

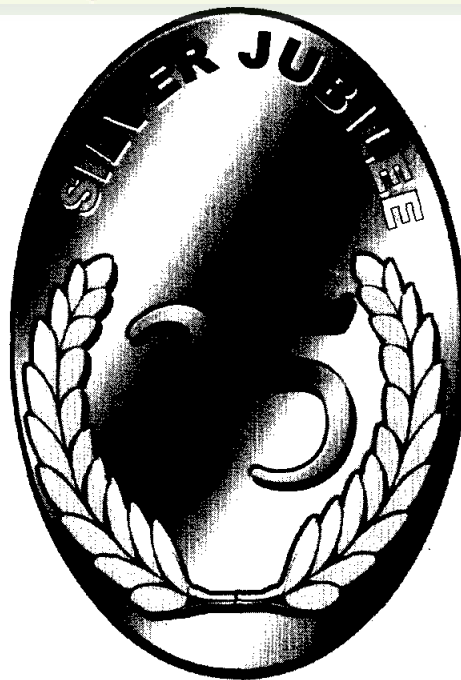


FALCON TYRES LTD.

25th

Annual Report

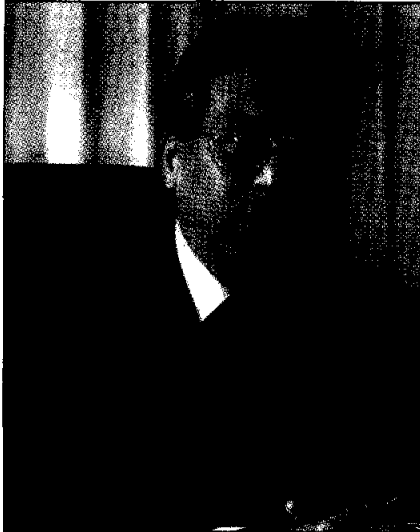
2000-2001



ANY OTHER TYRE IS A COMPROMISE



CHAIRMAN'S ADDRESS



Dear Shareholder,

The financial year under review have been distressing for Indian economy during which, for more reason than one, the level of economic activity has remained sluggish and naturally tyre industry was also adversely affected.

The tyre manufacturing companies has been passing through a rough weather during last two years. Stagnant sales, higher operational costs and slow down of exports put pressure on the bottom lines of tyre companies during 2000-2001. Tyre offtake was affected due to sluggish market condition prevailing in the auto sector. Tyre demand from both original equipment manufacturers as well as replacement market plunged during the year.

Despite such adverse operating environment marked by decline in sales and fierce competition, your company succeeded in achieving a turnover of Rs. 103 Crores. This was possible primarily through a series of short-term and long-term strategic initiatives. We have initiated strategic measures to give us a solid, long-term platform for more competitive performance and growth in changed economic scenario.

The structure and style of conducting business in a world of high tariff protection and quotas would not be viable in the current environment. The problems in tyre business have been further exacerbated because improvements in productivity could not keep pace with cost increases. The need of the hour is to achieve considerable rationalisation and consolidation of manufacturing and streamlining distribution. Being fully conscious of the ground realities, Falcon now place a much stronger emphasis on customer service, brand management, and product delivery to the market. The results are quite evident from the fact that your company has not only been able to increase its market share in two / three wheeler segments, but also emerged as the preferred supplier of tyre to all leading Two & Three wheeler Vehicle Manufacturers.

While continuing to strengthen our dominant status in the product line namely two/ three wheeler tyres and farm tyres, your company has drawn necessary action plan supported by capital expenditure, to manufacture tyres for passenger car and jeep segments of the market. In addition to the above the company shall leave no stone unturned to consolidate its position in replacement and export segments, aiming at contributing to the Company's bottom line, besides generating additional volume.

In the years to come, improvement in business process, customer relation and product quality shall continue to be our focus of attention.

I have given fairly full picture of the actions that the Board and management have taken and are taking to put your company on a sound footing in order to enhance shareholder value. This task is not finished. Change will continue to be a feature of the globalised economy in which we have to operate.

I wish to put on record my sincere appreciation to our valued customers, bankers, financial institutions, suppliers as well as government authorities for all their valuable support. I would also like to compliment all our employees for their untiring efforts and co-operation which has helped the company to face the challenges, and look forward to their continued support in days ahead.

M.R. Chhabria

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FALCON TYRES LTD.

