

# Annual Report 2005-2006

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Board of Directors

R J Shahaney  
Chairman

D G Hinduja (Alternate : Y M Kale)  
Vice Chairman

D J Balaji Rao

F J Colon Martinez (Alternate: G Sagone)

Pravin N Ghatalia

H Klingele (upto 30/1/2006)

S Ragothaman

F Sahami

R Seshasayee

Stephen Young (from 25/07/2005)

Anders Spare (from 30/1/2006)

V Mahadevan, Managing Director

Company Secretary

N Kothandapani

Bankers

State Bank of India  
Standard Chartered Bank  
Bank of America  
Union Bank of India  
ICICI Bank Limited  
State Bank of Travancore  
IDBI Bank Limited

Auditors

Fraser & Ross  
Chartered Accountants

S R Batliboi & Associates  
Chartered Accountants

Registered Office

Ennore, Chennai 600 057

Works

Ennore, Chennai 600 057  
Ductron Castings Unit, Uppal, Hyderabad 500 039



Rs.Lakhs

Particulars	2005-06	2004-05	2003-04	2002-03	2001-02
<b>Income and Dividend</b>					
Sales/Operating Income (Note 1)	32952	22268	18508	13162	12448
Other Income	602	256	35	17	18
Total Income	33554	22524	18543	13179	12466
Operating Profit	3621	2315	1445	-683	917
Profit/Loss(-) Before Tax	2241	1419	423	-1668	123
Profit/Loss(-) After Tax	1396	1308	418	-1656	95
Dividend including Tax (Note 2)	348	-	-	-	-
<b>Assets Employed</b>					
Net Fixed Assets @	10930	4277	4448	4220	4115
Net Current Assets	6968	3280	1832	1493	2734
Other Assets/Expenditure Not written off	226	433	642	867	159
Total	18124	7990	6922	6580	7008
<b>Financed by</b>					
Net worth @	10847	4176	3031	1779	3475
Borrowed Funds	6662	3814	3891	4801	3521
Deferred Tax Liability	615	-	-	-	12
Total	18124	7990	6922	6580	7008
<b>General</b>					
Sales Units - Tonnes	62442	39863	37048	29548	29248
Earnings per share - Rs	8.67	9.99	3.61	-26.6	1.4
Book value per share - Rs	51.23	24.68	7.82	4.12	29.09
@ includes addition on Revaluation of Fixed Assets	437	516	679	846	886

**Note:**

- The figures for 2005-06 include the operating results of Ductron Castings Unit, Hyderabad and hence not comparable with that of 2004-05.
- Preference Dividend for the years 1998-99, 1999-00 and 2000-01 declared in 2005-06 to Cumulative Redeemable Preference Shareholders



## REPORT OF THE DIRECTORS

Your Directors are pleased to present the Fortysixth Annual Report together with the Audited Accounts of your Company for the year ended March 31, 2006.

Financial Results	Rs. Lakhs	Rs. Lakhs
	<u>2005-06</u>	<u>2004-05</u>
Profit/(Loss)	2241.31	1419.47
less: Provision for Taxation	845.00	111.00
Profit/(Loss) after tax	1396.31	1308.47
Balance brought forward from previous year	(949.37)	(2257.83)
Surplus/Deficit (-) in Profit and Loss A/c	446.94	-
less: Arrears of cumulative Preference Dividend	305.34	-
less: Dividend Distribution Tax	42.83	-
Balance in profit & loss account carried over	98.77	(949.37)

### Business Operations:

Results for FY 2005-06 include those of Ductron Castings Unit (DCU) which was taken over by your Company from 1st April '05.

Your Company experienced significant growth during the year under review—total income at Rs.33554 lakhs compared with Rs.22524 lakhs during the previous year. Profit Before Tax increased to Rs.2241 lakhs from Rs.1419 lakhs.

You will be pleased that your Company has wiped off the entire accumulated losses.

### Dividend

The Company has to pay arrears of cumulative preference dividend prior to payment of any equity dividend. The Company has partially paid arrears of cumulative preference dividend for the years 1998-99, 1999-00 and 2000-01 amounting to Rs.305.34 lakhs. Arrears of cumulative preference dividend are still due for the years 2001-02 to 2005-06 aggregating to Rs 773 lakhs.

The Company is therefore not in a position to declare any equity dividend.

