THE HI-TECH GEARS LTD.

ENGINEERING

MANUFACTURING

ROBOTICS

ENGINEERING
CONVERGENCE
SOLUTIONS FOR
A LEAN WORLD

passion to succeed

passion | innovation | technology

31st
Annual Report
2016-2017

Corporate Office
14th Floor, Tower – B,
Unitech's Millennium Plaza,
Sushant Lok – 1, Sector – 27,
Gurgaon, Haryana – 122002
Tel : (0124)4715100, Fax : (0124) 2806085,
Email : secretarial@hitechgears.com

Registered Office & Works
A-589, Industrial Complex,
Bhiwadi – 301019, Dist.
Alwar, (Rajasthan),
Tel: (01493) 665000/641227

Plant II:
Plot No. 24,25 & 26, Sector -7,
IMT Manesar, Gurgaon, Haryana – 122050,
Tel: (0124) 4715200,

Plant III:
SPL – 146,
Industrial Complex,
Bhiwadi – 301019, Dist. Alwar, (Rajasthan)

Plants of subsidiary companies
Teutech Industries Inc.

Plant I
361, Speedvale Avenue W,
Guelph, ON N1H 1C7, Canada

Plant II
265, Massey Road,
Guelph, ON N1K 1B2, Canada

Teutech LLC
227, Barton Street, Emporium,
PA, 15834, USA

Bankers
Standard Chartered Bank
Citi Bank N.A.
State Bank of India
ICICI Bank Ltd.
Kotak Mahindra Bank

Registrar & Transfer Agent
MAS Services Limited
(Unit: The Hi-Tech Gears Limited)
T-34, 2nd Floor Okhla Industrial Area,
Phase-II, New Delhi – 110020
Tel : + (011) 26387281, 82, 83
Fax: (011) 26387384

Cost Auditors
M/s Kabra & Associates
Cost Accountants
552/1B, Arjun Street Main Vishwas Road,
Vishwas Nagar, Delhi-110032

Secretarial Auditor
M/s Grover Ahuja & Associates
Company Secretaries
119, First Floor, Deepshikha Building
Rajendra Place, New Delhi-110008
Tel : + (91)11- 49091217

Board of Directors
Mr. Deep Kapuria
Executive Chairman

Mr. Anil Kumar Khanna
Independent Director

Mr. Pranav Kapuria
Managing Director

Mr. Sandeep Dinodia
Independent Director

Mr. Bidadi Anjani Kumar
Director

Mr. Vinit Taneja
Independent Director

Mr. Anuj Kapuria
Executive Director

Mr. Prosad Dasgupta
Independent Director

Mr. Krishan Chandra Verma
Independent Director

Mr. Ramesh Chandra Jain
Director

Ms. Malini Sud
Independent Director

Key Managerial Personnel

Mr. Vijay Mathur
Chief Financial Officer

Mr. S. K. Khatri
Company Secretary

Statutory Auditors
M/s Gupta Vigg & Co.
Chartered Accountants
E – 61 Lower Ground Floor,
Kalkaji,
New Delhi – 110019.

Internal Auditors
M/s Grant Thornton India, LLP
21st Floor, DLF Square
Jacaranda Marg, DLF Phase II
Gurgaon-122002
India
Tel: + (91)-124 46280000

Vision

Be a global footprint Company and a benchmark for world class manufacturing systems

Mission

We will be the preferred partner in delivering engineering products and design solution through lean philosophy with a focus on:

- Building a customer centric Organization
- Rapid development of products and innovative solutions
- Ensuring cost effectiveness
- Developing competent and committed people

Forward Looking Statement & Disclaimer

In Our report we have disclosed forward looking information so that investor can better understand the company's future prospects and make informed decisions. This Annual report and other written and oral statements that we make from time to time contain such forward looking statements that set out anticipated results based on management's plans and assumptions. We have tried, wherever possible, to identify such statements by using words such as 'anticipate', 'estimate', 'expect', 'projects' 'intends', 'plans', 'believes', and words and terms of similar substance in connection with any discussion of future operating or financial performance. We cannot guarantee that any forward looking statement will be realized, although we believe we have been prudent in our plans and assumptions. Achievement of future results is subject to risks, uncertainties and inaccurate assumptions. Should known or unknown risks or uncertainties materialize, or should underlying assumptions prove inaccurate assumptions, should underlying assumptions prove inaccurate, actual results could vary materially from those anticipated, estimated or projected. Investors should bear this in mind as they consider forward-looking statements. We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise.

