



GKN Driveline (India) Limited

**29th
Annual Report
2013**

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**Board of Directors**

Mr. Arnaud Christian Marcel Lesschaeve
Mr. Bharat Dev Singh Kanwar
Mr. Christophe Jean Philippe Jollivel
Mr. Craig Parr
Mr. Adam Touhig
Dr. D.V.Kapur
Mr. Marc Louis Gustave Vuarchex
Mr. Mansoor Anwar
Mr. D.P.Mehta

Chairman (with effect from September 24, 2013)
Managing Director
Whole-time Director
Director (with effect from September 24, 2013)
Director (with effect from December 17, 2013)
Chairman (upto June 28, 2013)
Director (upto November 18, 2013)
Director (upto November 4, 2013)
Director (upto June 28, 2013)

Audit Committee

Mr. Craig Parr
Mr. Arnaud Christian Marcel Lesschaeve
Mr. Bharat Dev Singh Kanwar

Chairman
Member
Member

Remuneration Committee

Mr. Arnaud Christian Marcel Lesschaeve
Mr. Craig Parr
Mr. Adam Touhig

Chairman
Member
Member

Finance Controller

Mr. Madan Singh Sisodia

Company Secretary

Mr. Ashish Kumar Pandey

Auditors

Price Waterhouse
Gurgaon

Technical Collaborators

GKN Driveline International GmbH, Germany

Bankers

HDFC Bank Ltd.
Canara Bank
The Hongkong and Shanghai Banking Corporation Ltd.
Citibank N.A.

Registered Office & Faridabad Works

270, Sector 24,
Faridabad 121 005 (Haryana)
Tel: +91 (129) 4091100, 2232531
Fax: +91 (129) 2230580
CIN : U74999HR1985PLC034079
E-mail: gdi.stakeholder@gkndriveline.com
Website: www.gkndriveline.com

Dharuhera Works

34 & 35, Industrial Area,
Dharuhera 122 106 (Haryana)
Tel.: +91 (1274) 398000, 242579
Fax: +91 (1274) 242581

Oragadam Works

Plot No. B-13, SIPCOT Industrial Park,
Sriperumbadur, Kancheepuram 602105
(Tamil Nadu)
Tel: +91 (44) 27142380
Fax: +91 (44) 27142300

Pune Works

Plot No. 4,
Village - Lonikand,
Taluka - Haveli,
Pune - 412 216
Tel: +91 (20) 20260565 / 575

Share Transfer Agent

MCS Ltd.
F-65, 1st Floor,
Okhla Industrial Area, Phase I,
New Delhi 110 020
Tel: +91 (11) 41406149 / 41406151 / 52
Fax: +91 (11) 41709881

REPORT OF THE BOARD OF DIRECTORS ATTACHED TO THE BALANCE SHEET OF THE COMPANY AS AT DECEMBER 31, 2013 PURSUANT TO SECTION 217 OF THE COMPANIES ACT, 1956.

To the Members of
GKN Driveline (India) Limited

Your Directors have pleasure in presenting their 29th Report on the audited Accounts of your Company for the year ended December 31, 2013.

1. Financial Results:

The summarized financial figures are given below:

(Rs. in '000)

	<u>2013</u>	<u>2012</u>
Revenue from Operations (net)	7,142,027	6,821,908
Other Income	9,936	5,303
Profit before Tax, Interest and Depreciation (EBITDA)	331,403	176,193
Profit before Tax and Depreciation (EBTDA)	143,308	69,329
Profit before Tax (PBT)	(404,871)	(371,115)
Tax	(44)	(121,397)
Net Profit / (Loss)	(404,827)	(249,718)
Transfer to General Reserve	Nil	Nil
Profit & Loss account balance carried forward	1,985,474	2,390,301

2. Financial performance:

The Company's top-line and bottom line continued to grow during the year in spite of slowdown. The profit before interest, tax and depreciation (EBITDA) was 4.6% as compared to 2.6% in previous year mainly due to higher production of in house forging at the newly set up precision forging plant at Chennai and better operation excellence, though the Economic slowdown resulted in excess capacity and higher fixed cost.

However the profit before tax (PBT) is lower as compared to previous year mainly due to higher interest cost in view of capex spending on state of the art Long stem Tulip Manufacturing cell and depreciation was higher due to newly establish Pune plant.

Your Directors are satisfied that the accounts represent the trading performance of the company and give a true and fair view of the state of affairs of the company as at December 31, 2013 and of the profit or loss of the company for that date. The annual accounts of the company for the year ended December 31, 2013 are enclosed with this Report.

