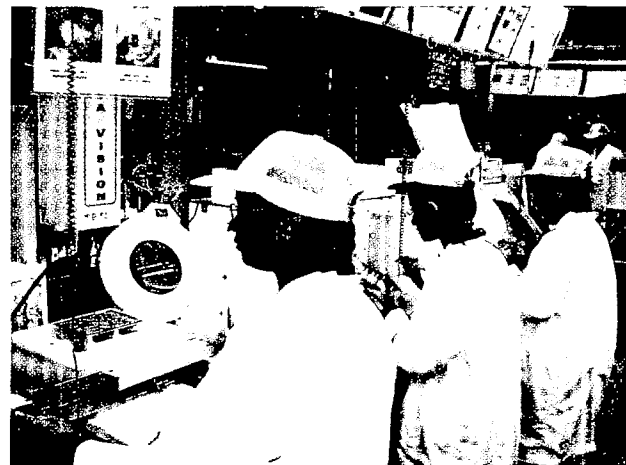


# ***DENSO***

TWENTY THIRD  
ANNUAL REPORT  
2007-2008

**DENSO INDIA LIMITED**

# DENSO INDIA PLANT AT TILPATTA



<b>CONTENTS :</b>	<b>Page No.(s)</b>
Board of Directors	1
Notice	2
Directors' Report	3-6
Corporate Governance Report	7-16
Auditors' Report	17-19
Balance Sheet	20
Profit & Loss Account	21
Cash Flow Statement	22-23
Schedules	24-40
Balance Sheet Abstract	41

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## BOARD OF DIRECTORS

### MANAGING DIRECTOR

Mr. T. Ishiguro

### DIRECTORS

Mr. A.C. Chakrabortti

Mr. J.S. Baijal

Mr. R.K. Bhatnagar

Mr. K. Sugita

(Alternate to Mr. M. Takao)  
(w.e.f. 26.06.2007)

Mr. Y. Doi  
(Alternate to Mr. T. Kondo)  
(w.e.f. 05.10.2007)

Mr. M. Osada  
(till 18.12.2007)

Mr. K. Asai  
(w.e.f. 31.03.2008)

Mr. H. Fujimoto  
(Alternate to Mr. K. Higuchi)

Mr. T. Kondo

Mr. K. Higuchi

Mr. M. Takao  
(w.e.f. 26.06.2007)

Mr. M. Hanai  
(till 26.06.2007)

Mr. H. Ishida  
(Alternate to Mr. T. Kondo)  
(till 05.10.2007)

### COMPANY SECRETARY

Mr. Lalit Prabhakar

### AUDITORS

Price Waterhouse

Chartered Accountants,  
Gurgaon

### REGISTERED OFFICE

3rd Floor, Left Wing,  
The Capital Court,  
Olof Palme Marg, Munirka,  
New Delhi- 110 067

### 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 Twenty Third Annual General Meeting of the Company shall be held on Wednesday, 3<sup>rd</sup> day of September, 2008 at 11.30 a.m. at FICCI Auditorium, Tansen Marg, New Delhi-110001 to transact the following business:

### **ORDINARY BUSINESS :**

1. To receive and adopt the Audited Profit and Loss Account for the year ended March 31, 2008 and the Audited Balance Sheet as at that date together with the reports of the Directors and Auditors thereon.
2. To recommend and declare dividend for the financial year ended 31<sup>st</sup> March, 2008.
3. To appoint Auditors of the Company in place of those retiring and to fix their remuneration. The present Auditors are eligible for re-appointment.
4. To elect Director in place of Mr. K. Asai who retires by rotation and being eligible offers himself for re-appointment.
5. To elect Director in place of Mr. K. Higuchi who retires by rotation and being eligible offers himself for re-appointment.