The financial statements have the absolute figures unless specifically mentioned. The Messages & Directors' Report together with its Annexure are the statement of the financial figures, hence are provided in Rupees in lakh, unless specifically mentioned.

Source of information: we have consulted RBI, SIAM, ACMA, industry associations, fellow industry members, Industry journals and various ministries sites for the information set in this Report. We have tried, wherever possible, to identify and authenticate the such information, however we undertake no obligation for its correctness and its updates.

Contents

THE HI-TECH GEARS Ltd.
(formerly known as Hi-Tech Gears Ltd.)

MILESTONES

1986 Down The Years 2017

1986	Incorporated as a Public Limited Company
1988	Production Commencement & became single source supplier to Hero Honda
1989	Product Indigenization
1992	Technical Tie-up with Kyush Musashi, a subsidiary of Honda Motors, Japan
1993	Backward Integration into Precision Forgings
1995	Selected as single source supplier to Honda Power, Tata Cummins Ltd.
1996	Technology Agreement with GETRAG, US
1996	Certified as ISO 9002
1996	BPR Launched
1997	Selected as a global source to Cummins, US
1998	Certified as QS 9000
1999	Separate Division to handle high-end design and CAD Services established, under the name of Hi-Tech ESoft.
2002	Launches Initiative of Lean Manufactured
2003	Certified for Integrated Quality Management Systems
2003	Certified for TS 16949
2003	Environment Certification ISO 4001:
2003	Occupational Health & Safety Certification OHSAS 18001:1999
2004	Prototyping/Productionsing Precision Components for Robert Bosch, GM, Volvo and Daimler Chrysler
2005	State-of-the-art Manufacturing Facility set up at Manesar
2007	Hi-Tech eSoft (division of HGL) Certified for ISO 9001:2000
2008	ACMA Export Award 2006-07
2008	Setup of Pune Office
2009	Excellence Award for Manufacturing and Export
2010	TPM Excellence Awards Category A & Shingo Silver Medallion
2011	New State of Art “ECOFAC” Plant setup in Bhiwadi
2012	Award for excellence in Consistent TPM Commitment
2013	ACMA Export Award
2014	ACMA Export Award (Large Category)
2015	Name of the Company changed to “The Hi-Tech Gears Ltd.”
2017	Acquisition of Teutech Industries INC, Canada and Teutech LLC, USA.

2TK TEUTECH

CUSTOMERS

Hero | DAIMLER | MAGNA

Daimler India Commercial Vehicles Pvt.. Ltd.

MEGNA POWERTRAIN

CATERPILLAR® | TATA Cummins

Pentair | TRIUMPH | Cummins

JCB | WABCO | NEW HOLLAND AGRICULTURE

AAM | BorgWarner | GKN SINTER METALS

ESCORTS | TAFE | SHAKTIMAN | Mahindra Rise.

GREAVES | AMW BUILT TO WIN | Whirlpool | SONALIKA INTERNATIONAL

Chairman's Message

Dear Shareholders,

As the last financial year unfolded, it brought with it several surprises that significantly changed the global political and business landscape. In an era of global uncertainty, your Company continued to pursue its core values of Excellence, Integrity, Commitment and Transparency that guide our business conduct and underpin all of our operations. I am very pleased to share with you that even in the midst of all these global changes, your Company achieved several milestones, including the acquisition of wholly owned subsidiary companies in Canada and the USA. Your Company also continued to focus on Sustainable Manufacturing and I am very happy to announce that our Bhiwadi T&EC Plant was granted the IGBC Platinum Rating earlier this month.

Global and Domestic Economic Affairs

The last year has perhaps been the most tumultuous in terms of global affairs with growth getting impacted by heightened policy uncertainty. Both the USA and the UK registered minimal growth, despite expectations of improved economic activity. As a result, the IMF scaled down its growth forecast for the two economies.