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BOARD OF DIRECTORS

Mr. M.R.Chhabria, Chairman
Mr. T.C.Goel , Executive Director
Mrs. Komal C. Wazir
Mr. T.S.Shettigar
Mr. Y.C.Lumba
Mr. Prakash.M. Nene
Mr. Satish G.Pillai
Mr. Suresh Kumar Dadlani

COMPANY SECRETARY

Mr. S.Badrinarayanan

REGISTERED OFFICE

Cha Che Towers
50, Residency Road
BANGALORE - 560 025

FACTORY

Metagalli, K R S Road
MYSORE - 570 016

BANKERS

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

AUDITORS

M/s.Lodha & Co.,
14, Government Place (East)
CALCUTTA - 700 001

LEGAL ADVISERS

M/s.King & Partridge
48, 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

Annual Report 2000-2001**FIVE YEAR SUMMARY**

(Rs in lakhs)

Particulars	1996-97	1997-98	1998-99	1999-00	2000-01
Share Capital	312.63	312.63	468.94	468.94	600.00
Reserves & Surplus	846.09	1026.49	1370.19	1428.91	1590.36
Net Worth *	1690.31	1826.11	2281.52	2297.17	2544.92
Total Capital Employed	2721.29	2768.60	3101.78	3015.25	3529.96
Gross Fixed Assets **	3011.79	3366.22	3784.00	3892.68	4017.24
Net Fixed Assets **	1949.31	1944.89	2130.75	2228.02	2157.70
Sales & Other Income	8660.46	9864.67	10378.63	10448.72	10558.29

Production (Nos):

Tyres	2228569	2693543	3130007	3044367	2967216
Tubes	1489635	2198357	2784959	2711907	2605348
Profit before Interest & Depreciation	748.66	1048.08	1013.88	883.24	701.73
Profit before tax	341.79	494.94	526.11	400.30	284.20
Profit after tax	211.79	256.06	351.11	173.14	167.78
Earnings per Share (Rs.)	6.77	8.19	7.49	3.69	2.80
Dividend (including dividend tax)	68.78	75.66	***101.20	114.42	***78.41
Rate of Dividend	20%	22%	24%	20%	15%

* Includes Revaluation Reserve

** Fixed Assets excludes Revaluation Cost (Gross & Net)

*** Prorata dividend on Preferential issue



NOTICE TO MEMBERS

Notice is hereby given that the 25th Annual General Meeting of the company will be held at Hotel Woodlands (Pvt.) Ltd., No 5, Raja Rammohan Roy Road, Bangalore – 560 025 on Tuesday, 18th September 2001 at 11.00 A.M. to transact the following business: -

ORDINARY BUSINESS:

- 1) To receive, consider and adopt the audited Balance Sheet of the company as at 31st March 2001 and the Profit and Loss Account for the period ended on the said date, along with the Report of Directors and Auditors thereon.
- 2) To declare Dividend.
- 3) To appoint Auditors to hold office from conclusion of this Annual General Meeting till the conclusion of the next Annual General Meeting and to authorise the Board of Directors to fix their remuneration. M/s Lodha & Co., Chartered Accountants, Calcutta, retire and are eligible for re-appointment.

SPECIAL BUSINESS:

- 4) To consider and if thought fit to pass with or without modification, the following Resolutions as an Ordinary Resolutions :
 - i) "RESOLVED THAT pursuant to Article 191 of the Articles of Association of the Company and Section 265 read with 255 and other applicable provisions of the Companies Act, 1956, Mr. T.C. Goel be and is hereby appointed as a Director of the Company for a period of three years effective from the conclusion of this Meeting".
 - ii) "RESOLVED THAT pursuant to provisions of Sec. 198, 269, 309 and 310 and other applicable provisions of the Companies Act and also pursuant to Article 96(a) and other applicable provisions of the Articles of Association of the Company, Mr. T.C. Goel be and is hereby appointed as Executive Director for a period of 5 years effective from 28th April 2001 on the Terms and conditions as stated in the explanatory statement annexed to this Notice.
 - iii) "RESOLVED THAT in accordance with the provisions of Section 293 (1) (e) and other applicable provisions, if any, of the Companies Act, 1956, the Company hereby authorises the Board of Directors of the Company to contribute on behalf of the Company to charitable and other funds not directly relating to the business of the Company or the welfare of its employees, any amount aggregate of which will in any financial year exceed Rs.50,000 or 5% of the Company's average net profits as determined in accordance with the provisions of Sections 349 and 350 of the said Act, during the three financial years immediately preceding subject to the maximum of Rs.60 Lakhs or 5% of the Company's average net profits determined as aforesaid, whichever is greater.

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By Order of the Board

Mumbai
29th June 2001

S. BADRINARAYANAN
Assistant Vice President – Finance
& Company Secretary

NOTES:

1. A member entitled to attend and vote at the Meeting is also entitled to appoint a proxy to attend and vote on 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 1st September 2001 to 18th September 2001 (both days inclusive).
3. 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.
4. Explanatory Statement pursuant to Section 173(2) of the Companies Act, 1956, is furnished hereinafter.