3. Operations:

The year was focused on systems improvements like Safety, Program management, Supply Chain processes, ERP usage and Manufacturing Engineering standards in all the plants.

Constant Velocity Joint plant at Chennai made some good progress focused mainly during the last quarter in operational excellence in terms of OEE, lost time analysis, maintenance plan and shop management discipline, resulting in better production output. The year was marked with new launches of Hyundai, Ford & Nissan. The company commissioned best in class LST (Long Stem Tulip) manufacturing cell at Chennai during the latter part of the year. However, the company faced some challenges in respect to warranty concern with Toyota and delivery issue of Nissan resulting in premium freight expenditure.

Chennai Precision Forging plant ramped up successfully last year to reach 2.9 million forgings.

Pune plant got all customer approvals (Volkswagen, General Motors, Fiat, Bajaj & Tata) and started serial production in August 2013. People development & trainings have been deployed to all people of the organization to bring them to the GKN standards expectations.

Dharuhera & Faridabad performed well in terms of quality and deliveries.

While the year was marked by challenges on several fronts, the company continued to take significant measures for long term benefits in the areas of expansion, product development, industrial relation and organization structure.

During the year sales, gross margin and EBITDA was higher than previous year. Your company posted growth rate of 4.7% in terms of sales value and has supplied Driveshafts for 1.93 Mn cars during the year.

Your company sales is expected to grow by 14% during 2014. The company faces many challenges in coming years such as safety culture, stabilize organization structure, focus on systems, and achieve operational performance, targets and ramp up its Long stem tulip production cell.

4. Dividend:

In view of ongoing capital investment plan for localization, machine refurbishment and strengthening financials of the company, your Directors do not recommend any dividend for the year under review.

5. Automotive Industry and Outlook:

As per Society of Indian Automobile Manufacturers (Siam), passenger vehicle sales including cars, sports utility vehicles and vans in India slumped 6 per cent in 2013-14, marking the biggest rout in a decade. Car & SUV sales fell 5 per cent and van sales registered the biggest decline of 20 per cent. It is expected that sector will record positive growth in the new fiscal.

Although the government had announced a 4-6 per cent cut in excise duty in February' 14, it failed to lift the mood in a market weighed down by rising costs and higher interest rates. The auto industry, however, pegged hopes on a new, stable government reviving demand.

While the challenging times are expected to continue, going forward, India should see positive growth on the strength of new models, increase in contribution of sales of petrol vehicles and rural sales.

The World Bank has projected economic growth rate of 5.7 percentages for India in FY 2014-15 on the back of competitive exchange rate and much large investment going forward as compared to 4.4 percentages for FY 2013-14.

6. Human Resources:

The Company seeks to recruit and retain talented individuals with skills and passion to become leaders of future. The Company aims to be employer of choice with high – performance culture, motivated people and outstanding leaders. Goal is to have positive impact on environment and the communities the company operating.

Development processes and framework determines employees' progress through managerial and technical careers. The Company completes an annual process to ensure that it is continually developing the people and capabilities required to deliver the business plan.

To help deliver training support, the GKN Academy offers a library of many online courses.

For number of years, the Company has measured its performance on employee engagement using a combination of biennial Employee Survey and monthly positive climate index, which is a mini survey tool.

Where relevant, the Company reinforces Company Values with specific training. The GKN Anti- Bribery and Corruption Training (ABC) is an example. The purpose of this training is to increase awareness and understanding of relevant ABC compliance requirement and Company's commitment to their effective application.

The Company is committed for prevention and protection of woman employees at its plants and work places. Overall, there has been a good congenial environment for woman during the year. The Companies is compliant with the requirement of Sexual Harassment of Women at Workplace (Prevention, Prohibition and Redressal) Rules, 2013.

Vigil Mechanism/Whistle Blow System

To support Company's employee Disclosure Procedure Policy, the Company operates Group-wide international whistleblowing hotline. Run by an external and independent third party, the hotline facilitates arrangement whereby employees can make confidential disclosures about suspected impropriety and wrongdoing.