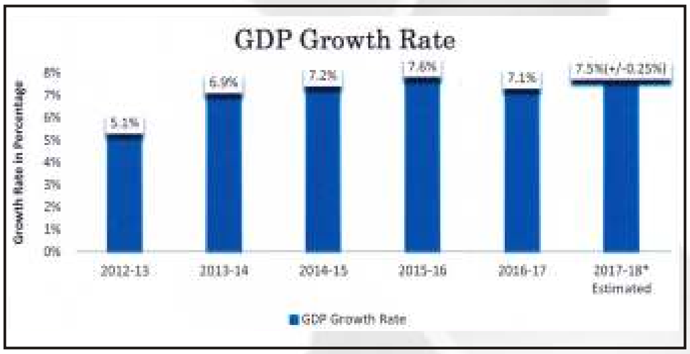
Global trade continued to fall prey to the pressures of campaign promises that have begun to emerge in the increasingly protectionist and inward looking policies of some countries. While USA withdrew from the TPP and the future of TTIP remained uncertain, globalization seemed to tilt towards regionalism and bilateralism. Stagnant global trade and subdued investment marked the last financial year. Global growth recovery was also negatively impacted by the several unfortunate terror activities across the developed world. In this backdrop, policymakers continue to be faced with the challenge of nurturing recovery, confronting downside risks and fostering longer-term growth.

The global economy grew by 3.1% in 2016. Weaker trade growth, sluggish investment, subdued wages, diminished reform momentum and slower activity in key emerging markets were the main contributors to the slow growth.

The good news, however, is that as the political dust in the Western part of the world settles, the overall global economy has now started to register growth. While the growth is still fragile, the IMF has kept its global growth forecast unchanged at 3.5% for 2017 and 2018. The four large economies of the Euro Zone – France, Germany, Italy & Spain are likely to experience accelerated growth on the back of strengthening domestic demand and increased exports. These, along with expectations of Japan's economy picking up momentum and a continued growth spell in the Emerging Markets & Developing Economies (EMDEs), are expected to buffer up global growth prospects in 2018. However, most emerging economies are expected to grow at rates similar to the prior year.

Despite the inward looking policies being pursued by several nations, the World Bank has forecast that global trade will outpace GDP growth after two years of marked weakness. The pickup in global trade partly reflects a bottoming out of global investment, which is relatively import-intensive. Global financing conditions remain benign.

While the world was struggling to find growth, India continued to register robust economic growth. India continues to remain one of the fastest growing economies in the world. The Economic Survey 2016-17 has forecast that the Indian economy remains well poised for growth and should clock in around 6.75 to 7.5% growth in FY 2017-18. Strong fiscal consolidation, low current account deficit, higher agricultural output, growing FDI, low inflation and higher wages in rural areas provide an environment for continued economic growth.



The steps taken by the Government have shown positive results as India's Gross Domestic Product (GDP) at constant rates, registered a growth rate of 7.1% in 2016-17. Further per capita income at current prices during 2016-17 rose by 9.7% to Rs 1,03,219 as against Rs 94,130 in the previous fiscal.

The strong Government reforms further strengthened India's economic fundamentals. Though the GDP for the January to March 2017 Quarter stood much lower at 6.1%, for once a declining GDP gives cause to cheer – it could really mean that the Government's crusade against the parallel economy has been successful. In the long run, demonetization could accelerate the formalization of the economy, leading to higher tax collections and greater digital financial inclusion. The roll out of Goods and Services Tax (GST) is a key complementary reform that will support formalization of the economy. The continuing political stability is sure to push economic growth back to the expected range.

With the improvement in India's economic scenario and several Government initiatives being pursued in mission mode, numerous foreign companies are setting up their facilities in India.

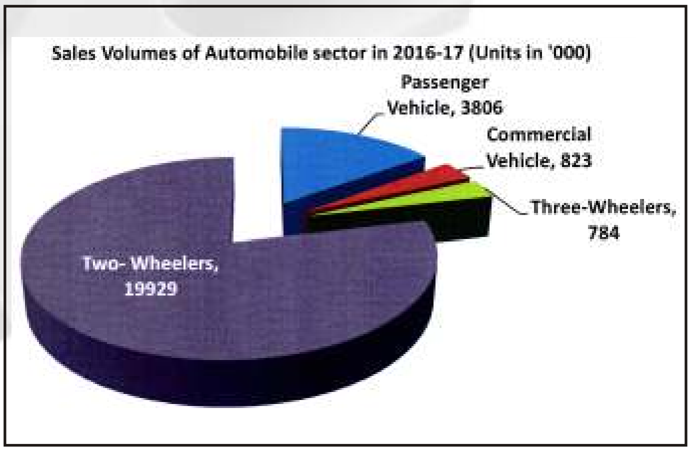
M&A activity in India more than doubled year-on-year to reach USD 61.26 billion in 2016-17 and early-stage start-ups in India are expected to raise close to USD 800 million in 2017.

