

***DENSO***

**TWENTY SEVENTH  
ANNUAL REPORT  
2011-12**

**DENSO INDIA LIMITED**



<b>CONTENTS :</b>	<b>Page No. (s)</b>
Board of Directors	1
Notice	2-7
Directors' Report	8-12
Corporate Governance Report	13-22
Auditors' Report	23-25
Balance Sheet	26
Profit & Loss Account	27
Cash Flow Statement	28-29
Notes	30-55

## **BOARD OF DIRECTORS**

### **MANAGING DIRECTOR**

Mr. Koji Shiga

### **DIRECTORS**

Mr. A.C. Chakrabortti

Mr. J.S. Baijal

Mr. R.K. Bhatnagar

Mr. K. Sugita (till 04.10.2011)  
(Alternate Director to Mr. Koji Arima)

Mr. K. Asai

Mr. H. Wakabayashi (till 29.07.2011)

Mr. K. Arima

Mr. Minoru Ono  
(Alternate Director to Mr. Koji Arima)  
(w.e.f. 13.02.2012)

Mr. E. Seto

Mr. T. Nanko  
(Alternate Director to Mr. E. Seto)

Mr. T. Aoyama (till 01.07.2011)  
(Alternate Director to Mr. Koji Arima)

Mr. M. Adachi (w.e.f. 29.07.2011)

Mr. N. Takamura  
(Alternate Director to Mr. M. Adachi)  
(w.e.f. 29.07.2011)

### **COMPANY SECRETARY**

Mr. Alok Mathur

### **AUDITORS**

Price Waterhouse  
Chartered Accountants,  
Gurgaon

### **REGISTERED OFFICE**

B-1/D-4, Ground Floor,  
Mohan Co-operative Industrial Estate  
Mathura Road,  
New Delhi-110044

Tel. No. : 26953994, 26952308

Fax : 26953993

E-mail : DNIN\_CS@denso.co.in

### **WORKS**

1. Noida-Dadri Road, P.O. Tilpatta,  
Tehsil-Dadri, District Gautam Budh Nagar,  
Uttar Pradesh-203 207
2. Plot No. 16, Industrial Park-II  
Salempur, Mehdood, Haridwar  
Uttarakhand - 249402

## NOTICE

Notice is hereby given that the Twenty Seventh Annual General Meeting of the Company is scheduled to be held on Saturday, 8th day of September, 2012 at 10.30 a.m. at Sri Sathya Sai International Centre, Pragati Vihar, Institutional Area, Lodhi Road, New Delhi-110 003 to transact the following business:

### ORDINARY BUSINESS :

1. To receive and adopt the Audited Profit and Loss Account for the year ended March 31, 2012 and the Audited Balance Sheet as at that date together with the reports of the Directors' and Auditors' thereon.
2. To appoint a Director in place of Mr. E. Seto, who retires by rotation and being eligible offers himself for re-appointment.
3. To appoint a Director in place of Mr. R.K. Bhatnagar, who retires by rotation and being eligible offers himself for re-appointment.
4. To consider and if thought fit, to pass, with or without modification, the following resolution as an Ordinary Resolution:  
"Resolved that M/s. Deloitte Haskins & Sells, Chartered Accountants, (ICAI Registration No. 015125N) be and are hereby appointed Auditors of the Company to hold office from the conclusion of this Annual General Meeting until the conclusion of the next Annual General Meeting of the Company at the remuneration as may be determined by the Board of Directors in consultation with the Auditors."