Annual Report 2000-2001**ANNEXURE TO NOTICE****EXPLANATORY STATEMENT AS REQUIRED UNDER SECTION 173(2) OF THE COMPANIES ACT, 1956.****ITEM NO. 4 (i) & (ii)**

The Board of Directors of the Company at its Meeting held on 28th April 2001 appointed Mr. T.C. Goel as an Additional Director pursuant to Sec. 260 of the Companies Act, 1956, read with Article 191 of the Articles of Association of the company.

Further the Board of Directors at the same Meeting have appointed Mr. T.C. Goel as Executive Director of the Company for a period of Five years with effect from 28th April 2001, pursuant to provisions of Sec. 198, 269, 309 & 310 and other applicable provisions of the Companies Act, 1956, & subject to approval of the Central Government for a remuneration and Terms and conditions as set out below.

1. SALARY & ALLOWANCES:

- a) Basic Salary of Rs. 78,500/- (Rupees Seventy eight thousand five hundred only) per month.
- b) Allowance of Rs. 92,500/- (Rupees Ninety two thousand five hundred only) per month.

2. PERQUISITES:

- a) Medical: one month basic salary per annum.
- b) Leave Travel Assistance: one month basic salary per annum.
- c) Annual Fees of Club: Subject to a maximum of two Clubs.
- d) Car Allowance: Company maintained Car (s) will be given for Official use only.
- e) Telephones at the residence and provision of a Cell Phone for Official use.

3. COMMISSION:

He shall be entitled to a Commission up to a maximum of Rs 5,00,000/- (Rupees five lakhs only) per annum based on performance parameters to be mutually agreed between the Board and Mr. T. C. Goel, Executive Director. The Commission shall be computed on the net profits of the Company in the manner laid down in Sec. 305(5) and other applicable provisions of the Companies Act, 1956.

4. LEAVE:

He shall be entitled to 28 days paid leave in a year.

5. RETIRAL BENEFITS:**a) Provident Fund / Superannuation Fund**

He shall be a Member of the Company's Provident Fund and Superannuation Fund as per their respective rules.

b) Gratuity

He shall be entitled to Gratuity in accordance with the Company's Staff Gratuity Fund rules, as applicable.

6. Mediclaim Policy including Spouse and dependents as per rules of the Company, subject to Premium Ceiling of Rs. 5,000/- per annum.



7. NOTICE PERIOD:

His appointment may be determined by either party (i.e. either by the Company or the Executive Director), giving to the other one month notice in writing.

Subject to Sec. 265 of the Companies Act, 1956, and Article 191 of the Articles of Association of the Company, Mr. T.C. Goel will hold office of Director for a period of three years.

The appointment of Executive Director and payment of remuneration shall be subject to approval of Members at the Annual General Meeting as well as subject to approval of the Central Government pursuant to the provisions of Sec. 269 of the Companies Act, 1956. In the event of any modification of the terms of remuneration as may be suggested by Central Government and agreed to by the Company / the Executive Director, then the remuneration as so modified shall become payable to the Executive Director in terms of the approval as may be granted by the Central Government.

In the event of loss or inadequacy of profits in any Financial Year during the period of Mr.T.C. Goel's appointment, he will be paid or provided the salary, the allowances, and the perquisites as set out in the foregoing notwithstanding the fact that such remuneration is in excess of limits set out in Sec. 198 and 309 of the Companies Act, 1956 or in Sec. II of part II of Schedule XIII to Companies Act, 1956 and subject to approval from Central Government.

Mr. T.C.Goel, is a B. Tech. (Bachelor in Technology) from IIT, New Delhi, with 30 years of experience in various Companies. Mr. T.C.Goel has the necessary professional knowledge and expertise in his area of activity.

The Board of Directors feel that it would be in the best interest of the Company to appoint Mr. T.C.Goel as Executive Director of the Company in view of his extensive experience.

The Company will be submitting an application in this regard to the Central Government seeking its approval for the payment of remuneration as proposed by the Board of Directors.

A Circular to all the Shareholders of the Company under Sec. 302 (7) of the Companies Act, 1956, has been issued regarding the appointment and payment of remuneration to Mr. T.C. Goel as Executive Director. The Directors commend the Resolution for Members approval.

None of the Directors of the Company except Mr. T.C. Goel is concerned or interested in the said Resolution.

ITEM NO. 4 (iii)

The Company is authorised by its Memorandum of Association to contribute to charitable and other funds not directly relating to the business of the Company or the welfare of its employees. By virtue of Section 293 (1) (e) of the Act, however, the maximum limit which can be so contributed in any financial year is Rs.50,000 or 5% of the Company's average net profits as determined in accordance with Sections 349 and 350 of the Companies Act, 1956, during the three immediately preceding financial years, whichever is greater. Section 293 (1) (e) permits such contribution in excess of these limits if Shareholders approve. As such, your Board seeks sanction to make such contributions in a financial year up to a limit of Rs.60 Lakhs or 5% of the Company's average net profits as determined in accordance with Sections 349 and 350 of the Companies Act, 1956, during the three immediately preceding financial years, whichever is greater. The Board commends this resolution for acceptance.

