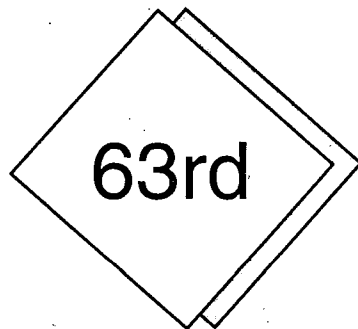




MD	✓		BKC	✓
CS	NA		DPY	NA
RO	✓		DIV	NA
TRA	✓		AC	✓
AGM	✓	✓	SEH	✓
YE	✓	✓		✓

EL FORGE LIMITED

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ANNUAL REPORT
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EL FORGE LIMITED

DIRECTORS

Sri.S.Venkataraman, Chairman
Sri.V.Srikanth, Vice Chairman
Sri V.Ramachandran
Sri.P.L.Reddy
Sri.V.N.Shankar Rau
Sri.K.J.Ramaswamy
Sri.K.V.Ramachandran, Managing Director

COMPANY SECRETARY

Smt. R. Sowmithri

AUDITORS

Sankaran & Raman
Chartered Accountants

BANKERS, FINANCIAL INSTITUTIONS AND FACTORS

CANARA BANK, T.C.Street, Chennai 600 001
STATE BANK OF INDIA, Industrial Finance Branch,
Chennai 600 002
STATE BANK OF MYSORE, Main Branch,
Chennai 600 001

INDUSTRIAL DEVELOPMENT BANK OF INDIA
Chennai 600 015

CANBANK FACTORS LTD, Chennai 600 002

SHARE TRANSFER AGENTS

M/s. INTEGRATED ENTERPRISES (INDIA) Ltd.
No.46/3, Vijayaraghava Chari Road,
T.Nagar, Chennai 600 017

REGISTERED OFFICE

No.1, Ramachandra Road, Nageswarapuram
Mylapore, Chennai 600 004
Phone:(044) 4994115 / 4994116
Grams: "EL FORGE"
Fax:(044) 4994708

EL FORGE LIMITED

NOTICE OF ANNUAL GENERAL MEETING

NOTICE is hereby given that the 63rd Annual General Meeting of the members of El Forge Limited will be held at the Office of the Company at 133, Old Mahabalipuram Road, Kandanchavadi, Chennai 600 096 on Thursday the 31st day of December, 1998 at 10.30 a.m. to transact the following business :

ORDINARY BUSINESS

1. To receive, consider and adopt the audited accounts for the 17 Month period ended 30th September, 1998, the Auditors' Report and the Directors Report thereon.
2. To appoint a Director in place of Sri V.N.Shankar Rau, who retires by rotation and being eligible offers himself for re-appointment.
3. To appoint a Director in place of Sri V.Ramachandran, who retires by rotation and being eligible offers himself for re-appointment.
4. To appoint Auditors to hold office from the conclusion of this meeting until the conclusion of the next annual general meeting.

SPECIAL BUSINESS

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

*Resolved that pursuant to Section 31 and all other applicable provisions, if any of the Companies Act, 1956 (including any statutory modification or re-enactment thereof, for the time being in force), the Articles of Association of the Company be and are hereby altered in the manner and to the extent as follows.

A. Insert the following new Article No.11(b), after Article 11(a).

II(b). Nominee Director

Notwithstanding anything to the contrary contained in these Articles, so long as any moneys remain owing by the Company to the INDUSTRIAL DEVELOPMENT BANK OF INDIA (IDBI), The Industrial Finance Corporation of India Limited, (IFCI), The Industrial Credit & Investment Corporation of India Limited, (ICICI) and Life Insurance Corporation of India (LIC) or to any other Financing Corporation or Credit Corporation or to any other Financing Company or Body out of any loans granted by them to the Company or so long as IDBI, IFCI, ICICI, LIC and Unit Trust of India (UTI) or any other Financing Company or Body (each of which IDBI, IFCI, ICICI, LIC and UTI or any other Finance Corporation or Credit Corporation or any other Financing Company or Body is hereinafter in this Articles referred to as "the Corporation") continue to hold debentures in the Company by direct subscription or private placement, or so long as the Corporation holds shares in the Company as a result of underwriting or direct subscription or so long as any liability of the Company arising out of any Guarantee furnished by the Corporation on behalf the Company remains outstanding, the Corporation shall have a right to appoint from time to time, any person or persons as a Director or Directors, whole time or non whole time, (which Director or Directors is/are hereinafter referred to as "Nominee Director/s") on the Board of the Company and to remove from such office any person or persons so appointed and to appoint any person/persons in his or their place/s.