### SPECIAL BUSINESS:

5. To consider and if thought fit, to pass with or without modification, the following resolution as a Special Resolution.  
"RESOLVED THAT Mr. Koji Shiga, be and is hereby re-appointed as Managing Director of the Company as a non rotational Director under Article 70(e) of the Articles of Association of the Company."  
"RESOLVED FURTHER THAT Subject to the provisions of Section(s) 198,269,309, 310 & 311 and any other applicable provisions of the Companies Act, 1956, if any, and such other approvals as may be required, the re-appointment of Mr. Koji Shiga as the Managing Director of the Company for a period of three years w.e.f. 28th July, 2012, be and is hereby approved on the terms and conditions as stated in the annexure to the notice and as approved by the Board vide its resolution dated 4th June 2012."  
"RESOLVED FURTHER THAT the Board of Directors of the Company be and is hereby authorized to vary the remuneration of Mr. Koji Shiga, subject to the limits specified and according to the provisions of Section(s) 198,269,309,310 & 311 and Schedule XIII to the Companies Act, 1956 and variation in the applicable statutes from time to time."  
"RESOLVED FURTHER THAT in addition to the remuneration within the limits specified under Schedule XIII, Mr. Koji Shiga, be paid such perquisites and benefits as are specifically applicable to expatriate managerial personnel as specified in the Section II of Part II of Schedule XIII to the Companies Act, 1956, and as are payable to expatriate employees as per the rules of the Company, subject to overall limit as specified under Section II (1)(B), Part II of Schedule XIII to Companies Act, 1956."  
"RESOLVED FURTHER THAT the above remuneration shall constitute the minimum remuneration payable in case of absence or inadequacy of profits during the tenure of Mr. Koji Shiga, Managing Director of the Company."  
"RESOLVED FURTHER THAT Mr. M. Ono, Director and Mr. Alok Mathur, Company Secretary of the Company be and are hereby severally authorized to complete necessary formalities as may be required under the Companies Act, 1956, and to do all such acts as may be necessary for this purpose."
6. To consider and if thought fit, to pass with or without modification, the following resolution as a Special Resolution.  
"RESOLVED THAT Subject to the provisions of Section(s) 198,269,309, 310 & 311 and any other applicable provisions of the Companies Act, 1956, if any, and such other approvals as may be required, the appointment of Mr. M. Ono as Whole Time Director of the Company for a period of three years w.e.f. 13th February, 2012, be and is hereby approved on the terms and conditions as stated in the annexure to the notice and as approved by the Board vide its resolution dated 13th February 2012."  
"RESOLVED FURTHER THAT the Board of Directors of the Company be and is hereby authorized to vary the remuneration of Mr. M. Ono subject to the limits specified and according to the provisions of Section(s) 198,269,309,310 & 311 and Schedule XIII to the Companies Act, 1956 and variation in the applicable statutes from time to time."  
"RESOLVED FURTHER THAT in addition to the remuneration within the limits specified under Schedule XIII, Mr. M. Ono, be paid such perquisites and benefits as are specifically applicable to expatriate managerial personnel as specified in the

Section II of Part II of Schedule XIII to the Companies Act, 1956, and as are payable to expatriate employees as per the rules of the Company, subject to overall limit as specified under Section II (1)(B), Part II of Schedule XIII to Companies Act, 1956.”

“RESOLVED FURTHER THAT the above remuneration shall constitute the minimum remuneration payable in case of absence or inadequacy of profits during the tenure of Mr. M. Ono, Director of the Company.”

“RESOLVED FURTHER THAT Mr. K. Shiga, Managing Director and Mr. Alok Mathur, Company Secretary of the Company be and are hereby severally authorized to complete necessary formalities as may be required under the Companies Act, 1956, and to do all such acts as may be necessary for this purpose.”

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

“RESOLVED THAT Subject to the provisions of Section(s) 198,269,309, 310 & 311 read with Schedule XIII and any other applicable provisions of the Companies Act, 1956, if any, and such other approvals as may be required, the remuneration of Rs. 4,276,432 paid to Mr. Koji Shiga, Rs. 3,675,187 paid to Mr. K. Sugita and Rs. 2,178,810 paid to Mr. T Aoyama in the year 2011-12 including Provident Fund Contribution on their salary paid in Japan as stated in the annexure to the notice, be and are hereby ratified and confirmed.”