### Operations (Ennore Unit and DCU, Hyderabad)

Demand for castings for all automotive segments was higher during the year resulting in increased volumes and turnover. Sales volume of the Company, during the year increased to 62442 tonnes compared

to 39863 tonnes in the previous year. Gross production during the year increased to 66460 tonnes compared to 43985 tonnes in 2004-2005.

Demand for castings continues to be good in view of the buoyancy witnessed in the automobile and tractor segments.

Efforts are on to expand the customer base, provide value addition to customers, enhance quality of castings and to also explore export markets. Meanwhile steps are being taken to improve cost effectiveness and achieve higher operational efficiency so as to further improve margins.

### Technology Upgradation/Modernisation

Your Company is alive to the technological upgradation continuously taking place in the global foundry industry driven by intense competition as well as on account of environmental improvements sought by Governments and society, and the concomitant upgradation demanded in the quality of castings. Your Company is continuously upgrading its manufacturing techniques and technology to meet these growing demands and has undertaken several measures, to meet requirements of closer tolerances, better finish and reduced rejections by customers.

### Research & Development

The main thrust in R & D continues to be in the introduction of new techniques in the production process for improvement in quality of castings and the usage of alternative cost effective materials. A separate Report on Technology Absorption

and Energy Conservation is attached at Annexure "A".

### Directors' Responsibility Statement

The applicable accounting standards have been followed in the preparation of Annual Accounts along with proper explanations relating to material variations. Further, consistent accounting policies have been applied and the judgements and estimates are reasonable and prudent and give a true and fair view of the state of affairs of the company as at the end of the financial year 2005-06 and the profit of the company for the above period. Adequate accounting records have been maintained as required under the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities. Further the Annual Accounts have been prepared on a going concern basis. A separate statement is enclosed at Annexure "B".

### Corporate Governance

Your Board has complied with the requirements of the Code of Corporate Governance including formation of Audit Committee, Investors'/Shareholders' Grievance Committee, Remuneration Committee and Disclosures, etc. A detailed Report on Corporate Governance is attached at Annexure "C".

The certificate of the Statutory Auditors regarding the Company's Compliance with the conditions of Corporate Governance is attached at Annexure "D".

A Management Discussion and Analysis Report is attached at Annexure "E".



### Fixed Deposits

The amount matured and unclaimed in respect of deposits held by the Company as at March 31, 2006 was Rs.1.92 lakhs.

The Company is regularly transferring debenture redemption instalments and interest thereon, fixed deposits and interest due thereon lying unclaimed for more than 7 years from the due date to the Investor Education and Protection Fund.

### Expansion/Revamping of existing foundry/New acquisition

The Company is in the process of setting up a new foundry near Chennai with a capacity of 50000 tons of grey iron castings. Land has been purchased in SIPCOT Industrial area near Sriperumbudur, Kancheepuram District of Tamil Nadu. Detailed technical/commercial bids have been received and evaluated in this connection for the project and orders are under placement. The new foundry is expected to commence operations in July 2007. The existing foundry is also being revamped - both these projects will entail an expenditure of about Rs.190 crores. The Ductron Castings Unit of Ashok Leyland Ltd at Hyderabad was acquired at a cost of Rs 65 crores. The Company partially mobilized the required resources by issue of 95,04,110 Right equity shares Rs.10/- each at

a premium of Rs.50/- each aggregating to Rs.57.02 crores.

### Personnel

Relationship between the Management and the Employees continues to be satisfactory. The new wage agreement with the EFL Employees Union has been entered into in April 2006.

### Directors

Mr H Klingele, Director resigned from the Board effective January 30, 2006 after serving on the Board for more than 18 years. The board wishes to place on record its deep appreciation of the advice, guidance and support provided by Mr Klingele during his tenure on the Board.

Mr Anders Spare has been appointed as a Director in the resultant casual vacancy.

Mr Stephen Young was appointed as an Additional Director in the Board meeting held on July 25, 2005 and will be laying down his office at this Annual General Meeting. The proposal to appoint Mr Stephen Young is before you for your consideration and is recommended by the Board.

M/s R J Shahaney, F Sahami and D J Balaji Rao retire by rotation in this meeting under

Article 106 of the Articles of Association of the Company and are eligible for reappointment. The necessary resolutions are being placed before the members for approval.