India's growth prospects for the next decade remain positive, with the country comfortably placed to remain one of the fastest growing large economies of the world. Some estimates have forecast that with a shift in consumer behavior and expenditure pattern, India's consumption will triple to USD 4 trillion by 2025, making it the third largest consumer economy. It is also estimated that by 2040, India would surpass USA to become the second largest economy in terms of purchasing power parity (PPP).

Indian Automotive Sector and our Future Outlook

Today, the automotive sector is globally experiencing one of its biggest transformations. Mobility as it is defined today stands at an inflection point and is certainly not going to remain the same another decade from now. With ride share becoming popular over the last one to two years, mobility and, therefore, the automotive sector will be defined by the ability of transport to seamlessly take people from point A to point B at the least possible cost and with highest of safety standards.

While this is the future, the traditional automotive sector continues to thrive, though with increased integration of electronics the Indian auto industry continued to remain one of the largest in the world. The sector accounts for 7.1% of the country's Gross Domestic Product (GDP) and accounts for 49% of Manufacturing GDP. During April-March 2017, the industry manufactured a total 25,316,044 vehicles including passenger vehicles, commercial vehicles, three wheelers, two wheelers and quadricycles, a growth of 5.41% over the previous year. The production trends also reveal a continuously expanding market for PVs, as also a healthy bounce back of the Commercial Vehicles segment.



The domestic sales of Passenger Vehicles and Commercial Vehicles grew by 9.23% and 4.16% respectively, during April- March 2017. Scooters, Motorcycles and Mopeds registered a growth of 11.39%, 3.68% and 23.02% respectively, taking Two Wheeler sales growth to 6.89% for the year. While three wheelers sales declined by 4.93 %, Passenger Carrier sales declined by 8.83%.

The sector's exports slowed down during the year, with overall automobile exports declining by 4.50%. While Passenger Vehicles and Commercial Vehicles exports registered a growth of 16.20 % and 4.99% respectively, exports of Three Wheelers and Two Wheelers declined by 32.77% and 5.78 % respectively in April-March 2017 over April-March 2016. Yet India, a prominent exporter of automobiles, has strong export growth expectations in the near term. Several Government initiatives are expected to boost the efforts of major Indian automotive manufacturers, taking India to a global leadership position in Two Wheeler and Four Wheeler markets by 2020. The Indian Automotive industry aims to increase exports of vehicles by 5 times over the next ten years.

By 2026, India is expected to be the third largest automotive market in the world. Several global car majors have increased their India investments to meet the growing domestic demand. The Indian Automotive industry is expected to remain amongst the prime Manufacturing sectors for the country and the Government is working on specific interventions to sustain and improve manufacturing competitiveness and address environment and safety related challenges.

The Government's focus on Electric Vehicles is likely to make it a sizeable market opportunity over the next ten years. The demands for low-cost Electric Vehicles, suited for short-distance urban commutes, is likely to take the sales up to 6-7 million units by 2020. Many manufacturers have begun to make plans for the future by forging technological and distribution alliance, as well as gearing up for emerging trends in green and alternative mobility solutions. Further, the Government's plan to scrap commercial vehicles older than 15 years is another step to boost prospects of Auto & Component industries both.

India's auto-components industry has experienced healthy growth over the last few years. A buoyant end-user market, improved consumer sentiments and return of adequate liquidity in the financial system have helped to keep the auto component sector growing.

As one of the major job creators, the Indian automobile industry is fulfilling its duty well. In parallel, it is the biggest FDI earner & GDP contributor. The Indian auto components industry is going through a transformational period with the concept of mobility changing continuously. The industry is preparing for Industry 4.0, but expecting tax incentives for the investment in this direction.

