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Annual Report 1998 - 99

FALCON TYRES LTD.



Message From The Chairman

"Wings of Falcon "

Dear Shareholder,

The financial year under review has been a difficult year for the Indian industry for the third year in row. Although Indian economy grew by 5.8% but the distribution of growth has been uneven. Despite slow growth in economy, we remain bullish about the automobile industry where the future definitely looks bright. India has attracted one of the biggest portion of Foreign Direct Investment in Automobile sector with investments reaching up to Rs 14500 crores (US\$ 3.62 Billion).

Given the long term focus of automobile majors, population of 980 million makes the future of Falcon exciting. Falcon is standing at the doorstep of the next millennium. If early 90s were the years of liberalisation, late 90s for the consolidation, I think the next few years are going to be the years of opportunity for Falcon. The growth in two/three wheeler segment has been as high as 28% with motorcycle segment showing good growth in particular. In last two years, two/three wheeler industry has seen shift in consumer preferences. The trend is shifting from Scooters to Motor Cycles, from mopeds to scooterettes.

In my last review, I had mentioned that as business plan for the next millennium, Falcon shall be focusing on cycle and farm tyre business along with Two/Three wheeler business along with capacity expansion of existing capacity to 350,000 tyres per month. I take pride in saying that we have been able to fulfil all our promises which we made to you. We have come a long way from producing 2 lakhs tyres a month to 3.5 lakhs tyres a month.

Similarly, this year our plan is to make Falcon tyres available all across India. Our special focus this year shall be on replacement market with consolidation in the direct supplies to automobile manufacturers. Falcon is also testing the potential world markets by

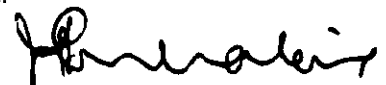
exporting tyres to Latin American and African countries. We also look forward to become first Indian tyre company to sell tyres online which shall make our presence felt world wide.

Quality has been a never ending process at Falcon. It is the zeal of technical and quality people which shall allow Falcon to spread its wings like never before. On this front, let me take pleasure in sharing with you the fact that your company's tyres were the first tyres which were approved for their new vehicle by India's leading Motor Cycle Company.

During this financial year, Falcon increased its equity by selling its shares to group companies at a premium of Rs 6 per share. These funds were used for the capacity expansion of the plant. Our improved profitability and our cordial relationship with the banks got us new funding limits from the consortium banks. I am also happy to inform the shareholders that your company was able to get the highest safety rating A1 from ICRA for the issue of Commercial Paper.

It is therefore with a sense of satisfaction that I present you the annual report and accounts of your company for the year ended 1998-99. It has been and shall be our constant endeavour to increase the wealth in the hands of shareholders. In line with the growth in turnover and profitability, dividend has been increased from Rs 2.20 per share to Rs 2.40 per share for the financial year under review.

I wish to place on record my sincere appreciation and gratitude for the support and co-operation that we have received from our employees, bankers, customers, dealers, suppliers and our shareholders for having stood by us and look forward to their continued support in the days ahead.



M.R. Chhabria

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Annual Report 1998-99**BOARD OF DIRECTORS**

Mr. M.R. Chhabria, Chairman
 Mrs. Komal C. Wazir
 Mr. M.H. Godhwani
 Mr. Y.C. Lumba
 Mr. S. Badrinathan
 Mr. P.U.K. Menon
 Mr. Prakash M. Nene
 (Alternate to Mr. M.R. Chhabria)

COMPANY SECRETARY

S. Badrinarayanan

LEGAL ADVISERS

King & Partridge
 48, Lavelle Road
 Bangalore 560 001

REGISTERED OFFICE

MOHAN TOWERS
 50, Residency Road
 Bangalore 560 025

FACTORY

Metagalli
 KRS Road
 Mysore 570 016

BANKERS

1. Union Bank of India
2. Syndicate Bank
3. Canara Bank
4. The Dhanalakshmi Bank Ltd

AUDITORS

Fraser & Ross
 Maarut Complex
 25/5, Lavelle Road
 Bangalore 560 001

A Member desirous of getting any information on the Accounts of the Company, is requested to forward his/her queries to the Company Secretary at least ten days prior to the Meeting enabling the Management to keep the information ready



NOTICE TO MEMBERS

Notice is hereby given that the 23rd Annual General Meeting of Falcon Tyres Limited will be held at Hotel Le Meridien, 28, Sankey Road, Bangalore - 560 052 on Monday, 26th July, 1999 at 10.30 A.M. to transact the following business :

Ordinary Business :

- 1) To receive, consider and adopt Balance Sheet as at 31st March, 1999 and the Profit and Loss Account for the period ended on the said date alongwith the Report of Directors and Auditors thereon.
- 2) To declare Dividend.
- 3) To appoint a Director in the place of Mr. M.R. Chhabria, who retires by rotation and being eligible offers himself for reappointment.
- 4) To appoint a Director in the place of Mrs. Komal C Wazir, who retires by rotation and being eligible offers herself for re-appointment.
- 5) To appoint a Director in the place of Mr. M.H. Godhwani, who retires by rotation and being eligible offers himself for re-appointment.
- 6) To appoint Auditors and to fix their remuneration.

