



EL FORGE LIMITED

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65th

ANNUAL REPORT

1999-2001

EL FORGE LIMITED

DIRECTORS

Sri.V.Srikanth, Executive 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
BANK MUSCAT, Bangalore
INDUSTRIAL DEVELOPMENT BANK OF INDIA, Chennai 600 015
CANBANK FACTORS LTD, Chennai 600 002

SHARE TRANSFER AGENTS

M/s.INTEGRATED ENTERPRISES (INDIA) Ltd.
No.1, Ramakrishna Street, North Usman 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

FACTORIES

UNIT I: 84, Thiruneermalai Road
Chromepet, Chennai 600 044
Ph : (044) 2381685 / 2381686
Fax : (044) 2381690

UNIT II : Denkanikotta Road
P.B.No.11, Hosur 635109
Ph: (04344) 22486
Fax :22841

UNIT III: S-104, Oggiam Thuraipakkam
Chennai 600 096
Ph : (044) 4961398 / 4961469
Fax : (044) 4961407

UNIT IV : 283/1B, Old Mahabalipuram Rd.
Kandanchavadi, Chennai 600 096
Ph: (044) 4925272 – 4927129

UNIT V: B-67, SIPCOT Industrial Complex,
Gummidipoondi 601201
Ph: 954119 22845

TOOL ROOM: 65, First Main Road,
Nehru Nagar
Off Old Mahabalipuram Road
Chennai 600 041
Ph: 4926821

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 18 Months ended 31st March 2001.

	18 Months ended 31.03.2001	1998-1999 (12 Months)
Sales & Other Income	4937.20	3715.12
Profit/(Loss) before Depreciation	(240.08)	85.14
Profit/(Loss) after Depreciation	(400.68)	(60.10)
Net Profit/(Loss) after tax	(400.68)	(60.10)
Less : Excess depreciation written back	84.54	—
Less : Investment allowance no longer required written back	0.17	1.13
Less: Transferred from General Reserve Account	273.68	58.97
Balance in Profit & Loss account	(42.29)	NIL

Difficult market conditions coupled with liquidity problems has affected the performance of the Company. In view of the loss during the 18 Months, the Board does not recommend any dividend for the period.

Business Situation

The period under review saw the worst recessions in India and your company having a dominant Indian customer base had to go through this recessionary condition.

The trend across all vehicles, heavy & light commercial, passenger cars and tractors saw significant negative growth. This reverse trend resulted in stock piling and consequent stoppage in production. All auto majors and ancillaries showed drastic decline in sales during the period under review throwing the Industry into gloom.

PRODUCTION						
	April-March			April-June		
	99-2000	2000-01	% Change	2000-01	2001-02	% Change
Cars	577243	504654	-12.6	131635	134061	2
Multi Utility Vehicle	124308	125938	1.3	30498	29595	-3
LCV's	61213	63869	4.3	16621	11521	-31
Medium & HCV's	112311	88210	-21.5	17811	17330	-3
TOTAL	875075	782671	-10.6	196565	192507	-2

Source: Association of Indian Drop Forging Industry.

These market conditions have however not deterred your company from its programmes on development and exports. The sustained efforts put into exports have resulted in good orders and it is anticipated that the recession in the Indian Economy will be marginalised by exports in the current year and next year.

EL FORGE LIMITED

Several initiatives have been taken up during this period, which we are confident, will sustain the company and help it reach greater heights.

a) **TPM**

Your company has embarked on a programme of Total Productive Maintenance (TPM) with an objective of achieving the certification by the Year 2003. Substantial work is being done in this area and it is anticipated that these efforts will go a long way in reducing the cost of manufacturing and improving quality.

b) **Quality Certification**

As you are aware all the factories of your company are ISO 9000, and one of this is QS 9000 approved. Two factories have been certified for QS 9000 and it is anticipated that all the 5 factories will be QS 9000 approved by March 2002. As a march towards progress on the Quality front, efforts are being taken to launch the QS 14000 programme to arm your company better to face challenges of the future.

With these measures and with a sustained export drive, the year to come will only be better than what we have been witnessing in the past.

Research & Development

Research and Development in El Forge is a continuous sustained process. All efforts in product design and process development are directed at Customer's satisfaction, competitiveness, quality and responsiveness. This includes focus on material wastage reduction using advanced technology and equipment with major emphasis at the Tool Room for value engineered die design and manufacture. Simultaneous efforts are made at the shop floor to improve manufacturing efficiency to sustain the development efforts.

Industrial Relations

The employees at all levels have contributed to the performance. Your directors place on record the co-operation of employees during the year.

