

DENSO

**TWENTY EIGHTH
ANNUAL REPORT
2012-13**

DENSO INDIA LIMITED

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BOARD OF DIRECTORS

MANAGING DIRECTOR

Mr. Koji Shiga

DIRECTORS

Mr. J.S. Baijal

Mr. A.C. Chakrabortti

Mr. R.K. Bhatnagar

Mr. K. Asai

Mr. Sadahiro Usui (w.e.f. 14th August 2012)

Mr. Koji Arima (till 14th August 2012)

Mr. M. Adachi

Mr. E. Seto (till 7th August, 2013)

Mr. T. Takashima (w.e.f. 7th August, 2013)

Mr. N. Takamura
(Alternate Director to Mr. M. Adachi)

Mr. M. Ono
(Alternate Director to Mr. S. Usui w.e.f. 14th August 2012)
(Alternate Director to Mr. K. Arima till 14th August 2012)

Mr. Taro Nanko
(Alternate Director to Mr. T. Takashima w.e.f. 7th August 2013)
(Alternate Director to Mr. E. Seto till 7th August, 2013)

COMPANY SECRETARY

Mr. Alok Mathur

AUDITORS

Deloitte Haskins & Sells
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
3. Kannamangala,
Whitefield Hoskote Road,
Bangluru Karnataka-560067

NOTICE

Notice is hereby given that the Twenty Eighth Annual General Meeting of the Company shall be held on Monday, 30th day of September, 2013 at 10.30 a.m. at Sri Sathya Sai International Center, 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, 2013 and the Audited Balance Sheet as at that date together with the reports of the Directors and 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 appoint a Director in place of Mr. A.C. Chakrabortti who retires by rotation and being eligible offers himself for re-appointment.
4. To appoint a Director in place of Mr. S. Usui who retires by rotation and being eligible offers himself for re-appointment.

By Order of the Board

Place: New Delhi

Date : 7 August, 2013

Alok Mathur

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 24th September, 2013 to 30th September, 2013, both days inclusive.
- (C) 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 31.3.2006 and onwards.
- (D) 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.
- (E) 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.
- (F) 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.
- (G) PLEASE NOTE THAT NO SWEET COUPONS / GIFTS SHALL BE DISTRIBUTED AT THE FORTHCOMING ANNUAL GENERAL MEETING.

ANNEXURE TO THE NOTICE DATED 7 AUGUST, 2013 – ITEM NOS. 3 & 4
DETAILS OF DIRECTORS SEEKING RE-APPOINTMENT
AT THE ANNUAL GENERAL MEETING
(IN PURSUANCE OF CLAUSE 49 OF THE LISTING AGREEMENT)

Name of Directors	Mr. A.C. Chakrabortti	Mr. S. Usui
Date of Birth	02.10.1930	09.09.1958
Date of Appointment	23 rd March, 2002	14 th August, 2012
Expertise	Finance	Economics
Qualification	B.Com (First Class) from Calcutta University and is the Fellow Member of the Institute of Chartered Accounts of India.	Graduate in Economics from Nagoya University, Japan
Directorship held in other companies	La Opala Glass Limited Peerless Fund Management Co. Ltd. Peerless General Finance & Investment Company Limited Rasoi Industries Limited Texmaco Rail & Engineering Limited Chandras' Chemicals Enterprise Pvt Ltd. Madhya Pradesh Madhya Kshetra Vidyut Vitaran Co. Ltd.	Denso Manufacturing Italia S.p.A. Denso (Thailand) Co. Ltd. Denso Taiwan Corporation Tianjin Denso Engine Electrical Products Co. Ltd. Denso Katsuyama Co. Ltd. Denso Remani Corporation
Committee Positions	Member of Audit Committee, Remuneration Committee of Denso India Limited	Nil
Shareholding in the Company as on 31.03.2013	Nil	Nil
Relationship with other Directors	None	None

DIRECTORS' REPORT

Your Directors present Twenty Eighth Annual Report of the Company together with the audited statement of accounts for the financial year ended 31st March 2013.