Special Business :

- 7) To consider and if thought fit to pass with or without modification, the following resolution :-
 - i) As an Ordinary Resolution
 "RESOLVED THAT pursuant to the relevant provisions of the Companies Act, 1956, Mr. Y.C. Lumba be and is hereby appointed as a Director of the Company."
 - ii) As an Ordinary Resolution
 "RESOLVED THAT pursuant to the relevant provisions of the Companies Act, 1956, Mr. P.U.K. Menon be and is hereby appointed as a Director of the Company."

By order of the Board

Place : Bombay
Date : 29th May, 1999

S. BADRINARAYANAN
General Manager - Finance
& Company Secretary

Annual Report 1998-99**Notes:**

- 1) A member entitled to attend and vote at the meeting is also entitled to appoint a proxy to attend and vote on a poll instead of himself and such proxy need not be a member of the company. Proxies, in order to be effective, must be received by the company at the Registered Office not less than 48 hours before the meeting.
- 2) The Register of Members and the Share Transfer Register will remain closed from 16th July, 1999 to 26th July, 1999 (both days inclusive).
- 3) Pursuant to Section 205 A of the Companies Act, 1956, the unclaimed dividend for the financial year 1995-96 (i.e from 01.04.95 to 31.03.96) will be transferred to the General Revenue Account of the Central Government on or around 2nd week of November, 1999 as per the statutory requirement.
- 4) Members are requested to bring their copies of the Annual Report and the Admission slip to the meeting. Annual Reports will not be distributed at the meeting.
- 5) Explanatory statement pursuant to Section 173(2) of the Companies Act, 1956, is furnished hereinafter.

ANNEXURE TO NOTICE

EXPLANATORY STATEMENT AS REQUIRED UNDER SECTION 173 (2) OF THE COMPANIES ACT, 1956.

ITEM NO. 7(i)

Mr. Y.C. Lumba was appointed as an Additional Director of the Company by the Board with effect from 8th September, 1998. Pursuant to Section 260 of the Companies Act, 1956, Mr. Y.C.Lumba will hold office as Director upto date of the ensuing Annual General Meeting. The Company had received a notice in writing from a member proposing the candidature of Mr. Y.C. Lumba for the office of Director under the provisions of Section 257 of the Companies Act, 1956.

In the opinion of the Board it will be beneficial to the Company, if Mr. Y.C. Lumba is appointed as a Director of the Company.

None of the Directors, except Mr. Y.C. Lumba is concerned or interested in the said resolution.

ITEM NO. 7(ii)

Mr. P.U.K. Menon was appointed as an Additional Director of the Company by the Board with effect from 29th May, 1999. Pursuant to Section 260 of the Companies Act, 1956, Mr.P.U.K.Menon will hold office as Director upto date of the ensuing Annual General Meeting. The Company had received a notice in writing from a member proposing the candidature of Mr.P.U.K.Menon for the office of Director under the provisions of Section 257 of the Companies Act, 1956.

In the opinion of the Board it will be beneficial to the Company, if Mr. P.U.K.Menon is appointed as a Director of the Company.

None of the Directors, except Mr. P.U.K. Menon is concerned or interested in the said resolution.

By order of the Board

Place : Mumbai
Date : 29th May, 1999

S. BADRINARAYANAN
General Manager - Finance
& Company Secretary



REPORT OF THE DIRECTORS

Your Directors have pleasure in presenting the 23rd Annual Report of the Company together with Audited Accounts for the Financial Year ended 31st March, 1999.

SUMMARISED FINANCIAL RESULTS:

(Rs. in lakhs)

	1998-99		1997-98	
Profit before interest and Depreciation		990.88		1048.08
Less :				
Interest	309.03		414.37	
Depreciation	155.74		138.77	
		<u>464.77</u>		<u>553.14</u>
Profit from operation of the year		<u>526.11</u>		<u>494.94</u>
Profit before tax		526.11		494.94
Tax provision		175.00		238.88
Profit after tax		351.11		256.06
Balance brought forward from last year		91.49		111.09
		<u>442.60</u>		<u>367.15</u>
Appropriations :				
Transfer to :				
General Reserve	200.00		200.00	
Proposed Dividend	91.17		68.78	
Corporate Dividend Tax	10.03	301.20	6.88	275.66
Balance carried to Balance Sheet		<u>141.40</u>		<u>91.49</u>

REVIEW OF OPERATIONS :

Your Directors are happy to report that inspite of recession in the Automotive Industry, Your Company was able to achieve the landmark turnover figure of Rs. 103 crores as compared to the turnover of Rs. 98 crores in the previous year.