The Board of Directors of the Company shall have no power to remove from office the Nominee Director/s. At the option of the Corporation such Nominee Director/s shall not be required to hold any share qualification in the Company. Also at the option of the Corporation such Nominee Director/s shall not be liable to retirement by rotation of Directors. Subject as aforesaid, the Nominee Director/s shall be entitled to the same rights and privileges and be subject to the same obligations as any other Director of the Company.

The Nominee Director/s so appointed shall hold the said office only so long as any moneys remain owing by the Company to the Corporation or so long as the Corporation holds Debentures in the Company as a result of direct subscription or private placement or so long as the Corporation holds shares in the Company as a result of underwriting or direct subscription or the liability of the Company arising out of the Guarantee is outstanding and the Nominee Director/s so appointed in exercise of the said power shall ipso facto vacate such office immediately the moneys owing by the Company to the Corporation are paid off or on the Corporation ceasing to hold Debentures/Shares in the Company or on the satisfaction of the liability of the Company arising out of the Guarantee furnished by the Corporation.

The Nominee Director/s appointed under this Article shall be entitled to receive all notices of and attend all General Meeting, Board Meetings and of the Meetings of Committee of which the Nominee Director/s is/are member/s as also the minutes of such meetings. The Corporation shall also be entitled to receive all such notices and minutes.

EL FORGE LIMITED

The Company shall pay to the Nominee Director/s sitting fees and expenses to which the other Directors of the Company are entitled, but if any other fees, commission, monies or remuneration in relation to such Nominee Director/s shall accrue to the Corporation and the same shall accordingly be paid by the Company directly to the Corporation. Any expenses that may be incurred by the Corporation or such Nominee Director/s in connection with their appointment or Directorship shall also be paid or reimbursed by the Company to the Corporation or, as the case may be, to such Nominee Director/s.

Provided that if any such Nominee Director/s is an officer of the Corporation the sitting fees, in relation to such Nominee Director/s shall also accrue to the Corporation and the same shall also accordingly be paid by the Company directly to the Corporation.

In the event of the Nominee Director/s, being appointed as Whole Time Director/s, such Nominee Director/s shall exercise such powers and have such rights as are usually exercised or available to a Whole Time Director in the management of the affairs of the Company. Such Whole Time Director/s shall be entitled to receive such remuneration, fees, commission and monies as may be approved by the Corporation*.

B. Insert the following Article as Article 19A after Article 19.

19A. Notwithstanding anything contained in these Articles, the Board of Directors may, when and if thought fit, buy back such of the Company's own shares or securities as it may think necessary, subject to such limits, upon such terms and conditions, and subject to such approvals, as may be permitted by the law.

6. Employees' Stock Option Scheme

To consider and if thought fit, to pass with or without modification, the following Resolution as a Special Resolution:-

"Resolved that in accordance with the provisions of Section 81 and other applicable provisions, if any, of the Companies Act, 1956 (including any statutory modification(s) or re-enactment thereof) and subject to such other approvals, permissions and sanctions, as may be necessary and subject to such conditions and modifications as may be considered necessary by the Board of Directors of the Company (hereinafter referred to as the "Board which expression shall also include a Committee thereof), or as may be prescribed or imposed while granting such approvals, permissions and sanctions, which may be agreed to or accepted by the Board in its sole discretion, the consent of the Company be and is hereby accorded to the Board to create, offer, issue or allot, in one or more tranches, to such persons as are in the permanent employment of the Company at the time the issue is made and to the Managing/Whole-time Directors of the Company, as may be decided solely by the Board, such number of Ordinary Shares of the Company of the face value of Rs.10/- each, not exceeding 5% or such higher percentage, if permitted by law, not however exceeding 10% of the subscribed Ordinary shares of the Company as then issued and in existence and on such other terms and conditions and at such time or times as the Board may, in its absolute discretion and in the best interest of the Company deem fit; provided that the aforesaid issue of Ordinary Shares may instead be in the form of fully or partly convertible Debentures, Bonds, Warrants or other securities as may be permitted by the law, from time to time and the issuance of such securities in the aggregate will result in not more than 5% or such higher percentage, as may be permissible, not however exceeding 10% of the Subscribed Ordinary Shares of the Company at that time or purchase fully paid up shares of the Company in accordance with the Companies Act, 1956 through an Employees Stock Option Trust formed by the Company for allocation to the employees under the ESOP scheme".