FINANCIAL RESULTS

	₹ in Million	₹ in Million
	For the year ended 31.03.2013	For the year ended 31.03.2012
Gross Sales	13,583	11,351
Sales (Net of Excise)	12,186	10,362
Profit/(Loss) (before Exceptional items and Tax)	(637)	(691)
Exceptional Items	827	(26)
Profit/(Loss) for the year before Taxation	190	(717)
Tax Expenses	62	5
Profit/(Loss) for the year	128	(722)

MANAGEMENT DISCUSSION AND ANALYSIS:

The Indian economy substantially slowed down during 2011-12 and the slowdown has continued further with overall growth of Gross Domestic Product (GDP) at factor cost estimated at 5.0 percent in 2012-13, with agriculture & allied activities growing at 1.8 per cent, industry at 3.1 per cent and services at 6.6 per cent as per advance estimates released by the Central Statistics Office. The slower growth in agriculture and service sectors had considerable impact on Auto industry.

During the year under review, there was no respite from spiraling oil prices, inflation and high interest rates which continued to severely dampen automotive business sentiments. Depreciation of rupee to the dollar contributed to fuel price rise. The industrial relation related problems at the end of the major customers of the Company also impacted sales and savings plan of the Company. High inflation, particularly the rising prices of vegetables, meat, dairy and other food items as well as increase in education expenses had considerable impact on three years wage settlement agreement, which the Company concluded with the workmen union during the year under review. This has increased indirect and direct labour cost of the Company. Electricity Distribution Company also raised prices by about 40% during the year.

While the inflationary pressure, adverse exchange rate fluctuations, rising fuel prices and interest rates, coupled with problems at the end of major customers of the Company resulted in severe financial strain for the Company during the year, however expected improvement in economic parameters of Indian economy and automobile market scenario, will help

the Company to come out of difficult time in coming years.

INDUSTRY STRUCTURE AND DEVELOPMENT

The industry has developed in clusters which have large number of companies with their vendor base. The major automotive hubs being in Pune region (Maharashtra), NCR region, Pithampur (MP), Chennai, and Uttaranchal. Gujarat is emerging as the latest major automotive hub. This includes virtually all the major global OEMs (original Equipment Manufactures) as well as home grown companies. India has surpassed France, UK and Italy to become the 6th largest vehicle manufacture globally.

Presently the Indian Auto industry is in the midst of severe slow down and is a matter of concern for all vehicle makers and part suppliers. Though over long term, growth story is still intact, however to adjust to continuous slow down for last 15 months, the companies have resorted to planned shut downs, price discounts, extra ordinary items, laying off casual labour and have announced postponement of new investment. The industry is witnessing transition of manufacturing base from North to South and West due to various reasons. Amidst the turmoil, there have been some good short stories of success e.g. Amaze from Honda and Duster from Renault, rekindling the hope for a brighter future.

OPERATIONS:

During the year under report turnover of your Company increased to ₹ 13,583 million from ₹ 11,351 million in 2011-12. While finance cost came down to ₹ 78 million from ₹ 117 million, the cost of material consumed, employee benefit expenses, administrative and other expenses increased due to inflationary pressure.

Your Company earned a profit of ₹ 128 million during the year against a loss of ₹ 722 million suffered in 2011-12. As an exceptional item, profit of ₹ 827 million from transfer of Small Motor Business contributed towards the profit for the year. However, during the year Company suffered a loss of ₹ 637 million from operations as compared to loss of ₹ 691 million in 2011-12.

DIVIDEND:

Considering the present financial condition and current market situation no dividend is recommended for the year ended March 31, 2013.

SMALL MOTOR BUSINESS

The Board of Directors and the shareholders (through Postal Ballot) at their meeting held on 12th November 2011 and 21st December, 2011 respectively had granted their approvals to the Company to sell all assets (tangible and intangible),

liabilities and transfer employees of small motor business to Denso Haryana Private Limited (DNHA), a DENSO group company, for a total consideration of ₹ 1477 million, which was subject to adjustments in relation to working capital in between the balance sheet of the reference date (as at 31st March, 2011) and the completion date (1st October, 2012).

During the year, your Company sold Small Motor Business i.e Front/ Rear Wiper, Power Window Motors, Blower Motors, Electric Fan Motors and Engine Cooling Modules to DENSO Haryana Private Limited, on a going concern basis, by way of slump sale, to re-align/restructure the business to address economic constraints and to focus on areas of future growth.

On 1st October, 2012 the Company transferred the small motor business having book value of ₹ 1049 million to DNHA against total consideration of ₹ 1876 million and recorded a profit of ₹ 827 million.