**By Order of the Board**

**Place : New Delhi**  
**Date : July 28, 2008**

**Lalit Prabhakar**  
**Company Secretary**

### **NOTES :**

- (A) A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT A PROXY TO ATTEND AND ON POLL, VOTE INSTEAD OF HIMSELF. THE PROXY NEED NOT BE A MEMBER OF THE COMPANY.
- (B) The Register of Members of the Company will be closed from 29<sup>th</sup> August, 2008 to 3<sup>rd</sup> September, 2008, both days inclusive.
- (C) Members are requested to intimate any change of registered address (including PIN code number) to the Registered Office of the Company, if they are holding shares in physical forms only.
- (D) PLEASE NOTE THAT NO SWEET COUPONS/GIFTS SHALL BE DISTRIBUTED AT THE FORTHCOMING ANNUAL GENERAL MEETING.

**DIRECTORS' REPORT**

Your Directors are pleased to present their Twenty Third Annual Report together with the audited statement of accounts for the financial year ended 31<sup>st</sup> March, 2008.

**FINANCIAL RESULTS**

	<b>For the Year Ended 31.03.08 Rs. 000</b>	<b>For the Year Ended 31.03.07 Rs. 000</b>
Gross Sales	<b>544,54,79</b>	491,50,63
Sales (Net of Excise)	<b>465,73,07</b>	420,99,86
Gross Profit (before depreciation and miscellaneous expenditure write-off)	<b>55,70,27</b>	57,14,57
Depreciation & Miscellaneous Expenditure written off	<b>12,88,15</b>	13,12,27
Profit for the year before Taxation	<b>42,82,12</b>	44,02,30
Tax Provision Deferred Tax	<b>15,52,68 (90,28)</b>	16,98,25 (96,16)
Frings Benefit Tax	<b>40,03</b>	34,19
Profit after Tax	<b>27,79,69</b>	27,66,02

**MANAGEMENT DISCUSSION AND ANALYSIS :****OPERATIONS :**

During the financial year 2007-08, the Gross Sales grew by 11% . The Profit before tax was marginally lower as compared to the previous year by 2.7%. There was decline in the sales of the Two Wheeler products which was in line with the general industry trend which attributed to the dip in the profit before tax. However, the Company reversed the declining trend of profit by embarking upon stringent cost control activities and the profit after tax improved from the previous year figure of Rs. 2766 lacs to Rs 2779 lacs.

The financial year ended 31 March, 2008 was mixed in terms of fortune of the Auto Industry. While the Four Wheeler industry improved and registered impressive growth rates, the production volume of the two wheelers

dropped pulling down the overall growth rate of the Auto Industry by around 2%.

The market leader in the passenger car segment, Maruti Suzuki India Limited (MSIL) continued to consolidate its premier position in the industry. Its latest offering the SX4 continued to draw consumers and its latest version Dzire the upgraded version of the Swift, is also immensely popular. The market leader improved upon its market share of 43% to 44% over the previous year and the vehicle production grew by 16% . MSIL is laying special emphasis on export of its products and the performance of MSIL was very impressive on the export front by registering a growth of 31% over the previous year. However, the overall passenger car market grew by 15%.

The Two Wheeler Industry reported negative growth for the first time in the recent history thereby reversing the trend of buoyant growth year after year. The competition in the industry is also very severe. Hero Honda Motors (HHML) maintained its position as the largest manufacturer of the two wheelers by having a market share of around 41%. But the overall production of the two wheeler manufacturers were less by 4%. The high inflation and tight monetary conditions resulted in the negative growth of the industry.

**Opportunities and Threats:**

The Indian economy shall continue to post robust growth figures of around 9%. The Indian Government is banking upon a satisfactory monsoon to re establish the demand from the farm sector. With satisfactory monsoon predicted, the demand for the passenger car shall continue to show an upward trend. The two wheeler segment of the industry is also expected to reverse the declining trend of the last year .

However, the surging oil price and inflationary pressures can act as a dampener on the fortunes of the Auto Industry. Realising this, the Company is pursuing the cost control activities very aggressively and tightening its belt and hopes to offset the negative fall out of the hostile external environment.