7. Auditors and Auditors' Report:

M/s. Price Waterhouse, Chartered Accountants, Gurgaon, the Auditors of the Company hold office until the conclusion of this Annual General Meeting and being eligible, offer themselves for re-appointment for the period of three years. The Board recommends the appointment for three years which shall be subject to ratification by the shareholders in each

Annual General Meeting. The Company has also received a certificate confirming the fulfilment of the conditions as required under the Companies Act, 2013 from M/s. Price Waterhouse, Chartered Accountants, Gurgaon certifying that their appointment, if made, will be within the prescribed limits. The Notes on Accounts referred to in the Auditors' Report is explanatory and do not call for any further comments.

8. Subsidiary Company:

The accounts of the subsidiary company, M/s. Drivetech Accessories Ltd. are attached pursuant to Section 212 (1) of the Companies Act, 1956. A statement pursuant to Section 212 (1) (e) of the Companies Act, 1956 is also attached as Annexure 1 to this report.

9. Particulars of Employees:

Pursuant to Section 217(2A) of the Companies Act, 1956, a statement containing the required particulars of an employee of the Company employed during the year ended December 31, 2013 is attached as Annexure 2 to this report.

10. Conservation of Energy:

During the year 2013, Company initiated various steps for conserving electricity such as replacement of water cooled Heat exchanger instead of electrical chiller unit & replacement of LED street lights of (45 watt) in place of conventional light of 96 Watt, and horizontal deployment for installation of 5 Star air conditioner in place of existing old ACs, and major cost saving in energy achieved through purchase of Uninterrupted power from IEX (open Access), resulting in huge reduction in HSD consumption in DG sets.

11. Technology Absorption:

Detail of the efforts made by the Company in the area of technology absorption given in the prescribed Form B is attached as Annexure 3 to this report.

12. Responsibility Statement:

Pursuant to requirement under Section 217 (2AA) of the Companies Act, 1956, with respect to Directors' Responsibility Statement, it is hereby confirmed that:

- a. in the preparation of the annual accounts for the year ended December 31, 2013, the applicable accounting standards had been followed along with proper explanation relating to material departures;
- b. the directors had selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the company as at December 31, 2013 and of the profit or loss of the company for that date;
- c. the directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities;
- d. The directors have prepared the annual accounts on a going concern basis.

13. Health, Safety and Environment:

The company is committed to continuous improvement in Health & Safety performance with goal of zero preventable accidents. During the year, some internal safety audits were carried out. Audit findings are used to ensure corrective actions are made to improve the work environment by using best practices. think SAFE! is a global communication and awareness programme of the GKN group. Safety Key messages are communicated in best engaging manner and to provide focused training on key safety issues.

The company continues to promote use of RADAR (Risk Awareness, Detection, Action and Review) among all employees. RADAR assists employees in recognizing hazards and risks at their work area and empowers them to take action to improve safety at workplace.

Expressing commitment to workplace safety, the Company underwent the Occupational Health and Safety Assessment Sequence (OHSAS 18001 certification since 2004). The Company is maintaining ISO 14001 certification since 2002 and TS 16949 since 2003.

14. Foreign Exchange earnings and outgo:

Details of the earnings and expenditure in foreign currencies during the year ended December 31, 2013 are as under:

	(Rs. in '000)	
	2013	2012
a. Earnings		
FOB value of exports	137,540	50,105
b. C.I.F. Value of Imports		
Capital Goods	285,610	518,583
Raw Material, Components and Spares	2,215,857	1,992,845
c. Other Expenditure		
Royalty and Trademark Fee	60,354	66,498
Travelling & Training Charges	11,139	7,105
IT System Support Charges	19,740	15,876
Management Consultancy and Business Auxiliary services	273,391	282,388
Others	34,613	19,405

15. Board, Directors and its Committees:

During the year, Company's Board and its Committees were restructured as some new Directors joined and some Directors resigned the Board. The Company's Board comprises of five Directors, Mr. B.D. Singh - Managing Director and Mr. Christophe Jean Philippe Jollivel - Whole time Director are the two Executive Directors whereas Mr. Arnaud Christian Marcel Lesschaeve, Mr. Craig Parr and Mr. Adam Touhig are the Non-Executive Directors.

Dr. D.V.Kapur, Chairman of the Company, resigned vide his letter dated June 29, 2013. The resignation was considered in the Board Meeting held on September 24, 2013. The Board members appreciated the contribution made by Dr. D.V.Kapur in his different capacities during his tenure with the company.

Mr. Marc Louis Gustave Vuarchex, Director of the Company, resigned vide his letter dated November 18, 2013. The resignation was considered in the Board Meeting held on December 17, 2013. Mr. Mansoor Anwar, Director of the Company, resigned vide his letter dated 04, November, 2013. The resignation was considered in the Board Meeting held on December 17, 2013. The Board records deep appreciation for the valuable contribution made by them as Director to the growth of the company.