FACTORY AT HARIDWAR

Your Company had established a factory at Haridwar in year 2009, mainly to cater to the needs of M/s Hero MotoCorp Ltd. (previously Hero Honda Motors Ltd.). The Company's factory at Haridwar is performing satisfactorily, however M/s Hero MotoCorp Ltd. lost market and had lower sales in the range of vehicle for which your Company is supplying products. This is a cause of concern for Haridwar factory of your Company where we have only one customer in our plan.

FACTORY AT BANGALORE

During the year, the Company has taken the premises on lease and has set up a new factory at Bangalore. This factory at Bangalore will cater to the requirements of two wheelers manufacturers in southern India and mainly Honda Motorcycle and Scooter India Pvt. Ltd. (HMSI). The production at Bangalore factory is expected to pick up with the setting up and increase in activities of HMSI plants in South.

OPPORTUNITIES, THREATS AND OUTLOOK:

Sensitivity to fuel prices and interest rates can cause huge fluctuations in market demand of cars and two wheelers thereby posing a significant threat to the corresponding demand of the Company's products.

The industry is witnessing shift in customer preference from petrol driven cars to diesel driven vehicles. The uncertainty over fuel policy and raising diesel price pose a dilemma for vehicle manufacturers. Capacity allocation between petrol and diesel driven vehicles and CAPEX commitments will increasingly pose challenges before vehicle manufacturers and component industry in the coming months. The intensifying competition and unpredictability of volumes and product mix may also present major threat and challenge for your Company.

The vehicle manufacturers expect component industry to improve scalability and develop a reliable and robust manufacturing system and deliver global levels of technology and quality products. The vehicle manufacturers require their suppliers to be able to not only localize the systems or components supplied by them but also to supply the same from a location nearer to their manufacturing facility from logistics point of view to avoid delivery problems caused due to infrastructure constraints of the Country. This poses significant challenge for the component industry in the back drop of the fact that the industry is witnessing transition of manufacturing base from North to South and West due to various reasons. While on the one hand, the component industry is grappling with the problem of excess capacity, yet on the other hand is expected to set up a manufacturing facility closure to the new location of the vehicle manufacturers thereby significantly increasing CAPEX commitments and fixed costs.

The Company is making constant endeavors for localization of various parts and components and identifying cost effective ways of manufacturing them in-house or through vendors. Awareness and regulation on fuel efficiency will become a big trend in India in the next few years as it helps both the economy and the environment. The Company is conscious of these developments and poised to take advantage of these trends. Setting up a factory in Bangalore and decision to focus on Alternator/ Starter (in case of four wheelers) and CDI/ Magneto (in case of two-wheelers) businesses, which contribute to vehicle engine performance by optimizing fuel cost and reducing emissions, are the steps in that direction.

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.

INTERNAL CONTROL SYSTEMS:

The Company has an adequate system of internal controls to ensure that transaction are properly recorded, authorized and reported apart from safeguarding Company's assets. Well-experienced Chartered Accountant firm appointed by the Company for internal audit, reviews operations at all the establishments of the Company. All significant internal audit observations and follow up actions thereon are reported to the Audit Committee. The Audit Committee reviews the adequacy and effectiveness of the internal audit.

HUMAN RESOURCES:

Your Directors wish to place on record their appreciation for the commitment and dedication shown by the employees at all the areas of operation of the Company. Various HR initiatives are taken to align the HR policies to the growing requirements

of the business. The Industrial Relations remained cordial during the year and the Company executed a wage settlement agreement with the Workmen Union for a period of three years effective from 1st April 2012 to 31st March 2015. As on 31st March 2013 your company had 1273 employees.

INSURANCE

All the assets of your Company including Plant & Machinery, Building, Equipment, and Vehicles etc. have been adequately insured.

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.

DELISTING PROPOSAL

The Company received a letter on 26th April 2013 from Denso Corporation, Japan, (“Acquirer”) one of the promoters of the Company holding 13,362,091 Equity Shares of the Company constituting 47.93% of the paid up equity capital of the Company, proposing to voluntarily delist the Equity Shares of the Company from BSE Ltd. (BSE), Delhi Stock Exchange Limited and Madras Stock Exchange Limited under the provisions of Securities and Exchange Board of India (Delisting of Equity Shares) Regulations, 2009 (“Delisting Regulations”) by acquiring up to 7,398,019 Equity Shares held by public shareholders in the Company representing 26.54% of the issued and paid up equity share capital of the Company (“Delisting Proposal”).