The business model of the industry is fast evolving and shifting from a manufacturing to a service-intensive industry. To build synergies with global value networks, this shift requires the supply chain to transform and the Indian auto components sector is beginning to make the shift. Low penetration level, fast growing economy supports the growth potentials of the automobile industry. Other important factors such as, flexible policies, 100% FDI in the sector, large pool of skilled labour, availability of land, raw material and capital, are also enabling India to become a manufacturing hub.

The sector has set itself the target of achieving 5 times growth by 2026 with a turnover of USD 200 billion, with exports of USD 70-80 billion and investments of USD 30-40 billion. India is fast becoming a R&D hub, a major centre for auto component manufacturing with component manufacturers moving up in supply chain, bringing several new opportunities to be harnessed.

Company Performance and Strategy

Achieving our goals with discipline has been our unchanging focus. Each time we look at a growth horizon, we look at how we can improve and add value to our business; how we can make a difference in the markets we operate in, make our offerings more expansive and deliver on our mission to create healthier communities globally.

I am happy to share that your Company is now a true 'Global Company'. During the period under review, your Company has acquired Teutech Industries Inc and their group companies. Situated in Canada and the USA, these companies have consolidated sales exceeding CAD 50 million. The object of the acquisition is to be part of a Global Value Chain (GBV) with a footprint in an important and essential geography. Teutech is an auto component engaged in the manufacture of transmission and driveline components. The other details of this acquisition are being shared by Mr. Pranav Kapuria in his message and in the Directors' Report.

During 2016-17 we made consistent progress, in addition to achieving the above major milestone. On the back of many reforms announced by the Government, which may have long term positive impact, the revenues of the business segments were impacted in the second half. Your Company has still been able to, more or less, maintain the financial performance of the previous year. The Company's total revenue stood at Rs. 45,261.60 lakhs compared to Rs. 45,224.92 lakhs during the previous year. The Profit Before Tax stood at Rs 3,186 lakhs as compared to Rs 3,359.94 lakhs in the previous year. Earnings Per Share (EPS) of the Company stood at Rs. 10.86.

Export revenues were also close to the previous year, with the Company recording an export turnover of Rs. 10,492.79 lakhs. With the acquisition getting concluded just a month before the close of the Financial Year, the consolidated financials did not register a material difference vis-à-vis the standalone figures. The consolidated financials of the Company with its subsidiaries are attached at the relevant part of the Annual Report.

As you may appreciate, your company has an uninterrupted and constant track record of sharing profits with shareholders, who have placed their faith and capital in the Company. Keeping up the tradition, your Directors declared an interim dividend of 12.5 %, i.e. Rs. 1.25 per shares. The same was declared and paid during the year. Similarly, a final dividend of 12.5% .i.e. Rs. 1.25 per shares is being recommended by the Board for your approval.

Technological advancement and product innovation remain our key differentiators. The recently launched Car Transmission Vertical is working as per its operating plan.

This was launched to cater to the ever growing need for Car Transmission components in both the domestic and export markets.

As you may be aware your Company is among very few companies in the world which supply to OEMs manufacturing Two Wheelers, Four Wheelers, Commercial Vehicles, Tractors and Off-road vehicles in India and overseas. The Company's principle products include two wheeler transmission components, engine and transmission components for commercial and passenger vehicles, precision forgings etc and over a period it has graduated to become a "full fledged assembly" manufacturer. With the recently acquired Teutech, your Company's customer base and product portfolio have been further strengthened.

Your Company, in addition to tapping new markets, will leverage its positioning and also rely on building its relationships and product development. The export programmes are also expected to gain momentum. Going forward, the overall focus will continue to be on quality delivery at optimum costs. The Company believes that the ensuing year, while being challenging, will also be a year when the Company regains its growth momentum.

Your Company's strategy has been to focus on four pathways: leveraging our core strengths, improving the efficiency of our operations, optimizing our resources and enriching the capabilities of our people. As we move on to a higher growth trajectory, we will continue to centre our growth strategy on these four pathways.

As I conclude, I reiterate that we are approaching the new level and need all your support. On my behalf and on behalf of my colleagues on the Board, I would like to thank you and record our sincere gratitude to all our stakeholders for the confidence & trust reposed in us and our deep appreciation to all employees of the Company for their hard work, commitment and whole hearted support for achieving the company's goals and targets. I further thank all our customers, our supply chain partners and our bankers for their support and reposing their confidence in us.