Mr. Arnaud Christian Marcel Lesschaeve was appointed as Additional Director and Chairman of the Company with effect from September 24, 2013, the appointment is subject to the approval of shareholder in the ensuing Annual General Meeting.

Mr. Craig Parr was appointed as Additional Director with effect from September 24, 2013 subject to the approval of shareholder in the ensuing Annual General Meeting.

Mr. Adam Touhig was appointed as Additional Director with effect from December 17, 2013 subject to the approval of shareholder in the ensuing Annual General Meeting.

The Notice for the 29th Annual General Meeting alongwith Attendance Slip and Proxy Form has been sent separately to all the Members.

Audit Committee

Audit Committee of the Board comprises of Mr. Craig Parr, Chairman of the Committee, Mr. Arnaud Christian Marcel Lesschaeve and Mr. B.D. Singh as Members of the Committee. During the year, the Committee met three times i.e. on March 14, 2013, June 4, 2013 and September 24, 2013.

Remuneration Committee

To complete the requirement of Companies Act, 1956, the Board has constituted a Remuneration Committee to recommend remunerations of the executive directors. The Committee comprised of Mr. Arnaud Christian Marcel Lesschaeve as Chairman, Mr. Craig Parr & Mr. Adam Touhig as Members. The Committee met once in 2013 on March 14, 2013 with the then members of the Committee Dr. D.V.Kapur, Mr. D.P. Mehta and Mr. Mansoor Anwar and recommended remuneration of Mr. B.D. Singh, Managing Director and Mr. Christophe Jean Philippe Jollivel, Whole Time Director.

16. Cost Audit:

The Ministry of Corporate Affairs vide cost audit order number F. No. 52/26/CAB-2010 dated 24th January, 2012 mandated that companies having turnover of Rs. 1,000 Mn. or above shall get its cost accounting records, in respect of each of its financial year commencing on or after the 1st day of April, 2012, audited by a cost auditor who shall be, either a cost accountant or a firm of cost accountants. Therefore, cost audit is applicable to the Company for the financial year 2013 and onwards.

The Board appointed M/s Rakesh Singh & Co., Cost Accountants to conduct audit of cost records/accounts of the Company, maintained u/s 209(1) (d) of the Companies Act, 1956, in respect of the company's units situated at Faridabad, Dharuhera, Oragadam and Pune for the financial year 2013.

17. Acknowledgement:

The Directors wish to thank the Customers for their support and patronage.

The Directors record their appreciation for the valuable support and understanding extended by GKN Group during the year under review. The Directors also record their appreciation for the support extended by Company's shareholders, Government authorities, Banks, Dealers, Suppliers and above all the employees at all levels for the efficient and dedicated services.

For and on the behalf of the
Board of Directors

Sd/-
Arnaud Christian Marcel Lesschaeve
Chairman

Annexure 1 to the Board's Report

STATEMENT PURSUANT TO SECTION 212 OF THE COMPANIES ACT, 1956, RELATING TO SUBSIDIARY COMPANY

- | | | | |
|----|--|---|--|
| 1. | Name of the Subsidiary Company | : | Drivetech Accessories Ltd |
| 2. | (a) No. of Equity Shares held by GKN Driveline (India) Ltd. in the Subsidiary as on December 31, 2013. | : | 50,125 Equity Shares of Rs. 10/- each fully paid up. |
| | (b) Extent of interest of GKN Driveline (India) Ltd. in the Share Capital of the subsidiary. | : | 100% |
| 3. | Net aggregate amount of profits losses of the subsidiary so far as it concerns the Members of GKN Driveline (India) Ltd. is not dealt with in the Accounts of GKN Driveline (India) Ltd. | | |
| | (a) Profits / (Loss) of the Subsidiary for the Accounting year ended on December 31, 2013. | : | Rs. 288,053/- |
| | (b) Profits / (Loss) of the previous Accounting years of the subsidiary since it become subsidiary of GKN Driveline (India) Ltd. | : | Rs. 147,293/- |
| 4. | Net aggregate amount of profits / losses of subsidiary so far as is dealt with or provisions made for those in the accounts of GKN Driveline (India) Ltd. | | |
| | (a) Profit of the Subsidiary for the accounting year ended on December 31, 2013. | : | Nil |
| | (b) Profit for the previous Accounting years of the subsidiary since it became subsidiary of GKN Driveline (India) Ltd. | : | Nil |
| 5. | Changes in interest of GKN Driveline (India) Ltd. between the end of previous financial year | : | Nil |

Reference "Particulars of Employees" in the Report.