The Original Equipment Manufacturers (OEMs) continued the technological upgradation of their products. The emphasis is on fuel efficient economy cars which are affordable to the general public. The introduction of the new Rs 1 Lac car – Nano by Tata Motors – the most economical car to be unveiled has been applauded by one and all.

The OEMs in order to bolster their turnover are adding new models every year and the Company is fully

# DENSO

equipped to meet the challenges due to strong support from the parent Company- Denso Corporation, Japan. By adding to its existing product range, the Company expects to increase its turnover and further improve its profitability.

Any adverse change in the Government policy is likely to have its own effect.

Despite competition and pressure on the pricing front the Company expects to maintain its competitive edge in the coming years.

## Segment wise Performance:

The Company's operating business is organized and managed according to the nature of product, with single Primary Reportable Segment comprising of manufacturing and supply of electrical automotive components.

## OUTLOOK:

### Current Operation

The Company achieved a Net Sales of Rs 465 crores for the year ended 31 March, 2008. This was possible due to higher sales to the Four Wheeler segment of the Auto Industry.

The Company expects higher sales for the year 2008-09. The ongoing efforts of increasing the customer base alongwith introduction of new products is expected to help the Company in achieving the sales target for the next year. The Company is facing pressure from its customers on the price front which it hopes to off set by cost control measures.

### New Project:

The Company has embarked on an expansion plan, it is setting-up its second unit at Haridwar, Uttrakhand. The proposed project envisages a total capital expenditure of Rs. 28 crores over a period of 4 years. The second unit shall cater to the two wheeler segment of the industry & the products-CDI and Magneto shall be manufactured at that unit. The construction activity at the second unit is at full swing and the Company expects to start commercial productions by October end this year.

The Company shall be availing the Tax exemption(s) as per the relevant notifications of the Uttrakhand Government in this regard.

### Internal Control Systems:

The Company maintains a system of internal control, including suitable monitoring procedures. The Internal Auditors regularly conducts a review of the financial and operating controls.

### Human Resources:

The Company continued to have cordial and harmonious relations with its employees.

### Cautionary Note:

Certain statements in the "Management Discussion and Analysis" section may be forward looking and are stated as required by applicable laws and regulations. Many factors may affect the actual results, which could be different from what the Directors' envisage in terms of the future performance and outlook.

### Additional Disclosures:

In line with the requirements of the Listing Agreements and the Accounting Standards of the Institute of Chartered Accountants of India your Company has made additional disclosures in respect of Related Party transactions and Segmental Reporting.

### FIXED DEPOSITS:

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

### AUDIT COMMITTEE:

During the year the Audit Committee Meetings were conducted as per the provisions of listing agreement with the Stock Exchange(s). The details about the functioning of the committee are being enumerated in the Corporate Governance report section which is part of the Annual Report for the year ending March 31, 2008.

### DIRECTORS:

Mr. K.Asai was appointed as Director on the Board on 31st March, 2008, a nominee of Maruti Suzuki India Limited.

Mr. M.Takao was appointed as Director on the Board on 26<sup>th</sup> June, 2007, a nominee of Denso Corporation, Japan

Mr. Y.DoI was appointed as Alternate Director to Mr. T.Kondo on 5<sup>th</sup> October, 2007.

Mr H.Ishida resigned from the Board on 5<sup>th</sup> October, 2007 as Alternate Director to Mr. T. Kondo.

Mr M.Hanai resigned from the Board on 26<sup>th</sup> June, 2007.

Mr M.Osada resigned from the Board on 18<sup>th</sup> December, 2007.

### DIVIDEND:

The Directors are pleased to propose dividend of 20% on paid -up value of Equity Shares. This will absorb Rs. 5.57 crores out of current year profits. Tax on dividend declared amounting to Rs. 94.76 lacs shall be paid by

# DENSO

the Company and no deduction of tax shall be made from the dividend payable to shareholders. An amount equivalent to 7.5% of the profits have been transferred to General Reserve Account of the Company in terms of the Companies (Transfer of Profit to Reserves) Rules, 1975.