Your company has earned a profit before tax of Rs. 5.26 crores for the year under review.

FUTURE PROSPECTS :

The installed capacity of the Tyre Plant is increased to 3,50,000 tyres per month. The Company is planning to enter the Replacement Market in a big way, besides increasing its shares in the OE segment. Your Company has ambitious export plan for the current financial year.

DIRECTORS :

Mr. Y.C. Lumba and Mr. P.U.K. Menon were co-opted as Additional Directors on the Board of Directors of the Company on 8th September, 1998 and 29th May, 1999 respectively and shall hold office upto the date of the ensuing Annual General Meeting of the Company.

Mr. Y.C. Lumba and Mr. P.U. K. Menon being eligible, offer themselves for appointment as Directors at the ensuing Annual General Meeting of the Company.

In terms of the provisions of the Companies Act, 1956, and Articles of Association of the Company, Mr. M.R. Chhabria, Mrs. Komal C. Wazir and Mr. M.H. Godhwani would retire by rotation at the forthcoming Annual General Meeting and being eligible offers themselves for re-appointment.

Mr. P.J. Rao, resigned as Director with effect from 29th January, 1999.

Mr. M.K. Guha, resigned as Director with effect from 29th May, 1999.

Annual Report 1998-99**DIVIDEND :**

Your Directors recommend payment of Dividend at the rate of Rs. 2.40 per equity share, for the year ended 31st March, 1999.

AUDITORS :

M/s. Fraser and Ross, Chartered Accountants will retire at the conclusion of the forthcoming Annual General Meeting of the Company, and being eligible, offer themselves for re-appointment.

AUDITORS' REPORT :

With reference to the comments in para 2 (e) of the Auditors Report, attention is drawn to the Accounting Policies and other Notes B 2 & B 4 (b) to the Accounts (Schedule-11) which are self explanatory.

STATUS ON Y2K PREPAREDNESS

The Company is taking effective steps to solve the Y2K problems relating to Systems / Softwares used and aims to be Y2K compliant by September 1999.

The Company has sufficient internal resources to address any system disruption due to Y2K issues.

HUMAN RESOURCES :

Your Company continues to retain the best talent in the industry, who are professionals from the country's well esteemed institutions.

SUBSIDIARY COMPANIES :

Attached to the Balance Sheet of the Company are Reports and Account of "JeromTrading & Investment Limited".

PARTICULARS OF EMPLOYMENT :

As required under the provision of Section 217 (2A) of the Companies Act, 1956, read with the Rules framed thereunder, a statement of particulars of the employees has been annexed to this report and marked as Annexure I.

CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE EARNINGS AND OUTGO :

Information pursuant to Section 217 (1) (e) of the Companies Act, 1956, read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 is furnished in Annexure II.

ACKNOWLEDGEMENT :

Your Directors convey their sincere thanks to the Government, Financial Institutions, Banks, Depositors, Shareholders and customers for their continued support extended to the Company at all times.

The Directors further express their deep appreciation to all the employees for commendable team work, high degree of professionalism and enthusiastic effort displayed by them during the year.

on behalf of the Board of Directors

Place : Mumbai
Date : 29th May 1999

Y.C. Lumba
Director

S. Badrinathan
Director

Annexure I

Statement of particulars of employees pursuant to the provisions of Section 217(2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975 forming part of the Directors Report for the year ended March 31, 1999

Sl.No.	Name of the Employee	Designation	Remuneration (Rs.)	Qualification and Experience	Date of commencement of Employment	Age	Last Employment held
1.	Mr. B. Rajaraman	VP-Operations	576000	B.Sc. - 25 Years	15.04.89	47	Ceat Ltd.,
2.	Mr. S. Badrinarayanan	General Manager Finance & Accounts	420000	M.Com., AICWA ACS - 20 Years	15.05.94	42	Tuticorin Spinning Mills Ltd.
3.	Mr. A. Surendranath	Dy. Gen. Mgr. Human Resources	309600	B.Sc., MA (SW) - 25 Years	10.05.95	48	Sangam Aluminium Ltd.
* 4.	Mr. C.B. Singh	General Manager Marketing	121355	B.Com - 24 years	15.01.99	46	Shaw Wallace & Co.

* Employed for part of the year

On behalf of the Board of Directors

Y.C. Lumba
Director

S. Badrinathan
Director