“RESOLVED FURTHER THAT Mr. M. Ono, Director and Mr. Alok Mathur, Company Secretary of the Company be and are hereby severally authorized to complete necessary formalities as may be required under the Companies Act, 1956, and to do all such acts as may be necessary for this purpose.”

**By Order of the Board**

**Place: New Delhi**

**Date : 20<sup>th</sup> July, 2012**

**Alok Mathur**

**Company Secretary**

**NOTES :**

- (A) The relative Explanatory Statement pursuant to Section 173 of the Companies Act, 1956 in respect of business under item no(s). 5, 6 and 7 above, is annexed.
- (B) 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. PROXY IN ORDER TO BE EFFECTIVE MUST BE RECEIVED BY THE COMPANY NOT LESS THAN 48 HOURS BEFORE THE MEETING.
- (C) The Register of Members of the Company will be closed from 1st September 2012 to 8th September 2012, both days inclusive.
- (D) Pursuant to the provisions of Section 205A of the Companies Act, 1956, the amount of dividend which remains unpaid/unclaimed for a period of 7 years would be transferred to the “Investor Education and Protection Fund (IEPF)”, constituted by the Central Government and Member(s) would not be able to claim any amount of dividend so transferred to the Fund. As such, Member(s) who have not yet encashed his/their dividend warrant(s) is/are requested in his/their own interest to write to the Company immediately for claiming the outstanding dividend declared by the Company for the year ended 31.3.2005 and onwards.
- (E) A brief resume, expertise, shareholding in the Company and other disclosures pursuant to Clause 49 of the Listing Agreement with respect to the Directors seeking re-appointment at the Annual General Meeting, are given in the annexure to this Notice.
- (F) The Ministry of Corporate Affairs (MCA) has permitted paperless compliances by the Companies; vide its circulars No. 17/2011 and No. 18/2011 dated April 21, 2011 and April 29, 2011 respectively. MCA has clarified that service of documents on Members by e-mail will constitute sufficient compliances with Section 53 of the Companies Act, 1956, provided the Members are given an advance opportunity to register their Email address or changes, if any, therein with the Company. Members are requested to provide their email ID to our Registrar M/s MAS Services Ltd. at T- 34, Second Floor, Okhla Industrial Area, Phase-II, New Delhi- 110020 for the purpose of service of documents viz. Annual Report, Notice of General Meetings, Notice of Postal Ballot etc.
- (G) 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 Mode only.
- (H) PLEASE NOTE THAT NO SWEET COUPONS / GIFTS SHALL BE DISTRIBUTED AT THE FORTHCOMING ANNUAL GENERAL MEETING.

## ANNEXURE TO NOTICE

### SPECIAL NOTICE OF RESOLUTION UNDER SECTION 190 OF THE COMPANIES ACT, 1956 FOR APPOINTMENT OF AUDITOR

M/s. Price Waterhouse, Chartered Accountants, the Statutory Auditors of the Company retire at the conclusion of the ensuing Annual General Meeting and have expressed their unwillingness to be reappointed for a further term. The Company has received a Notice from a shareholder pursuant to Section 225, read with Section 190, of the Companies Act, 1956 proposing a resolution for approval of the members at the ensuing Annual General Meeting for appointment of M/s Deloitte Haskins & Sells, Chartered Accountants, as the Auditors of the Company. The subject Resolution is appearing as item no. 4 of the Notice convening the Annual General Meeting. A copy of the said Notice has been forwarded to the retiring Auditors as prescribed under Section 225 of the Companies Act, 1956. M/s Deloitte Haskins & Sells, Chartered Accountants, have also given their consent to act as Auditors, if appointed, and confirmed that the appointment, if made, would be in compliance with Section 224 (1B) of the Companies Act, 1956.