As we step into a new phase, there are many reasons to be excited about the future of our business. There will be more opportunities to deliver something meaningful and purposeful, as we race ahead with our plans for your Company's future in the years to come. I am confident that together we will chart the roadmap of the Company for continuous growth & profitability and will steer the Company to greater heights.

Deep Kapuria
Chairman

Managing Director's Message

Dear Shareholders,

It gives me great pleasure to be in touch with you again and to update you on your companies progress. I am very happy to inform you that on March 1, 2017, in line with our Vision of becoming a company with a global footprint, we successfully completed the acquisition of an auto components manufacturing company in the NAFTA Region. I have shared further details about this acquisition later in this message.

Macro Economic Update : In 2016-17, global economic growth continued to remain slow. Slower trade liberalization, obstacles to value chain integration, elevated economic policy uncertainty and the likelihood of financial market disruptions, could possibly impact global growth prospects; continuously increasing trade restrictions have the potential to derail a fragile trade recovery. Another significant concern has been the substantial slowdown in investment growth in the emerging markets and developing economies –investments tumbled from an average10%, in 2010 to about 3.5% in 2016. The weakness in investment has been most pronounced in the largest emerging markets and commodity-exporting emerging and developing economies.

Despite such risks, the IMF and World Bank have both shown confidence in global growth prospects in the near term – according to their forecasts global growth will strengthen to 3.5% in 2017 and 3.6% in 2018. A firming of commodity prices, recovering industrial activity, stabilizing investment, and improving confidence are supporting a gradual global recovery. A slight strengthening of investments across developed economies in 2017 also raises hopes of investments picking up over the same period.

Lower energy prices and the somewhat stable economic conditions are pushing inflation down amongst developing economies. Inflation is also decelerating in most emerging-market economies, as well as in the Eurozone and the United States, as a result of lower food prices and more stable foreign exchange markets. Price pressures however intensified in the United Kingdom on the back of a weaker Pound Sterling. This downward inflationary trend is expected to continue in 2017, bringing down global inflation to 4.7% and further moderating to 4.4% in 2018.

While the world endured the headwinds, the Indian economy continued to demonstrate strong growth potential, expanding by 7.1% in 2016-17. India's growth remained robust, based on enhanced Government spending and data revisions that recorded stronger momentum in the first part of the year. The IMF has, accordingly, projected a growth rate of 7.2% in 2017-18 and 7.7% in 2018-19.

The Indian Government's firm commitment to reforms and liberalization has been demonstrated through a series of path breaking initiatives including demonetization, the GST roll out and the setting up of the Real Estate Regulatory Authority (RERA). Even though GST may lead to a temporary inflationary trend in the near term, its long term impact will surely be positive. The removal of cascading taxes and improved logistics alone will improve the Ease of Doing Business with India and also make India significantly more competitive in global trade. Similarly, the setting up of the RERA will dismantle the parallel economy that has thrived for long in India. In this backdrop, India's economic growth is expected to remain strong at least in the medium term. While consumption will be supported by increased public wages and pensions, private investment is expected to get a fillip with the Government continuing the reforms process.

The Automotive Sector

Technological disruptions have already begun to redefine the global automotive sector. With driverless cars, ride share and electric vehicles taking centrestage the consumer buying behavior is also likely to change in the next decade. However, fully autonomous vehicles are unlikely to be commercially available before 2020. Advanced driver-assistance systems (ADAS) will play a crucial role in preparing regulators, consumers, and corporations for the medium-term reality of cars taking over control from drivers.

Though disruption in the automotive sector continued, worldwide automotive sales in 2016 stood at a record 93 million units i.e. close to 5.5% higher than the previous year. It is estimated that close to 70 million units, out of the total sales, were only passenger vehicles.

Going forward the growth markets, including China, India, Southeast Asia and North Africa, are expected to remain the main engines for volume growth in the automotive industry worldwide. It is expected that these markets will together drive an 18.8 million increase in vehicle assembly volumes between 2016 and 2023. These growth predictions are also aligned to PwC's economic growth projections that state that by 2050 China will account for about 20% of the Global GDP, followed by India at 15%.