"Resolved Further that the Board be and is hereby authorised to issue and allot such number of Ordinary Shares as may be required in pursuance of the above issue, and that the Ordinary Shares so allotted shall rank in all respects pari passu with the existing Ordinary Shares of the Company save and except that such ordinary shares which may be with or without voting rights, if permitted by the law, shall carry the right to receive either in full dividend or a pro-rata dividend from the date of allotment, as may be decided by the Board, declared for the financial year in which the allotment of the shares shall become effective.

"Resolved further that the consent of the Company be and is hereby granted in terms of Section 293(1)(a) and other applicable provisions, if any, of the Companies Act, 1956 and subject to all necessary approvals to the Board to secure, if necessary, all or any of the Company's immovable and/or movable assets, both present and future in such form and manner and on such terms as may be deemed fit and appropriate by the Board".

"Resolved further that for the purpose of giving effect to the above, the Board be and is hereby authorised to determine the form and terms of the issue, the issue price and all other terms and matters connected therewith including the creation of mortgages and/or charges and to make and accept any modifications in the proposal as may be required by the authorities involved in such issues and to settle any questions or difficulties that may arise in regard to the issue".

(By Order of the Board)
For EL FORGE LIMITED
R.SOWMITHRI
COMPANY SECRETARY

Place : Chennai
Dated : 30.11.98

EL FORGE LIMITED

NOTES

1. A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote instead of himself and a proxy so appointed need not be a member of the Company.
2. The instrument appointing Proxy should be deposited at the Registered Office of the Company not less than 48 hours before the commencement of the meeting.
3. The Register of Members will be closed from 23rd December 1998 to 31st December 1998 both days inclusive.
4. Pursuant to Section 205A of the Companies Act, 1956, all unclaimed dividends relating to the Company's year upto 31/03/1995 have been transferred to the General Revenue Account of the Central Government. Shareholders who have not encashed the dividend warrants for the said period are requested to claim the amount from the Registrar of Companies, Tamil Nadu, (Madras), No.26, Haddows Road, Madras 600 006.
5. Members are requested to communicate their change of address, if any, quoting their respective folios to the Share Transfer Agents of the Company.
6. Members, who are holding shares in identical order of names in more than one account, are requested to intimate to the Share Transfer Agents the ledger folio of such accounts together with the share certificates to enable the Company to consolidate all the holdings into one account. The share certificates will be returned to the members after making necessary endorsement in due course.

Explanatory Statement annexed to the notice convening the Annual General Meeting of the Company as required under Section 173(2) of the Companies Act, 1956.

Item No.5

Financial Institutions normally stipulate as one of the conditions that they must be able to nominate Directors on the Board of Company whenever they consider it necessary as long as their assistance in the form of loan or subscription to debentures or any such financing facility is being enjoyed by the Company. Our Company has been sanctioned a loan of Rs.330 lakhs from Industrial Development Bank of India, and a part of which has already been drawn down by the Company. In order to comply with the terms and conditions of Industrial Development Bank of India the Clause facilitating appointment of Nominee Director is proposed to be included. To enable the company to purchase any of its own shares or securities, an article is being added. The Special Resolution proposed at item No.5 gives effect to the alterations of the Articles of Association explained above and the Directors recommend the resolution for approval of the members.

A copy of the Memorandum and Articles of Association of the Company together with the proposed alterations is available for inspection by the members of the company at its Registered Office between 11 a.m. and 1 p.m. on any working day of the company.

Item No.6

In the present competitive environment in the Country and in the long term interest of the Company and its Shareholders, it is necessary that the Company adopts measures for attracting and retaining qualified, talented and competent personnel. Stock Option Schemes, designed to foster a sense of ownership and belonging amongst personnel, are a well-accepted approach to this end. It is therefore, appropriate to consider introducing a Stock Option Scheme for the permanent employees of the Company and its Managing Whole Time Directors. The Shares may be allotted directly to employees or allocated in accordance with a Stock Option Scheme framed in that behalf, in accordance with the provisions of the prevailing law. It is intended that any such Stock Option Scheme shall not involve an issue/allocation of shares/options representing more than 10% of the Company's outstanding subscribed and paid-up capital at any time. The proposed Resolution is designed to enable achievement of these objectives.

Section 81 of the Act, provides, inter alia, that whenever it is proposed to increase the Subscribed Capital of a Company by the allotment of further shares, such further shares shall be offered to the existing shareholders of the Company in the manner laid down in the said Section unless the Shareholders in the General Meeting decide otherwise. The consent of the Shareholders therefore, sought to authorise the Board of Directors to issue the shares in the manner set out in the Resolution at Item No.7.