Your Directors recommend that the resolution for appointment of M/s Deloitte Haskins & Sells, Chartered Accountants as Auditors of the Company be approved by the Members.

None of the Directors is interested in or concerned with the said resolution.

## 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. 5, 6 & 7

The Board of Directors of the Company vide resolution dated 4th June, 2012 have re-appointed Mr. Koji Shiga as the Managing Director of the Company for a period of three years with effect from 28th July 2012. The terms of his appointment and the statement pursuant to clause 1 (B) (iv) of Section II, Part II of the Schedule XIII of the Companies Act, 1956 are given below.

The Board of Directors of the Company vide resolution dated 13th February 2012 have appointed Mr. M. Ono as Whole Time Director of the Company for a period of three years with effect from 13th February 2012. The terms of his appointment and the statement pursuant to clause 1 (B) (iv) of Section II, Part II of the Schedule XIII of the Companies Act, 1956 are given below.

The Ministry of Labour and Employment by way of special notification has amended the Employees Provident Fund Scheme, 1952 and Employees Pension scheme, 1995. The notification has broadened the ambit of both the schemes to include a new category of employees specified as "International Worker". Denso India Ltd. is a subsidiary of Denso Corporation, Japan. Denso Corporation, Japan has been deputing some of its employees (the "Expatriate Employees") from Japan to work with Denso India from time to time. Such expatriate employees work on a split payroll – receiving a part of their salary from Denso Japan in Japan and balance part from Denso India in India. In terms of the notification Japanese Expatriate Employees (including Directors) working in the Company are covered under the new category of "International Worker". Pursuant to the FAQs issued by the Employees' Provident Fund Organisation on May 6th 2011, the Company has accounted for social security (Provident Fund) contributions on total salary of International Workers instead of such contributions having been paid earlier only on salary paid to such Japanese Expatriate Employees in India; such payment being necessary in compliance of aforesaid notification. Accordingly a sum of Rs. 2.58 million towards Provident Fund of Mr. Koji Shiga, a sum of Rs. 2.45 million towards Provident Fund of Mr. K Sugita and a sum of Rs. 1.81 million towards Provident Fund of Mr. T. Aoyama was paid in the year 2011-12.

Consequent to payment of Provident Fund contribution as aforesaid, the remuneration paid to Mr. Koji Shiga, Mr. K Sugita and Mr. T Aoyama in the year 2011-12 requires approval of the shareholders in terms of the limits specified under Schedule XIII of the Companies Act, 1956. The requisite statement pursuant to clause 1 (B) (iv) of Section II, Part II of the Schedule XIII of the Companies Act, 1956 is given below.

#### I General Information

(1)	Nature of Industry	Manufacturing of Automotive Electrical Components
(2)	Date or expected date of Commencement of commercial production	10th January, 1985
(3)	Expected date of Commencement of activities for a new Company	N.A

(4) Financial Performance

	For the year ended 31st Mar 2012
	Rs. Million
Gross Sales	11,351
Sales (Net of Excise)	10,362
(Loss)/Profit (before exceptional and Extraordinary items and Tax)	(691)
Exceptional items	26
(Loss)/Profit for the year before Taxation	(717)
Tax Expenses	5
(Loss)/Profit for the year	(722)

(5) Export performance & foreign exchange collaboration

	Rs. Million
<b>EARNINGS [On Accrual Basis]:</b>	
<b>FOB value of Exports</b>	90
<b>OUTGO [On Accrual Basis]:</b>	
<b>C.I.F. value of Imports</b>	
Raw Material & Component (Including Trading Goods)	3,453
Stores & Spare	35
Capital Goods	467
<b>OUTGO [On Accrual Basis]:</b>	
<b>Expenditure</b>	
Royalty	257
Technical Service Fees and Application Cost	179
Travelling, Training and Others	16

(6) Foreign Investment or Collaborators

Denso Corporation, Japan, Sumitomo Corporation, Japan & Asmo Co. Ltd., Japan are promoter foreign investors and collaborators.