## AUDITORS:

Messers Price Waterhouse, Chartered Accountants, Gurgaon, 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, is not enclosed as none of the employees are covered under its provisions.

## CORPORATE GOVERNANCE

The Company has complied with the Corporate Governance requirements as stipulated under Clause 49 of the Listing Agreement. A separate section on Corporate Governance along with a certificate from the Auditors of the Company confirming the compliance, is annexed and forms part of this Report.

## Directors Responsibility Statement as per Section 217(2AA) of the Companies Act, 1956.

1. The Financial Statement for the year ended 31.03.2008 are prepared to comply in all material aspects with all the applicable accounting principles in India, the applicable accounting standards notified under section 211(3C) of the Companies Act, 1956 and the relevant provisions of the Companies Act, 1956.
2. The Directors of Denso India Ltd. accept the responsibility for the integrity and objective of

these Financial Statement as reflected through the consistent application of the Accounting Policies as well as for the estimates made and the judgement exercised relating to matters not concluded by year-end.

3. The Directors believe that the Financial Statements reflect fairly the form and substance of the transactions concluded and reasonably present the Company's financial condition and true and fair view of the results of the operations for the year and the state of affairs of the business as at 31<sup>st</sup> March, 2008.
4. The Company has installed an accounting system and the financial statements have been prepared on a going concern basis along with a system of controls which are reviewed, evaluated and updated on an on going basis.
5. Our internal Auditors have conducted periodic audits to provide reasonable assurance that the established policies and the procedures of the Company have been followed for safeguarding the assets of the Company and for preventing any form of fraud and other irregularities subject to the inherent limitations in any system and procedure and coverage thereof that should be recognized in weighing the assurance provided by any system of internal controls. These have been reviewed periodically at Audit Committee Meetings.
6. The financial statements have been audited by M/s Price Waterhouse, Chartered Accountants, the statutory auditors.

## 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 management of Denso Corporation, Japan, Sumitomo Corporation, Japan, ASMO Co. Ltd., Japan and Maruti Suzuki India Limited 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**

Place : New Delhi  
Date : June 11, 2008

K. Sugita                      T. Ishiguro  
Director                      Managing Director

# DENSO

## ANNEXURE TO DIRECTORS' REPORT

INFORMATION REQUIRED UNDER 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.

### A. CONSERVATION OF ENERGY

Form A of Companies (Disclosure of Particulars in the Report of the Board of Directors) Rules, 1988 – Not Applicable.

### B. TECHNOLOGY ABSORPTION

The Company has obtained technical know how for the manufacture of auto components from Denso Corporation, Japan. The process of absorption of the technology is a continuing process.

No expenditure either of Capital or Revenue nature on Research & Development has been incurred during the year under review.

### TECHNOLOGY ABSORPTION, ADAPTATION AND INNOVATION :

1. Efforts made: New models are being developed to help in further localisation by vehicle makers.
2. Benefits derived: In-house skills are being developed in design, production engineering and endurance testing. Extensive help is also being provided to vendors to upgrade their technology to meet quality requirements.
  - a) Technology imported : Import of technology for the manufacture of auto electricals.
  - b) Year of import:

<u>Product</u>	<u>Year</u>
Alternators	1984
Regulators	-do-
Starters	-do-
Wiper Motors (with Link)	-do-
AC Generators / Flywheel Magnetos	1988
Ignition coils for two/three wheelers	-do-
CDI Systems for two/three wheelers	-do-
Fan Motor Assembly for Ventilation/ Engine Cooling	-do-

- c) Has technology been fully absorbed, areas where this has not taken place, reasons therefore and future plans of action.

Not applicable.

### EXPORTS

The Company has focussed on its domestic market and last year also the earnings from the exports were negligible – mainly due to export of certain samples.

The Company is considering the prospects of exporting its products to other countries and to start with, the exports were made to Denso companies outside India for the financial year ended 31 March, 2008.

The Company is considering various factors like cost , quality, delivery etc. while identifying its export needs and shall be concentrating on export of its products to subsidiary companies of Denso Corporation, Japan.