Fixed Deposits

The Company has as on 31st March 2001 deposits amounting to Rs.23.50 lakhs. All the deposits that matured and claimed during the year were paid on the due dates.

Particulars of Employees

None of the employees come within the purview of Section 217(2A) of the Companies Act, 1956. 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.

Listing of Shares

Your Company's shares are listed on the following Stock Exchanges namely

1. Madras Stock Exchange Ltd.
2. The Stock Exchange, Mumbai
3. The Stock Exchange-Ahmedabad

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We have a few Shareholders in Gujarat Region but the shares have not been traded at Ahmedabad Stock Exchange from the time it was listed, Your Company has now applied for delisting at the Ahmedabad Stock Exchange. The resolution for the same has been placed before the Annual General Meeting for your approval.

Corporate Governance

Securities and Exchange Board of India has recently notified the code of Corporate Governance applicable to all listed Companies. As per the Schedule of implementation specified by the Stock Exchanges, your Company has to comply with the Code's requirements from the financial year 2002 onwards. While your Company is already complying with many of the Code's requirements, it would be our endeavor to achieve total compliance of the Code well ahead of the stipulated time frame.

Directors

Sri.S.Venkataraman, Chairman of the Company retired from the Board on 29th January 2001. He has been responsible for starting the forging business in 1964 and his contribution to the Company during the last 5 decades is commendable. The Board place on record their heart felt appreciation for his services during his tenure.

The re-appointment of directors had been taken up at the last meeting which was adjourned for adoption of accounts. Mr.V.N.Shankar Rau and Mr.V.Ramachandran were reappointed.

Auditors

M/s.Sankaran & Raman, the retiring Auditors, were re-appointed until the conclusion of the next Annual General Meeting i.e. the 66th Annual General Meeting of the Company.

Acknowledgements

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

(By Order of the Board)

For EL FORGE LIMITED

V.SRIKANTH

CHAIRMAN

Place: Chennai

Date: 30.07.2001

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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 year ended 31st March, 2001

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

	1999-01 (18 MONTHS)	1998-99 (12 MONTHS)
A. POWER AND FUEL CONSUMPTION		
1. Electricity		
a. Purchased		
Units	5473997	3961795
Total Amount (Rs.)	28054306	19370421
Rate / Unit (Rs.)	Rs.5.13	Rs.4.89
b. Own Generation		
Through Diesel Generator:		
Units	129651	105985
Units / Ltr. of Diesel Oil	Rs.2.48	2.03
Cost Per Unit	Rs.5.63	Rs.5.42
2. Furnace oil & L.D.oil		
Quantity (in Ltrs.)	2259586	1669184
Total Amount (Rs.)	23663450	10765560
Average Rate	Rs.10.47	Rs.6.45
B. CONSUMPTION PER UNIT OF PRODUCTION		
Product – Steel Forgings Standards		
Unit / Mt. Of Made Steel Forgings (if any)		
a. Electricity	598	606
b. Furnace oil/L.D. Oil	241	249

Note: No standards are available for comparison.

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**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 |
| 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 |
| 3. Future plan of action | Continued improvement in quality and productivity. |
| 4. Expenditure on R & D | |
| (a) Capital | Expenditure on R & D not directly incurred during the period and hence not ascertainable |
| (b) Recurring | |
| (c) Total | |
| (d) Total R&D expenditure as percentage of total turnover | |

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.)700606 |
| (b) Earned | (Rs.)107778621 |

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REPORT OF THE AUDITORS TO THE MEMBERS OF EL FORGE LIMITED

We have examined the accounts of EL FORGE LIMITED for the period (1.10.1999 to 31.03.2001) ended 31st March 2001 and the attached Balance Sheet as at that date and the Profit and Loss Account for the period ended on that date, as annexed thereto and report that:

1. As required by the Manufacturing and other Companies (Auditors Report) Order 1988, we enclose in the Annexure a Statement on the matter specified in paragraphs 4 and 5 of the said order.
2. We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our Audit:
3. In our opinion and to the best of our information and according to the explanations given to us, the said accounts subject to non provision of liability under Voluntary Retirement Scheme (Vide Note No.9) and read together with other notes attached thereon give the information required by the Companies Act, 1956 in the manner so required and give a true and fair view.
 - a. In the case of Balance Sheet of the State of the Company's affairs as at the end of the aforesaid financial year.
 - b. In the case of the Profit and Loss Account of the Loss for the said period.
4. We are further of the opinion that proper books of accounts as required by law have been kept by the Company for the period under Report so far as it appears from our examination of those books and such Balance Sheet and Profit and Loss Account are in agreement with them.
5. In our opinion, the Balance Sheet and Profit and Loss Account are in compliance with the accounting standards referred to in the Sub-Section (3C) of Section 211 of the Companies Act 1956.
6. Based on the declaration made by the Directors to the company and according to information and explanation made available, the Directors are not disqualified to be Directors of the company in pursuance of Section 274(I) of the Indian Companies Act, 1956.