None of the Directors is in any way concerned or interested in the resolution proposed to be passed.

By Order of the Board

Mumbai
29th June 2001

S. BADRINARAYANAN
Assistant Vice President – Finance
& Company Secretary

Annual Report 2000-2001**REPORT OF THE DIRECTORS**

Your Directors have pleasure in presenting the 25th Annual Report of the Company together with the Audited Accounts for the Financial Year ended 31st March 2001.

SUMMARISED FINANCIAL RESULTS:**(Rs in lakhs)**

	2000-2001	1999-2000
Profit before Interest and Depreciation	701.73	883.24
Less: Interest	231.76	300.78
Depreciation	185.77	182.16
	417.53	482.94
Profit from operation of the year	284.20	400.30
Profit before Tax	284.20	400.30
Tax provision for the year	116.42	166.12
Tax provision for the earlier year	—	61.04
Profit after Tax	167.78	173.17
Balance brought forward from Last year	150.12	141.40
	317.90	314.54
Appropriation:		
Transfer to:		
General Reserve	50.00	50.00
Proposed Dividend	71.15	93.79
Corporate Dividend Tax	7.26	20.63
	128.41	164.42
Balance carried to Balance Sheet	189.49	150.12

REVIEW OF OPERATIONS:

The Company's Turnover is maintained at Rs 103 Crores inspite of recession in the Automobile and Tyre Industry. The Company's Share with OEM's has marginally grown. The Market Share of the Company in Replacement Market has gone up considerably. Your Company has earned a profit before Tax of Rs. 2.84 Crores for the year under review.

PRODUCTION:

Production of Tyres & Tubes during the year 2000-2001 was higher at 9430 M.Tons as against 9000 M.Tons during the previous year registering a growth of 5% in volume terms. The ADV, Car, Jeep Tyres & Tubes production accounted for 395 M.Tons. During the year, the Company has created additional capacity to increase the production of Motor Cycle Tyres to cater to the market requirement of OE and Replacement segment.



RAW MATERIAL:

There has been an all-round increase in raw material prices during the year under review. The steep increase in raw material prices of Butyl, Fabric, Carbon Black and the Petroleum products especially Furnace oil, Diesel which are used extensively for power / steam generation has affected the profitability of the Company to a great extent.

FUTURE PROSPECTS:

The Company is concentrating on the Replacement and Export Market and making all out efforts to increase its Market Share in these two vital segments in the shortest possible time. The Company is planning to diversify its product range which includes Tyres for Jeep, Car, Tractor Front & Rear during the Current Financial Year.

FIXED DEPOSITS:

The Company has stopped accepting Fixed Deposits from the public.

DIRECTORS:

Mr. T.C. Goel has been appointed as Additional Director under Sec. 260 of the Companies Act with effect from 28th April'01 and holds the office of the Director up to the conclusion of the ensuing Annual General Meeting. As a sequel the Resolution for election of Mr. T.C. Goel as a Director under Sec. 265 of the Companies Act has been proposed by a Member under Sec. 257 of the Companies Act 1956 and the said Resolution is set out in the Notice convening the Annual General Meeting.

In the same Board Meeting Mr. T.C. Goel has been appointed as Executive Director and for this purpose Resolution has been commended to the Shareholders for approval in the Notice convening the Annual General Meeting pursuant to provisions of Sec. 198, 269, 309 and other applicable provisions of the Companies Act, 1956. In the meantime the Company has submitted an application to the Central Government seeking its approval for payment of remuneration in excess of the limit set out in Schedule XIII of the Companies Act, 1956.

Mr. Sankar Bhattacharya resigned as Director of the Company with effect from 26th August 2000 and consequently ceased to be the Managing Director of the Company with effect from that date. Approval of Central Government is awaited in respect of payment of remuneration over and above the payment provided for in Schedule XIII of the Companies Act, 1956.

DIRECTOR'S RESPONSIBILITY STATEMENT:

Pursuant to the requirement under Sec. 217 (2AA) of the Companies Act, 1956, with respect to Director's Responsibility Statement, it is hereby confirmed:

- (i) That in the preparation of the accounts for the Financial year ended 31st March, 2001, the applicable accounting standards have been followed along with proper explanation relating to material departures;
- (ii) That the Directors have selected such accounting policies and applied them consistently and made judgements and estimates that were reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit or loss of the Company for the year under review;
- (iii) That the Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
- (iv) That the Directors have prepared the accounts for the financial year ended 31st March 2001 on a 'going concern' basis.