### Auditors

Messrs Fraser and Ross and S R Batliboi & Associates, Chartered Accountants, the retiring Auditors, are eligible for reappointment.

The Company has received confirmation that their appointment will be within the limits prescribed under Section 224 (1B) of the Companies Act, 1956.

### Acknowledgement

The Directors wish to acknowledge and place on record their appreciation of the valuable advice and support received from LRLIH Ltd., UK and from Ashok Leyland Limited.

The Directors wish to express their gratitude to the Government of India, the Government of Tamil Nadu and Tamil Nadu Electricity Board. They also thank the Financial Institutions, Company's Bankers, Shareholders, Customers, Suppliers, Depositors and all the employees for their continued support.

On behalf of the Board

Chennai  
April 28, 2006

R J Shahaney  
Chairman



## Disclosures

### A) CONSERVATION OF ENERGY

The Company continues its efforts to optimise energy utilisation through energy auditing, better energy management and close monitoring of manufacturing processes particularly the operation of furnaces. Thus over the past three years there has been a considerable saving in energy consumption and the objective is to gain further savings. Targets for energy consumption have been set for all major processes and the results are being closely monitored. Some of the processes that are energy intensive are being replaced by others that consume less energy. The Company has installed induction furnaces in place of arc furnaces, which are less energy efficient. The Company is using more power from wind mills and gas based turbine, resulting savings in power cost.

In core making process, the hot (core) box process has been converted into cold box process which has better yield and savings in energy cost.

### B) TECHNOLOGY ABSORPTION Research & Development (R & D)

#### 1. Specific areas in which R & D is carried out by the Company:

- Along with CAD/CAM computer simulation for solidification, study is made for every new casting development for automotive application

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

- Improved dimensional accuracy, higher quality and better surface finish of castings.

#### 3. Future Plan of Action:

- Unidirectional flow with low cost automatic single flow system
- Energy efficient sand mixing system.

#### 4. Expenditure on R & D:

- |  |                 |
|--|-----------------|
| a) Capital   | : Nil           |
| b) Recurring   | : Rs.1.47 lakhs |
| c) Total   | : Rs.1.47 lakhs |
| d) Total R & D expenditure as a percentage of total turnover | : —             |

? New material has been introduced for Channel furnace lining to reduce energy requirements for Hot metal holding.

#### 2. Benefits derived as a result of above efforts:

? The Company has been able to keep abreast of the technologies current in the foundry industry, and be in a position to manufacture castings to the expectation of customers.

#### 3. a) Technology imported:

- Nil -

(b) Has technology been fully absorbed, if not fully absorbed, areas where this has not taken place, reasons therefor and future plan of action:

Available technology has been fully absorbed.

### Technology Absorption, Adaptation and Innovation:

#### 1. Efforts in brief, made towards technology absorption, adaptation and innovation:

- New automatic sand mixer under implementation in the Main Land foundry.

### c) Foreign Exchange Earnings and Outgo:

Details of earnings and outgo of foreign exchange are given in Schedules forming part of notes to the Accounts. The Company continues to strive to improve the export earnings.

On behalf of the Board

Chennai  
April 28, 2006

R J SHAHANEY  
Chairman



Directors' Responsibility Statement as per section 217 (2AA) of the Companies Act 1956

Responsibility in relation to financial statements

The financial statements have been prepared in conformity, in all material respects, with the generally accepted accounting principles in India and the accounting standards prescribed by ICAI, in a consistent manner and supported by reasonable and prudent judgements and estimates. The Directors believe that the financial statements reflect true and fair view of the financial position as on March 31, 2006 and of the results of operations for the year ended March 31, 2006.

The financial statements have been audited by M/s Fraser & Ross and M/s S R Batliboi & Associates, Statutory Auditors in accordance with generally accepted auditing standards, which include an assessment of the systems of internal controls and tests of transactions to the extent considered necessary by them to support their opinion.

### Going Concern

In the opinion of the Directors, the Company will be in a position to carry on its existing foundry business and accordingly it is considered appropriate to prepare the financial statements on the basis of going concern.

### Maintenance of Accounting Records and Internal control

The Company has taken proper and sufficient care for the maintenance of adequate accounting records as required by the Statute.

Directors have overall responsibility for the Company's internal control system, which is designed to provide a reasonable assurance for safeguarding of assets, reliability of financial records and for preventing and detecting fraud and other irregularities.