For and on behalf of
SANKARAN AND RAMAN
CHARTERED ACCOUNTANTS
S. JAYARAMAN
PROPRIETOR

Place: Chennai
Date: 05.07.2001

ANNEXURE REFERRED TO IN PARAGRAPH 1 OF OUR REPORT OF EVEN DATE

1. The Company has maintained proper records to show full particulars including quantitative details and situation of its fixed assets. The fixed assets of the Company have been physically verified by the Management during the year and no material discrepancies between the book records and the physical inventory have been noticed.
2. The Fixed Assets of the Company have not been revalued during the year.
3. The Stock of the finished goods, stores and spare parts and raw materials and components have been physically verified by the Management at regular intervals.
4. The procedure of physical verification of stock followed by the Management are reasonable and adequate in relation to the size of the company and nature of its business.
5. The discrepancies noticed on such verification as compared to book records were not material and the same has been properly dealt with in the books of accounts.
6. In our opinion the valuation of the above mentioned stock is fair and proper and in accordance with the normally accepted accounting principles and is as per the accounting standards 2 of the Institute of Chartered Accountants of India.
7. In our opinion, the rate of interest and the terms and conditions on which loans have been obtained from parties listed in the register maintained under Section 301 of the Companies Act, 1956 are not prima facie prejudicial to the interest of the company. There are no companies under the same management as defined under section 370 (1B) of the Companies Act, 1956.
8. The Company has not granted any loan-secured or unsecured to Companies, firms or other parties listed in the register maintained under section 301 of the Companies Act 1956. There are no companies under the same management as defined under section 370(1B) of the companies Act, 1956.
9. The Company has not given any loans or advances in the nature of loans to parties other than interest, free advances to employees and such advances are being recovered periodically.
10. In our opinion, the internal control procedures of the Company relating to purchases of stores, raw materials including components, plant and machinery, equipment and other similar assets and for sale of goods are commensurate with its size and nature of business.
11. According to the information and explanations given to us, the transaction of purchase of goods and materials, and sale of goods, materials and services, made in pursuance of contracts or arrangements entered in the register maintained under Section 301 of the Companies Act, 1956 and aggregating during the year to Rs.50,000/- or more in respect of each party, have been made at prices, which in our opinion, are reasonable having regard to prevailing market prices for such goods, materials or services, the prices at

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which similar transactions have been made with other parties, and the Company's business needs and exigencies.

12. As explained to us the Company has a regular procedure for the determination of unserviceable or damaged stores and raw materials and adequate provision has been made in the accounts for the loss arising on the items as determined wherever necessary and written off.
13. In the case of public deposits received by the Company, the directives issued by the Reserve Bank of India and the provisions of Section 58A of the Companies Act, 1956 and the Companies (Acceptance of Deposit) rules 1975 have been complied with.
14. In our opinion, reasonable records have been maintained by the Company for the sale and disposal of realisable scrap / by-products where applicable and significant.
15. The Company has an adequate internal audit system commensurate with its size and nature of its business.
16. The Central Government has not prescribed the maintenance of cost records under Section 209(1)(d) of the Companies Act for any of the Products of the Company.
17. During the period the Company has deposited with the appropriate authorities the dues relating to Provident Fund and employees state insurance, where applicable except for delayed payments. There are no arrears as on date.
18. There was no amount outstanding on 31st March 2001 in respect of undisputed income tax, sales tax, customs duty and excise duty which were due for more than six months from the date they became payable.
19. During the course of our examination of the books of account we have not come across any personal expenses which have been charged to Profit and Loss Account.
20. The Company is not a sick industrial company within the meaning of Section 3(1)(o) of the sick industrial companies (Special Provisions) Act, 1985.
In respect of job works done by the Company, it is further reported that:
21. The company has a reasonable system of recording receipts, issues and consumption of material and stores and allocating materials consumed to the relative jobs, commensurate with its size and nature of its business.
22. The Company has a reasonable system of allocating man-hours utilised to the relative jobs, commensurate with its size and nature of its business.
23. There is a reasonable system of authorisation at proper levels, and an adequate system of internal control commensurate with the size of the company and the nature of its business, on issue of stores and allocation of stores and labour to jobs.

For and on behalf of
SANKARAN AND RAMAN
CHARTERED ACCOUNTANTS

Place: Chennai
Date: 05.07.2001

S. JAYARAMAN
PROPRIETOR