The Board recommends the Resolution for acceptance.

Mr V.Srikanth the Vice Chairman and Mr K.V.Ramachandran, the Managing Director may be deemed to be concerned or interested in the Resolution at Item No.7 to the extent of the Securities, which may be offered and issued to them.

(By Order of the Board)
R.SOWMITHRI
COMPANY SECRETARY

Place : Chennai
Dated : 30.11.98

Registered Office : No.1, Ramachandra Road, Nageswarapuram, Mylapore, Chennai 600 004

EL FORGE LIMITED**REPORT OF THE DIRECTORS**

The Directors have pleasure in presenting the Annual Report along with the Accounts of the Company for the 17 Month period ended 30th September, 1998.

FINANCIAL RESULTS

	1997-98 (17 MONTHS)	1996-97 (12 MONTHS)
--	--------------------------------------	--------------------------------------

(Figures in Rs. Lakhs)

Sales & Other Income	4567.90	4462.87
Profit before depreciation	11.59	207.53
Profit / (Loss) after depreciation	(154.26)	105.82
Net Profit / (Loss) after Tax	(154.26)	105.82
Add : Excess Provision of tax written back	4.94	5.71
Add : Investment allowance no longer required written back	2.18	-
Add : Balance brought forward from the previous year	71.00	72.79
Less : Appropriation	-	113.32
Balance in Profit and Loss Account	(76.14)	71.00

The slow down in the economy in general and the recession in the auto sector in particular has adversely affected the performance of the Company. In view of the loss during the period the Board does not recommend any dividend for 1997-98.

BUSINESS SITUATION

Your Company was also affected due to the continued recessionary trend in the Automotive Sector, particularly the heavy and light commercial segments, which witnessed a drop in sales of about 38% compared to the year 1996-97. The overall Industrial growth Rate also fell sharply from 7% in 1996-97 to 4.7% in 1997-98.

Your Company's sales also fell by about 28% on an annualised basis. However, Exports have registered a growth of 20% on an annualised basis, a positive result in the strategy adopted by the Company to fight against the domestic recessionary market. Barring unforeseen reasons, the Company hopes to achieve better operating results in the current year.

The Vehicles demand during the last quarter of year 1998 is showing signs of marginal improvement. The Company aggressively is pursuing business in new areas and has also taken steps to improve margins by supplying more and more machined products, both in the Domestic and Export Markets.

During the Current year, exports are set to improve further following supply of forgings, for automotive and non-automotive usages. Internally your Company is constantly emphasising on Cost reduction, Improvement in Productivity and technology upgradation. These actions are expected to result in positive improvement in overall performance.

The Company has come a long way since 1934 as a responsible corporate Citizen and looks at every opportunity for improving performance and enhancing shareholders value.

RESEARCH & DEVELOPMENT

Research and Development is an ongoing process at El Forge. All efforts are directed towards reduction of material wastage using advanced technology and equipments. The emphasis of Research & Development is more at our tool room as this section plays a major role in reduction of material wastage.

HUMAN RESOURCE DEVELOPMENT

Human Resource Development activities have been organised at the Corporate level to strengthen and implement modern concepts. These activities include Man Power planning, recruitment, placement, promotion, personnel appraisal/evaluation and development of Personnel. Total Quality Management has also been taken up as a part of Human Resource Development activities.

INDUSTRIAL RELATIONS

The employees at all levels have contributed to the performance. Majority of the workers at Hosur factory have accepted voluntary retirement scheme of Company subsequent to suspension of operations at Hosur from September, 1997. Your Directors place on record the co-operation of all employees during the year.

FIXED DEPOSITS

The Company had as on 30th September, 1998 deposits amounting to Rs.90.70 lacs. All the deposits that matured and claimed during the year were paid on the due dates.

EL FORGE LIMITED**PARTICULARS OF EMPLOYEES**

Information under Section 217 (2-A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975, forms part of this Report. However, as per the provisions of Section 219(1)(b) (iv) of the Companies Act, 1956, the Report and Accounts are being sent to all shareholders of the Company excluding the Statement of Particulars of Employees under Section 217 (2-A) of the Act. Any shareholder interested in obtaining a copy of the said Statement may write to the Registered Office of the Company.

COMPANIES (DISCLOSURE OF PARTICULARS IN THE REPORT OF BOARD OF DIRECTORS) RULES, 1988

In terms of the above Rules, your Board is pleased to give the particulars as prescribed therein, in the Annexure which forms part of the Directors' Report.