The system of internal control is monitored by internal audit function, which encompasses the examination and evaluation of the adequacy and effectiveness

of the system of internal control and quality of performance in carrying out assigned responsibilities. Internal Audit Department interacts with all levels of management and the Statutory Auditors, and reports significant issues to the Audit Committee of the Board.

Audit Committee supervises financial reporting process through review of accounting and reporting practices, financial and accounting controls and financial statements. Audit Committee also periodically interacts with Internal and Statutory Auditors to ensure quality and veracity of Company's accounts.

Internal Auditors, Audit Committee and Statutory Auditors have full and free access to all the information and records as considered necessary to carry out their responsibilities. All the issues raised by them have been suitably acted upon and followed up.

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## Report on Corporate Governance

(Forming part of the Annual Report 2005-2006)

### 1. Philosophy on Code of Corporate Governance

The Company is fully conscious of its responsibility to shareholders, Government and public at large and considers the Code of Corporate Governance as a system to ensure transparency in all its activities and always believes in enhancement of its service to all its stakeholders.

### 2. Board of Directors :

a. The Board of Directors is headed by a non-executive Chairman and consists of the following Directors as on March 31, 2006:

i) Non Executive Directors

- a) Promoter Group : Mr F J Colon Martinez (Alternate: Mr G Sagone)  
Mr D G Hinduja (Vice Chairman) {Alternate :Mr Y M Kale}  
Mr A Spare (From 30/1/2006)  
Mr F Sahami
- b) Connected with Associate Companies : Mr R Seshasayee  
Mr R J Shahaney (Chairman)
- c) Independent : Mr D J Balaji Rao  
Mr P N Ghatalia  
Mr S Ragothaman  
Mr Stephen Young (From 25/7/2005)

ii) Executive Director

- Managing Director : Mr V Mahadevan

b. Attendance at Board Meetings and last AGM, and details of memberships of Directors in other Boards and Board Committees.

Details of Board Meetings held during 2005-2006 :

Date of Meeting	Board Strength	No. of Directors Present
April 28, 2005	10	10
July 25, 2005	11	11
October 21, 2005	11	11
January 30, 2006	11	10
March 29, 2006	11	7

The time gap between any two meetings did not exceed 4 months.

The last Annual General Meeting was held on July 25, 2005.



## Annexure C to the Directors' Report

Name of Director	No. of Board Mtgs attended	Whether attended last AGM	Membership as on 31 03 2006	
			Other Boards (Note.1) Excl. EFL	Other Board Committes(Note.2) Excl. EFL
Mr R J Shahaney	5	Yes	4	1 as Chairman
Mr D J Balaji Rao	5	Yes	7	9 of which 3 as Chairman
MR F J Colon Martinez	1	No	1	-
Mr P N Ghatalia	5	Yes	7	7 of which 3 as Chairman
Mr D G Hinduja	4	Yes	4	-
Mr Y M Kale	-	No	3	2 as Chairman
Mr H Klingele *	4	Yes	1	-
Mr S Ragothaman	4	Yes	6	5 of which 3 as Chairman
Mr G Sagone	4	Yes	2	-
Mr F Sahami	4	No	2	2
Mr R Seshasayee	5	Yes	6	1
Mr A Spare (From 30/01/06)	-	No	1	-
Mr Stephen Young (From 25/7/05)	3	No	1	-
Mr V Mahadevan	5	Yes	-	-
Note 1 : Excludes Foreign Companies, Private Limited Companies and Alternate Directorships. Note 2 : Only Audit Committee and Shareholders/Investors Grievance Committee are reckoned for this purpose. * Ceased to be a Director effective 30/1/2006.				

### 3. Audit Committee

a) The Composition and Terms of Reference of the Audit Committee conform to the requirements of both Section 292A of the Companies Act 1956, and Clause 49 of the Listing Agreements with Stock Exchanges.

b) The composition of the Audit Committee is as follows :

Chairman	:	Mr D J Balaji Rao
Members	:	Mr P N Ghatalia
		Mr S Ragothaman
		Mr F Sahami

c) Meetings and attendance during the year 2005-2006:

Date of Meeting	Committee Strength	No. of Directors Present
April 27, 2005	4	4
May 20, 2005	4	2
July 25, 2005	4	4
October 21, 2005	4	4
January 30, 2006	4	3