



**FALCON** TYRES LTD.

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ANY OTHER TYRE IS A COMPROMISE





## CHAIRPERSON'S ADDRESS



Dear Shareholder,

These are challenging times for the tyre industry.

For over a year now, the industry has been afflicted by unabated rise in natural rubber prices making the cost of production that much expensive. During the fiscal 2003-04, natural rubber prices saw an increase of around 30 per cent due to the demand-supply imbalances in the domestic market. In view of "export subsidy", the exports of natural rubber from India increased by 35 per cent during 2003-04, resulting in low domestic stocks and a resultant boost in the prices. Unfortunately, the situation has come to such a pass that China is able to buy Indian rubber cheaper than Indian companies, because of the export subsidy.

However, in view of the intense competition within the industry to protect the market shares, the companies in the 2-3 wheeler tyre segment did not pass on the increase in cost to the end-consumers bringing down the price realization and impacting the profitability of the companies across the board.

Falcon as an industry leader is bracing up for the new business realities. While urging the government to take urgent measures to stem the further increase in rubber prices along with other players, Falcon has initiated a series of measures aimed at saving costs and boosting margins.

Distribution strength will be a key differential in the prevailing competitive scenario. In the current financial year, Falcon has resorted to aggressive marketing drive for increasing width and depth of distribution to increase its share in the value conscious replacement market. Efforts are also being made to increase the sales volume of tubes in the replacement segment.

Falcon continues to be India's leading supplier of tyres and tubes to original equipment manufacturers of two and three wheelers. During the year under review, Falcon has consolidated further its status as an original-equipment manufacturer by introducing new patterns and designs of tyres that have met with enthusiastic response from the customers.

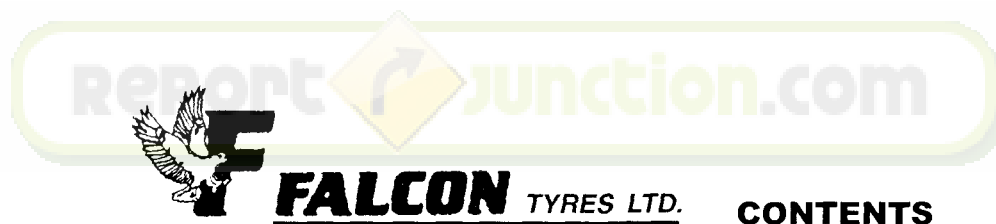
Two significant developments in the year under review would stand Falcon in good stead. First, Falcon has been conferred with prestigious ISO / TS 16949 : 2002 certification from TUV Sudeutschland in February 2004. The certification, which puts the company ahead of its competition, was achieved in a record time and entailed upgradation of processes and practices to enforce compliance to international standards.

Second, a long-term wage settlement with the workmen will herald a new era of efficiency, high productivity and harmonious industrial relations, so important in the competitive times.

The times are tough. However, Falcon is committed to deliver the best value to its stakeholders. Your continued patronage and encouragement will go a long way to help achieve this commitment.

With best wishes,

**V.M. CHHABRIA**

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**BOARD OF DIRECTORS**

Mrs. Vidya Manohar Chhabria - Chairperson  
 Mr. T.C. Goel - Executive Director  
 Mrs. Komal C. Wazir  
 Mr. Niranjana Thakur  
 Mr. Mohan M. Thakur  
 Mr. H.N. Nanani  
 Mr. Prakash M. Nene  
 Mr. Suresh Kumar Dadlani

**COMPANY SECRETARY**

Mr. S. Badrinarayanan

**REGISTERED OFFICE**

Gold Tower,  
 (Formerly Chache 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. The Dhanalakshmi Bank Ltd.
4. Abu Dhabi Commercial Bank

**AUDITORS**

M/s. Lodha & Co.,  
 14, Government Place (East)  
**KOLKATA - 700 069**

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

**Annual Report 2003 - 2004****FIVE YEAR SUMMARY**

(Rs. in lakhs)