Particulars of Employees as per Section 217(2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules 1975 forming part of the Board's Report attached to the Balance Sheet as at December 31, 2013.

Employed throughout the financial year, where in receipt of remuneration of Rs. 6,000,000/- or employed for a part of the year under report and were in receipt of remuneration at a rate which, in the aggregate, was not less than Rs. 500,000/- per month.

Sr. No.	Name of Employee	Designation	Nature of Duties	Qualification	Date of Commencement	Age (Yrs.)	Experience	Remuneration (Rs)	Particulars of last Employment
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
1.	Bharat Dev Singh Kanwar #	Managing Director	Management	Beachelor's Degree - Chemical Engg. Master in Business Administration, U.K.	13.03.2013*	57	35	26,478,772	Managing Director / Country Head Dana India
2.	Christophe Jean Philippe Jollivel	Whole-time Director	Management	Mechanical Engineer - Upper Degree	13.12.2012**	45	20	39,868,278	Plant Director, GKN Driveline Arnage, France
3.	Rituraj Singh Kalra#	Director - Customer Relation Management	Management	B. Engg. Hons. - Mech. MBA	01.08.2011	41	18	11,522,901	Regional Commercial Manager GKN Driveline, Singapore
4.	Thorsten Hahn	Manager - ME	Management	Diploma Engineer (FH)	01.10.2012	41	16	16,645,985	Production Engineer GKN Driveline Germany
5.	Sang Youb Kim	CRM Manager	Management	Business Development & Management	06.08.2012	34	10	7,215,232	Overseas Business Manager Trelleborg, Korea

* Date of appointment as Managing Director. The original date of appointment is January 21, 2013.

** Date of appointment as Whole-time Director. The original date of appointment is September 1, 2012.

Employed part of the year.

Notes:

- 1 Remuneration shown above includes salary, allowances, ex-gratia, expenditure incurred by the Company on residential accomodation, leave travel assistance and other facilities.
- 2 None of the employee is relative of any Director of the Company.
- 3 The Company did not have an employee either in the whole or part of the year under review who held by himself or alongwith his spouse and dependent children, two percent or more Equity Shares of the Company.
- 4 Employment of Mr. Bharat Dev Singh Kanwar, Mr. Christophe Jean Philippe Jollivel, Mr. Rituraj Singh Kalra, Mr. Thorsten Hahn and Mr. Sang Youb Kim are contractual.

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

FORM B (See Rule 2)

Form for 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.

a. Product Development

- i. Development of thermoplastic boot for GI3-17 plunging joint for MSIL application.
- ii. Development activities for Long Stem Tulips have been under taken in Chennai plant.
- iii. Development of New models in precision forging for export to GKN line Companies.
- iv. Development work of New Driveshaft for Global & Indian OEMs(Original Equipment Manufacturer) for Petrol , Diesel & Electric vehicles.

b. System & Infrastructure

- i. Development of Application Engineering Team to support product design activities for global customer.
- ii. Addition of Fatigue Test capacity in FAR test centre for Testing of CVJ (Constant velocity Joint).

c. VAVE, Localization effort

- i. Development work for VL has been done and functional parts for Volkswagen India developed in Pune plant.
- ii. Implementation of New VAVE (Value Analysis / Value Engineering) ideas in Boots, Grease and Dampers.

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

- a. GKN won MSIL business with the development of GI3-17 thermoplastic boot.
- b. Response time to customer improved by developing local design capability.
- c. Expanded export business by developing new precision forgings for GKN line companies.
- d. Development of driveshafts for new vehicles for global and local OEMs resulting into winning new business.
- e. Focus on continuous upkeep and addition of test facilities resulted in significant equipment down time and on time support for product validation.

3. Future plan of action

- a. Continuous development of new generation Joints and offer new technology to customers to reduce CO2 emissions.
- b. Extend IRD (inner radius Diaphragm) boots for applications to other joint series.
- c. To expand NVH (Noise, Vibration & Harshness) testing facilities.

4. Expenditure on R&D

	Rs. in Mn.
(a) Capital	20.13
(b) Recurring	26.48
(c) Total	46.61
(d) Total R & D expenditure as a percentage of total turnover.	0.58