**II Information about the appointee**

	Name	Mr. Koji Shiga	Mr. M.Ono	Mr. K.Sugita	Mr. T.Aoyama
	Period	Mr. Koji Shiga was appointed w.e.f. 28-07-2009 for three year up to 27-07-2012 and has been reappointed w.e.f. 28-07-2012 for three year up to 27-07-2015.	Mr. M.Ono has been appointed w.e.f. 13-02-2012 for three years up to 12-02-2015.	Mr. K.Sugita was appointed w.e.f. 23-02-2007 and ceased to be Director from 04-10-2011.	Mr. T.Aoyama was appointed w.e.f. 29-01-2010 and ceased to be Director from 01-07-2011.
1	Back Ground details	Mr. Koji Shiga joined Denso Corporation, Japan in the year 1977 in the Production Department. He has served Denso Thailand for a period of 9 years out of which for 4 years he was Dy. Managing Director. His educational qualification includes a post graduate degree in Mechanical Engineering from the Gifu University, Japan. He has experience of over 34 years in the area of Production of Auto parts.	Mr. Minoru Ono joined Denso Corporation, Japan in the year 1985 and served in the Finance & Accounting Department. He also served Denso Manufacturing Midlands Ltd for 6 years and Philippine Auto Components Ltd for 5 years in the Finance & Accounting He has over 26 years experience in the Finance & Accounting and Business Planning Area. His educational qualification includes a Bachelor of Economics degree from Yokohama National University, Japan.	Mr. K. Sugita joined Denso Corporation, Japan in the year 1987. His educational qualification includes a graduate degree in Commercial Science from the Waseda University, Japan. He has over 24 years experience in the Accounts & Finance and Business Planning Area.	Mr. T. Aoyama joined Denso Corporation, Japan in the year 1986. His educational qualification includes a graduate degree in Mechanical Engineering from the Musashi Industrial University, Japan. His total experience in the Production Engineering is over 25 years.

2	Past Remuneration	Rs.4.28 Million for the year 2011-12.	Rs. 0.58 Million for the year 2011-12.	Rs.3.67 Million for the year 2011-12.	Rs.2.18 Million for the year 2011-12.
3	Recognitions or Awards	N.A	N.A	N.A	N.A
4	Job Profile & his suitability	Managing Director having overall control of all production facilities. Mr. Koji Shiga has expertise and experience of over 34 years particularly in the field of Mechanical engineering.	Chief Financial officer and Head of Business Planning, Legal and HR functions. He has expertise and experience of over 26 years in Finance & Accounting and Business Planning Area.	Chief Financial officer and Head of Business Planning and Legal. He has expertise and experience of over 24 years in Finance & Accounting and Business Planning Area.	Head Plant Engineering. He has expertise and experience of over 25 years particularly in the field of Production Engineering.
5	Remuneration proposed				
	Salary	In the range of Rs.70,000/- to 150,000/- per month	In the range of Rs. 65,000/- to Rs. 100,000/- per month	In the range of Rs. 65,000/- to Rs. 100,000/- per month	In the range of Rs. 65,000/- to Rs. 100,000/- per month
	A. Other benefits	DNIN shall provide the following for the Director 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 colour T.V. and telephone connection with ISD) accommodation. b) Repair & maintain such premises and security guard at such premises. c) Reimburse expenses relating to electricity, gas and water. d) Reimburse expenses of servants. e) Provide telephone/ cellphone facilities and meet all related expenses except expenses on long distance personal calls			
	2) Car	a) At the cost of DNIN to be provided with driver for official and private use. b) Cost of car including expenses of maintenance and running of the vehicle will be borne by DNIN. c) If, however, Director 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.			
	3. Business Travel, Medical Expenses, PF Contribution, Reimbursement of Language training expenses ,Working Rules & Regulation and Return expenses	As per DNIN rules for category of Directors as per DNIN designation or equivalent subject to Government Regulation 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 the Directors and will be deducted at source by DNIN. All reference to DNIN in the above are to DENSO INDIA LIMITED, NEW DELHI.			
6	Comparative remuneration with industry	The Company is engaged in manufacturing of automotive components with over Rs. 1100 cr. turnover. The Company has two manufacturing plants with three warehousing locations and a central spares parts division (CSPD) with over 1000 employees. The Company is a public limited company with over 14,000 shareholders and is listed on the Bombay, Delhi and Madras Stock Exchanges.  Given the size, complexity and the nature of business, the remuneration paid / proposed to be paid to above mentioned Directors is in line with other similar Companies.			
7	Pecuniary relation ship	Excepting the payment of remuneration for their service as Managing Director / Director, as detailed hereinabove, above mentioned appointees have no other pecuniary relationship with the Company.			