PARTICULARS	1999-2000	2000-2001	2001-2002	2002-2003	2003-2004
SHARE CAPITAL	468.94	600.00	600.00	568.09	568.09
RESERVES & SURPLUS	1428.91	1590.36	1565.74	1960.55	2025.91
NET WORTH (Including Revaluation Reserve)	2297.17	2544.92	2475.54	2798.64	2854.31
TOTAL CAPITAL EMPLOYED	3015.25	3529.96	3131.51	3625.06	3773.98
GROSS FIXED ASSETS *	3892.68	4017.24	4371.83	4896.71	5090.90
NET FIXED ASSETS *	2228.02	2157.70	2277.41	2620.84	2501.84
SALES & OTHER INCOME	10412.94	10520.89	14626.19	18350.12	18211.06
PRODUCTION (NOS):					
TYRES	3044367	2967216	3940326	4722334	4309110
TUBES	2711907	2605348	3477794	3869838	4261847
PROFIT BEFORE INTEREST & DEPRECIATION	919.02	664.33	965.78	1429.30	675.75
PROFIT BEFORE TAX	400.30	284.20	567.31	1086.78	258.40
PROFIT AFTER TAX	173.14	167.78	352.06	519.72	161.49
EARNINGS PER SHARE (Rs.)	3.69	2.80	5.87	8.71	2.84
DIVIDEND	93.79	**71.15	90.00	96.58	85.21
RATE OF DIVIDEND	20%	15%	15%	17%	15%

\* Fixed Assets exclusive of Revaluation Addition (Gross &amp; Net)

\*\* Includes Prorata dividend on Preferential Equity issue



## NOTICE TO MEMBERS

Notice is hereby given that the 28th 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, the 14<sup>th</sup> September, 2004 at 11.30 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, 2004 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 Auditors to hold office from the conclusion of this Annual General Meeting till the conclusion of the next Annual General Meeting and to authorize the Board of Directors to fix their remuneration. M/s. Lodha & Co., Chartered Accountants, Kolkata, retire and are eligible for re-appointment.

By order of the Board


**S. BADRINARAYANAN**  
 Asst. Vice President - Finance  
 & Company Secretary

Dubai  
24<sup>th</sup> May, 2004

### NOTES:

1. A member entitled to attend and vote at the Meeting is also entitled to appoint a proxy to attend and vote and 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 7<sup>th</sup> September, 2004 to 14<sup>th</sup> September, 2004 (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.

**Annual Report 2003 - 2004****REPORT OF THE DIRECTORS**

Your Directors have pleasure in presenting the 28th Annual Report of the Company together with the Audited Accounts for the Financial Year ended 31st March 2004.

**SUMMARISED FINANCIAL RESULTS**

(Rs. in lakhs)

	2003-2004	2002-2003
Profit before Interest and Depreciation	675.75	1429.30
Less: Interest	186.27	127.81
Depreciation	231.08	214.71
	417.35	342.52
Profit before Tax	258.40	1086.78
Tax Provision for the year	86.57	399.32
Deferred Tax Provision	10.34	7.56
Tax provision for earlier years	—	160.18
Profit after Tax	161.49	519.72
Balance brought forward from previous year	199.46	201.55
	360.95	721.27
<b>Appropriation:</b>		
Add: Transfer from Capital Reserve	—	15.00
Investment Allowance Reserve	—	20.00
Debenture Redemption Reserve	47.86	—
	47.86	35.00
Less : Transfer to		
General Reserve	150.00	400.00
Debenture Redemption Reserve	—	47.86
Proposed Dividend	85.21	96.58
Corporate Dividend Tax	10.92	12.37
	246.13	556.81
Balance carried to Balance Sheet	162.68	199.46

**REVIEW OF OPERATIONS**

Your Company recorded a turnover of Rs. 181 crores and a net profit after tax of Rs. 1.61 crores during the Financial Year 2003-2004, despite severe competition in the industry.

An all-round increase in input costs and inability to pass on such increase to the customers adversely impacted the performance of the Company during the financial year under review. The fixation of minimum support price for Rubber and the subsidy given for Natural



Rubber export had a significant impact on the Natural Rubber prices during the financial year under review. The increasing trend in Rubber prices is a matter of concern.

Production of Tyres & Tubes during the year 2003-2004 stood at 15684 M.T. as against 15778 M.T. in 2002-03. Necessary infrastructure and additional capacities were created during the year to cater to the marketing requirements. New patterns and designs of tyres introduced during the year were well received by the customers. The company has increased its presence in the tube market as well as in the exports.

Your company continues to be a major supplier to manufacturers of two/three-wheelers. In the last few years, efforts put in by the company to increase its presence in the Replacement segment has started yielding results and the company now has a significant market share in this segment. The company also maintained its share of the export business in line with previous years. Initiatives taken to increase the sales volume of tubes in the Replacement Segment, have also borne fruit. There was a quantum jump in the Tubes business during the year and the trend continues.