DIRECTORS

Sri.V.N.Shankar Rau and Sri.V.Ramachandran retire from the Board by rotation and being eligible offer themselves for re-appointment.

AUDITORS

M/s Sankaran & Raman, the retiring Auditors, are eligible for re-appointment.

ACKNOWLEDGEMENTS

The Company places on record the unstinted co-operation of our Bankers, Canara Bank, State Bank of India, State Bank of Mysore, Canbank Factors and Industrial Development Bank of India. We also thank all our customers, dealers, suppliers and others connected with the business for their co-operation.

(By Order of the Board)

Place : Chennai
Dated : 30.11.1998

For EL FORGE LIMITED
S. VENKATARAMAN
CHAIRMAN

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EL FORGE LIMITED**ANNEXURE TO DIRECTORS' REPORT**

Information in accordance with the Companies

(Disclosure of particulars in the Report of Board of Directors) Rules, 1988 and
forming part of the Directors' Report for the 17 Month period ended 30th September, 1998
CONSERVATION OF ENERGY

- | | |
|---|---|
| 1. Energy Conservation measures taken | Furnace oil and Power consumption are closely monitored to conserve energy. |
| 2. Additional Investments and proposals if any, being implemented for reduction of consumption of energy | — |
| 3. Impact of the measures at (1) and (2) above for reduction of energy consumption and consequent impact on the cost of production of goods | — |

FORM A

(See Rule 2)

FORM OF DISCLOSURE OF PARTICULARS WITH RESPECT TO CONSERVATION OF ENERGY

	1997-98 (17 MONTHS)	1996-97 (12 MONTHS)	
A. POWER AND FUEL CONSUMPTION			
1. Electricity			
a. Purchased			
Units	4967497	4686802	
Total Amount (Rs.)	20752938	15652792	
Rate / Unit	4.18	3.34	
b. Own Generation			
Through Diesel Generator :			
Units	208495	143645	
Units / Ltr. of Diesel Oil	2.21	1.80	
Cost Per Unit	4.64	4.34	
2. Furnace oil & L.D.oil			
Quantity (in Ltrs.)	2267641	2241492	
Total Amount (Rs.)	12421854	16013430	
Average Rate	5.48	7.14	
B. CONSUMPTION PER UNIT OF PRODUCTION			
Product – Steel Forgings	Standards		
Unit / Mt. of Made Steel Forgings	(if any)		
a. Electricity	—	571	537
b. Furnace Oil / L.D. Oil	—	250	249

Note : No standards are available for comparison.

EL FORGE LIMITED**FORM B
(See Rule 2)****FORM OF DISCLOSURE OF PARTICULARS WITH RESPECT TO
TECHNOLOGY ABSORPTION****RESEARCH AND DEVELOPMENT (R&D)**

1. Specific areas in which R&D carried out by the Company

Research & Development is an ongoing process to improve the quality of end products

During the year the Company through sophisticated machinery are developing dies. Certain items of Plant & Machinery are exclusively devoted for carrying out research in the areas of billet heating, coining and die development.

2. Benefits derived as a result of the above R&D

1) Developing new forgings, to meet specific requirements.

2) Reduction in cost and improvement quality.

Continued improvement in quality and productivity.

3. Future plan of action

4. Expenditure on R & D

(a) Capital

Rs.3317512

(b) Recurring

Rs.3176902

(c) Total

Rs.6494414

(d) Total R & D expenditure as percentage of total turnover

1.43%

TECHNOLOGY ABSORPTION, ADOPTATION AND INNOVATION

1. Efforts in brief, made towards technology absorption, adoption and innovation

Continuous interaction with Technology Experts to improve quality, die-life, etc.

2. Benefits derived as a result of the above efforts e.g. production improvement, cost reduction, product development, import substitution etc.

Reduction in Rejections and improvement in yield.

FOREIGN EXCHANGE EARNINGS AND OUTGO

1. Activities relating to Exports

Every attempt is made to quote for all Export enquiries. New markets are being explored.

2. Initiatives taken to increase exports and development of new export markets for products and services and export plans.

1. The company Executives are sent abroad to meet end use customers and agents to ensure customer s' satisfaction.
2. Present and prospective buyers are being invited to see our production and inspection facilities.
3. Quality systems are constantly being upgraded to meet international requirements.

3. Total Foreign Exchange

(a) Used (Rs.)

3492041

(b) Earned (Rs.)

74889933