**III Other Information**

(1)	Reason for Loss	Rising Input costs, Adverse foreign exchange scenario and weakening rupee, Disturbance and labour unrest with major customers, fluctuating economic growth & fierce competition.
(2)	Steps for improvement	Stricter cost control measures, Setting up of new factory at Bangalore and strategy to focus on core business area are the steps for improvement.
(3)	Expected increase in productivity & profit in measurable terms	The Company has chalked out mid term plan up to year 2015 and has targeted Cumulative average Growth Rate of 21% in its core business areas.

In order to give effect to above, terms and conditions of the appointment of the Directors have to be approved by the members. The Board recommends the resolutions to the members for their approval.

Mr. Koji Shiga and Mr. M. Ono are interested in the resolutions for appointment as Managing Director and as Whole Time Director respectively and the resolution for ratification and approval of past remuneration including payment of provident fund contribution on salary paid in Japan to the extent of contribution on their salary. None of the other directors of the Company is concerned or interested in the resolutions.

**By order of the Board**

**Place : New Delhi**

**Date : 20th July, 2012**

**Alok Mathur**

**Company Secretary**

**ANNEXURE TO THE NOTICE DATED 20TH JULY, 2012 – ITEM NOS. 2 & 3**

**DETAILS OF DIRECTORS SEEKING RE-APPOINTMENT**

**AT THE ANNUAL GENERAL MEETING**

**(IN PURSUANCE OF CLAUSE 49 OF THE LISTING AGREEMENT)**

<b>Name of Directors</b>	<b>Mr. E. Seto</b>	<b>Mr. R.K. Bhatnagar</b>
Date of Birth	4-Jan-59	26-Jul-35
Date of Appointment	26-May-09	28-Mar-01
Expertise	Legal and automotive business development	Plant operations control
Qualification	Degree in Law from the Waseda University	Bachelor degree from Delhi University
Directorship held in other Companies	J.J. Impex (Delhi) Pvt. Ltd., Munjal Kiriu Industries Pvt. Ltd., NKC Conveyors India Pvt. Ltd., SML Isuzu Ltd.	PF Management Consultants Pvt. Ltd.
Committee Positions	Nil	Member of Audit Committee, Investors Grievance Committee, Remuneration Committee of Denso India Ltd.
Shareholding in the Company as on 31-03-2012	Nil	Nil
Relationship with other Directors	None	None

## DIRECTORS' REPORT

Your Directors present Twenty Seventh Annual Report of the Company together with the audited statement of accounts for the financial year ended 31st March 2012.