### C. FOREIGN EXCHANGE EARNINGS AND OUTGO:

	<u>Rs. Lacs</u>
EARNINGS (On exports of Goods)	14.89
OUTGO [(F.O.B.) On Accrual Basis]:	
- Raw Materials & components (including Trading Goods)	12562.17
- Stores & Spares	85.56
- Capital Goods	681.99
- OUTGO [On Cash Basis, Net of TDS]:	
- Royalty	922.23
- Technical Service Fees and Application cost	252.40
- Travelling, Training & Others	91.30
Total	<u>14595.65</u>



## Corporate Governance Report :

The Directors are pleased to present Seventh Corporate Governance Report for the financial year 2007-2008. The Securities and Exchange Board of India (SEBI) introduced the Code of Corporate Governance for implementation by the listed Companies vide an amendment to the Listing Agreement.

Corporate Governance relates to number of laws, rules, regulations and voluntary practices to enable companies to have good and efficient financial and human capital, perform to the best of the efficiency resulting in maximization of the long term value in the hands of shareholders at the same time respecting the aspect of multiple stake holders which include the society as well.

### 1. Company's Philosophy on "Code of Corporate Governance"

The Company is committed to achieve highest international standards of Corporate Governance and it is a matter of integral system for our Company. We believe that Corporate Governance is dependent on transparency, maximum disclosures, un-biased monitoring, being fair to all shareholders especially minority shareholders. To ensure a good Corporate Governance, we have a good professional management team and our Board of Directors consist of Professional, Non-Executive, and Independent Directors who effectively monitor the management progress and key corporate decision.

### 2. Board of Directors

As per the requirements of Corporate Governance, the composition of Board of Directors is required to have optimum combination of Non-Executive and Independent Directors along with the Executive Directors.

The Board of Directors of the Company include eminent personalities from all walks of life.

#### (a) Composition of Board of Directors

As of March 31, 2008, the Company's Board of Directors consisted of eight Directors. The Board comprised of two Executive Directors, six Non-Executive Directors, and three Independent and Non- Executive Directors. As one third

of the Board consists of Independent Directors, the composition of the Board is in accordance with Clause 49. The Chairman of the Board is Mr. J.S. Bajjal, an Independent Non-Executive Director thereby complying with the provisions of the Code of Corporate Governance.

Details of the composition of Board and number of other companies in which Director is a Director or Member/ Chairperson of the Committee is as hereunder:

	Name of Director	Number of outside Directorships held	Number of Committee Memberships and Chairmanships held (other Companies)
		(excluding Private Companies, Foreign Companies and Section 25 Companies)	
<b>(A) Executive and Non-Independent Directors:</b>			
(1)	Mr. T.Ishiguro*	0	0
(2)	Mr. K. Sugita (Alternate Director to Mr. M. Takao)	0	0
<b>(B) Non-Executive and Independent Directors</b>			
(1)	Mr. J.S. Bajjal	2	4
(2)	Mr. R.K. Bhatnagar	0	0
(3)	Mr. A.C. Chakrabortti	13	6 (Chairman in 3)
<b>(C) Non-Executive and Non -Independent Directors</b>			
(1)	Mr. T. Kondo*	0	0
(2)	Mr. M. Takao*@	0	0
(3)	Mr. Y. Doi \$ (Alternate Director to Mr. T. Kondo)	2	0
(4)	Mr. K. Asai#^	1	0
(5)	Mr. K. Higuchi ##	2	0
(6)	Mr. H. Fujimoto (Alternate Director to Mr. K. Higuchi)	1	0

\* Nominee of Denso Corporation, Japan which owns 47.93% of equity in the Company.

# Nominee of the Maruti Suzuki India Limited, which owns 10.27% equity of the Company.

## Nominee of the Sumitomo Corporation, which owns 10.27% equity in the Company.

@ Mr. M.Takao has been appointed as Director in place of Mr. M.Hanai on the Board w.e.f. 26<sup>th</sup> June, 2007.