Even though the tyre industry continued to be affected on account of sustained increase in input costs, the intense competition within the industry to protect the market shares has prevented tyre companies in our segment of business from passing on the effect of the increase to the customers. Recognizing the role that distribution strength is likely to play in the success of companies in a highly competitive scenario, your company has charted out ambitious plans to consolidate its position in this area.

#### **DIVIDEND**

Your Directors recommend a dividend of Rs.1.50 per equity share (15 %) for the financial year 2003-04. The proposed dividend will absorb Rs. 85.21 lakhs. The dividend if approved, shall be payable to shareholders registered in the books of the Company and to the beneficial owners furnished by the depositories as determined with reference to the book closure from 7th September, 2004 to 14th September, 2004 (both days inclusive).

#### **QUALITY MANAGEMENT SYSTEM**

Your company is an ISO 9001 : 2000 certified organisation with accreditation from M/s. TUV SUDDEUTSCHLAND INDIA PVT. LTD. During the year under review, your Company decided to upgrade the Quality Management System to ISO/TS 16949 : 2002 Certification as per the requirements of International Standards for Quality Management System released by International Organisation for Standardisation with a view to remain ahead of other similar industries to improve overall processes and thereby enhance the business performance of the Company.

Your Company has successfully achieved this certification in a record time through training of all employees, upgradation of the processes, well structured documentation and regular internal audits to enforce compliance to the International Standards. The Certification Audit was conducted in the month of February, 2004 resulting in recommendation for ISO / TS 16949 : 2002 Certification followed by certification from M/s. TUV Suddeuschland India Pvt. Ltd. in April 2004.

#### **DIRECTORS**

Mrs. Komal C.Wazir resigned as Executive Director (Corporate Affairs) with effect from 30th June, 2003 and continues to be a Director in the Board of the Company.

#### **REDEMPTION OF DEBENTURES**

The Honourable High Court of Karnataka by its order dated 19th November, 2002 sanctioned the Scheme under Section 391 of the Companies Act, 1956. In terms of the scheme, 319,078 equity shares of the company were cancelled and in lieu thereof the Company issued 319,078 numbers of 10% Un-Secured Redeemable Non-Convertible Debentures of Rs.15/- each to all those equity shareholders who were covered under the Scheme. As per the terms of issue, the company has redeemed the said Debentures on 28th February, 2004.



**Annual Report 2003 - 2004****AUDITORS**

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

**COST AUDIT**

The Board of Directors have appointed Mr. B.L.J. Sharma, Cost Accountant, Bangalore to carry out audit of the Cost Accounts of the Company relating to the manufacture of Tyres & Tubes for the Financial Year ended 31st March 2004 in compliance with the Central Government order in this regard.

**SUBSIDIARY COMPANIES**

Attached to the Balance Sheet of the Company are Reports and Accounts of Jerom Trading & Investment Ltd. and the Statement as required under Sec. 212(5) of the Companies Act, 1956.

**FIXED DEPOSITS**

The Company has not received or accepted any deposits from the public.

**PARTICULARS OF EMPLOYMENT**

As required under the provisions of Sec. 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 included as Annexure-I.

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

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

**DIRECTORS' 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, 2004 the applicable accounting standards have been followed alongwith 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 2004 on a 'going concern' basis.

**PERSONNEL**

The Company provides continuous learning and personnel development opportunities to its employees by regular training and all-round exposure. The best talent in the industry continue to be retained by your Company. Relations with the workmen continued to remain



cordial during the year. The company has successfully formalized a Long Term Wage Settlement which is valid for 39 months from 1st April, 2003. The Long Term Wage Settlement ensures better productivity, optimisation of output and continuing harmonious industrial relations.

#### **CORPORATE GOVERNANCE**

A separate report on Corporate Governance is included in the Annual Report and marked as Annexure -IV and the Certificate from the Auditors of the Company confirming compliance with the conditions on Corporate Governance as stipulated in clause 49 of the Listing Agreement is annexed thereto.

#### **MANAGEMENT DISCUSSION AND ANALYSIS REPORT**

In terms of Clause 49 of the listing Agreement with the Stock Exchanges, Management Discussion and Analysis Report is annexed to this Report and marked as Annexure - III.

#### **ACKNOWLEDGMENT**

Your Directors express their grateful appreciation for the assistance and co-operation received from the shareholders, customers, banks, government authorities and suppliers during the year under review. The board also places on record its appreciation for the contribution made by the employees at all levels in achieving these results.

Dubai  
24<sup>th</sup> May, 2004



**On behalf of the Board of Directors**

**T.C. Goel**  
Executive Director

**P.M. Nene**  
Director