### FINANCIAL RESULTS

	<b>For the year ended</b>	For the year ended
	<b>31.03.2012</b>	31.03.2011
	<b>Rs. Million</b>	Rs. Million
<b>Gross Sales</b>	<b>11,351</b>	10,163
<b>Sales (Net of Excise)</b>	<b>10,362</b>	9,274
<b>(Loss)/Profit (before exceptional and Extraordinary items and Tax)</b>	<b>(691)</b>	51
<b>Exceptional items</b>	<b>26</b>	-
<b>(Loss)/Profit for the year before Taxation</b>	<b>(717)</b>	51
<b>Tax Expenses</b>	<b>5</b>	31
<b>(Loss)/Profit for the year</b>	<b>(722)</b>	20

### MANAGEMENT DISCUSSION AND ANALYSIS:

The year under review was not only a difficult year for the Company, it was a challenging year for the Indian economy as well. The Indian economy substantially slowed down during 2011-12, as compared to the previous year. Overall GDP growth rate dropped from 8.4% in 2010-11 to 6.5% for the year 2011-12. The growth rate which had dropped down to 6.7% in 2008-09 was expected to rebound and be around 9% or more during 2011-12. However, contrary to expectation, with every passing month in 2011, it became more and more evident that the rate of growth was on the decline. Index of Industrial Production (IIP) growth declined from 8.2% in 2010-11 to 2.8% in 2011-12. Growth rate of eight core industries declined from 6.6% during 2010-11 to 4.4% in 2011-12. Diverse factors lead to this unforeseen down turn. The global factors like the Euro zone crisis, recession in Europe, sluggish growth rate in industrialized nations like USA, stagnation in Japan, political crisis in the Middle East also contributed to the slowdown. Such drastic reversal from the upward swing to global melt down and consequent weakening of India economy led to a general negative outlook and depressed market sentiments.

During 2011-12 the Rupee depreciated by over 14% against the US\$, 13% against the Sterling Pound, 8% against the Euro and 15% against the Japanese Yen. The cascading effect of Rupee depreciation was sorely felt on the already high imported commodity prices. The Indian markets also saw a large decline in the in-flow of funds from the Foreign Institutional Investors partly due to the concerns over the

longer term impact of higher current account deficits and partly due to risk aversion to invest in volatile markets. The flight of capital by foreign investors was also influenced by the melt down in Europe. Sovereign debt problem of euro area weighs heavily on global recovery. Concern about sustainable solution to the sovereign debt problem and vulnerability of the banking sector still persist. Heightened risk aversion and the resultant slowing of capital flows will have a significant adverse impact on emerging and developing economies including India.

Spiraling oil prices, high inflation, rising interest rates severely dampened business sentiments thereby contributed to the slowdown. The year 2011-12 started with 9.7% inflation which touched double digits in September 2011 and thereafter declined to 7.7% in March 2012. The major factors contributing to such inflation were high prices of vegetables, eggs, meat and fish due to change in dietary pattern of rural households, increasing global commodity prices leading to higher cost of production and continuous high prices of crude oil.

### OPERATIONS:

The factors which led to general negative outlook and depressed market sentiments affected the Company adversely. The margins of the Company remained under severe pressure during the year due to rising input costs, adverse foreign exchange scenario and weakening rupee, disturbances and labour unrest with major customers, fluctuating economic growth and fierce competition causing a loss of Rs. 722 million after tax.

The margins and profits are under pressure not only in the Company but the situation is more or less same with competitors and other Auto components supplier as well. Same is the scene with car manufacturers. The end customers are continuously demanding better features, higher specifications at lower cost in the new cars and in new models of the present cars. The margins are therefore under pressure with car manufacturers also. The car manufacturers in turn pass on this pressure to the components suppliers.

The problem was worst confounded due to labour unrest at Manesar plant of Maruti Suzuki India Limited (MSIL), which is our biggest customer. This severely disturbed production schedule of the Company putting inventory and imports out of sync with production. The Company faced challenges of erratic demand due to fluctuating economic scenario affecting growth in automobile sector during the year. It was therefore necessary to import more material & components and carry higher inventory to ensure 100% committed supply to the customers. This was necessary to retain market share. Even though these put pressure on profit margins and enhance working capital exposure, nevertheless are imperative to retain market share and customer confidence.