Denso Corporation, Japan has stated in the aforesaid letter that the main objectives of Delisting Proposal is (i) to increase ownership in the Company, which will provide the Acquirer with increased operational flexibility to support the Company’s business; and (ii) to provide an exit opportunity to the public shareholders of the Company, given the low liquidity in the Equity Shares of the Company.

The Board of Directors, in the meeting held on 27th April 2013, has Approved the Delisting Proposal pursuant to and in accordance with section 8(1)(a) of the Delisting Regulations and has consented to place the Delisting Proposal before the shareholders of the Company for their consideration and to seek their approval by special resolution passed through postal ballot in accordance with Delisting Regulations.

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 ended March 31, 2013.

AUDITORS

M/s. Deloitte Haskins & Sells, Chartered Accountants, retire at forthcoming Annual General Meeting and are eligible for re-appointment as Statutory Auditors. Observations made in the Auditors’ Report read with Notes to the Financial Statements are self explanatory and therefore, do not call for any further comments under Sec. 217 (3) of the Companies Act, 1956.

COST AUDITORS

Consequent to the issue of Cost Audit Order by the Cost Audit Branch, Ministry of Company Affairs, the Company has appointed M/s M.K. Kulshrestha & Associates, Cost Accountant as the Cost Auditors as per the provision of Section 233B of the Companies Act, 1956 to audit cost accounts for the year 2013-14 .

DIRECTORS:

Mr. Koji Arima resigned from Directorship and Mr. Sadahiro Usui was appointed as Director in casual vacancy w.e.f. 14 August, 2012. Mr. M Ono ceased to be Alternate Director to Mr. Koji Arima and was appointed as Alternate Director to Mr. Sadahiro Usui w.e.f. 14 August, 2012.

Mr. S. Usui and Mr. A C Chakrabortti retire from the Board of Directors by rotation in accordance with the provisions of the Articles of Association of the Company and are eligible for reappointment.

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.

PARTICULARS OF EMPLOYEES

As per the existing salary limits of Section 217(2)(A) of the Companies Act, 1956 read with the Companies (Disclosure of Particulars in the Report of the Board of Directors) Rules, 1988 as amended, as on 31st March, 2013, no employee of the Company is covered.

DIRECTORS RESPONSIBILITY STATEMENT AS PER SECTION 217(2AA) OF THE COMPANIES ACT, 1956.

1. The Financial Statement for the year ended 31.03.2013 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 judgment 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 operation for the year and the state of affairs of the business as at 31st March, 2013.
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. Deloitte Haskins & Sells, Chartered Accountants, the statutory auditors.

ACKNOWLEDGEMENTS

Your Directors take this opportunity to place on record their deep appreciation of the unstinted support extended by the management of Denso Corporation, Japan, Sumitomo Corporation, Japan, ASMO Co. Ltd., Japan, Maruti Suzuki India Limited and Denso International India Pvt. Ltd. Your Director also wish to express their sincere gratitude to the customers, vendors, shareholders, the bankers, the Central and State Governments and other agencies for their continued co-operation and support during the year under review.

For and on behalf of the Board

NOIDA
28 May, 2013

Koji Shiga
Managing Director

M. Ono
Director

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:

Efforts made : New models are being developed to help in further localisation by vehicle makers.

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 wheeler	-do-
CDI Systems for two/three wheelers	-do-
Fan Motor Assembly for Ventilation/	-do-
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.

C. FOREIGN EXCHANGE EARNINGS AND OUTGO:

The Company is pursuing its export plans. The exports of the products of the Company have been made to affiliates of Denso Companies around the world.

	₹ in Million
EARNINGS [On Accrual Basis]:	
FOB value of Exports	114
OUTGO [On Accrual Basis]:	
C.I.F value of Imports	
Raw Material & Component (Including Trading Goods)	4659
Stores & Spare	22
Capital Goods	304
OUTGO [On Accrual Basis]:	
Expenditure	
Royalty	250
Technical Service Fees and Application Cost	158
Travelling, Training and Others	21

We are one of the major suppliers in our range of products to Maruti Suzuki India Limited for majority of their export designated vehicles.