\$ Mr. Y.DoI has been appointed as Alternate Director to Mr. T.Kondo on the Board w.e.f. 5<sup>th</sup> October, 2007.

^ Mr. K.Asai has been appointed as Director in place of Mr. M.Osada on the Board w.e.f. 31st March, 2008.

# DENSO

None of the Director on the Board holds the office of Director in more than 15 Companies nor are they members in Committee of the Board in more than 10 Committees or Chairman of more than 5 Committees. Further, there are no pecuniary relationships or transactions between the Independent Directors and the Company, except for the sitting fees drawn by the Independent Directors for attending the meetings of the Board and Committees thereof.

## (b) Shareholding of Non-Executive Directors

None of the Non-Executive (Including Independent) Directors holds any shares (as own or on behalf of other persons on beneficial basis) in the Company.

## (c) Board Meetings

During the financial year ended 31<sup>st</sup> March, 2008, five meetings of Board of Directors were held. The intervening period between two Board Meetings was well within the maximum time gaps of four months as prescribed under Corporate Governance Norms. The dates on which the said meetings were held are 25<sup>th</sup> May, 2007; 26<sup>th</sup> July, 2007; 29<sup>th</sup> October, 2007; 24<sup>th</sup> January, 2008 and 31<sup>st</sup> March, 2008.

## (d) Procedures of Board Meetings

The Board of Directors met for five times during the year as mentioned in the paragraph 2(c) above. The agenda papers were sent to all the Directors well in advance for each meeting and the management presented before the Board all statutory and other important items as recommended by the SEBI Committee. In addition to regular business items, the following items / information are regularly placed before the Board to the extent applicable:

- Annual operational plans and budgets
- Minutes of meetings of the Audit Committee and other Committee meetings of Board
- Materially important show cause, demands and notices
- Details of quarterly foreign exchange exposures and steps taken by the management to limit the risk of adverse exchange rate movement
- Quarterly Statutory Compliance Report
- Matters related to work force
- Work productivity report
- Quarterly and half yearly results of the Company

- Share prices and shareholding pattern of the Company
- Current operation of the Company
- Significant developments in Human Resources/Industrial Relations front like signing of wage agreement.

## (e) Directors' Attendance Record

Name of Director	Number of Board Meetings held during his tenure	Number of Board Meetings attended	Attended last AGM held on 12 <sup>th</sup> September, 2007
Mr. T.Ishiguro	5	5	Yes
Mr. K. Asai*	1	0	No
Mr. M. Takao**	4	0	No
Mr. J.S. Baijal	5	4	Yes
Mr. R.K. Bhatnagar	5	4	Yes
Mr. A.C. Chakrabortti	5	4	Yes
Mr. Y. Doi*** (Alternate Director to Mr. T. Kondo)	3	3	No
Mr. K. Higuchi	5	0	No
Mr. K. Sugita (Alternate Director to Mr. M. Takao)	5	5	Yes
Mr. H.Fujimoto (Alternate Director to Mr. K. Higuchi)	5	2	Yes
Mr. T. Kondo	5	0	No
Mr. H. Ishida**** (Alternate Director to Mr. T. Kondo)	3	2	Yes
Mr. M. Hanai*****	1	0	No
Mr. M. Osada*****	3	2	Yes

\* Mr. K.Asai has been appointed as Director on the Board on 31st March, 2008.

\*\* Mr. M.Takao has been appointed as Director on the Board on 26<sup>th</sup> June, 2007.

\*\*\* Mr. Y.Doi was appointed as Alternate Director to Mr. T.Kondo on 5<sup>th</sup> October, 2007.

\*\*\*\* Mr H.Ishida resigned from the Board on 5<sup>th</sup> October, 2007

\*\*\*\*\* Mr M.Hanai resigned from the Board on 26<sup>th</sup> June, 2007.

\*\*\*\*\* Mr M.Osada resigned from the Board on 18<sup>th</sup> December, 2007.