ANNUAL REPORT 2006-2007

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Board of Directors

R J Shahaney

Chairman

D G Hinduja (Alternate: Y M Kale)

Vice Chairman

D J Balaji Rao

Pravin N Ghatalia

S Ragothaman

F Sahami

R Seshasayee

Anders Spare

V Mahadevan, Managing Director

Chief Financial Officer

V Sankar

Company Secretary

N Kothandapani

Bankers

State Bank of India Standard Chartered Bank

Bank of America Union Bank of India

ICICI Bank Limited

HDFC Bank Limited

State Bank of Travancore

IDBI Bank Limited

Auditors

Fraser & Ross

Chartered Accountants

2nd floor, "Temple Towers", 672, Anna Salai,

Nandanam, Chennai - 600 035.

S R Batliboi & Associates

Chartered Accountants

T P L House, II floor 3, Cenotaph Road,

Teynampet, Chennai - 600 018

Registered Office

Ennore, Chennai 600 057

Works

Ennore, Chennai 600 057

Ductron Castings Unit, Uppal, Hyderabad 500 039

New Foundry-Sipcot Unit, Sriperumbudur-602 105 (Chennai)



Rs.Lakhs

| | | | | | RS.Lakns |
|--|---------|---------|---------|---------------------|----------|
| Particulars | 2006-07 | 2005-06 | 2004-05 | 2003-04 | 2002-03 |
| Income and Dividend | | | | | |
| Sales/Operating Income (Note 1) | 39524 | 32952 | 22268 | 18508 | 13162 |
| Other Income | 288 | 602 | 256 | 35 | 17 |
| Total Income | 39812 | 33554 | 22524 | 18543 | 13179 |
| Operating Profit | 4089 | 3621 | 2315 | 1445 | -683 |
| Profit/Loss(-) Before Tax | 2502 | 2241 | 1419 | 423 | -1668 |
| Profit/Loss(-) After Tax | 1616 | 1396 | 1308 | 418 | -1656 |
| Dividend including Tax (Note) | 1053 | 348 | - | - | - |
| Assets Employed | | | | | |
| Net Fixed Assets @ | 19297 | 10930 | 4277 | 4448 | 4220 |
| Net Current Assets | 9428 | 6968 | 3280 | 1832 | 1493 |
| Other Assets/Expenditure Not written off | 24 | 226 | 433 | 642 | 867 |
| Total | 28749 | 18124 | 7990 | 69 <mark>2</mark> 2 | 6580 |
| Financed by | | DIICCI | JII.COI | | |
| Net worth @ | 11449 | 10847 | 4176 | 3031 | 1779 |
| Borrowed Funds | 16695 | 6662 | 3814 | 3891 | 4801 |
| Deferred Tax Liability | 605 | 615 | - | - | - |
| Total | 28749 | 18124 | 7990 | 6922 | 6580 |
| General | | | | | |
| Sales Units - Tonnes | 73056 | 62442 | 39863 | 37048 | 29548 |
| Earnings per share - Rs | 8.87 | 8.67 | 9.99 | 3.61 | -26.60 |
| Book value per share - Rs | 54.92 | 51.23 | 24.68 | 7.82 | 4.12 |
| @ includes addition on Revaluation of Fixed Assets | 407 | 437 | 516 | 679 | 846 |

Note

Arrears of Preference Dividend for the years 2001-02, 2002-03,2003-04, 2004-05, 2005-06, & Preference dividend for 2006-07 due to Cumulative Redeemable Preference Shareholders have been paid during the year along with the applicable Dividend Distribution Tax.

EPORT OF THE DIRECTORS



Your Directors are pleased to present the Fortyseventh Annual Report together with the Audited Accounts of your Company for the year ended March 31, 2007.

| | 2006-07 | 2005-06 |
|---|----------|----------|
| Financial Results | Rs.Lakhs | Rs.Lakhs |
| | | |
| Profit | 2502.34 | 2241.31 |
| Less: Provision for Taxation | 886.00 | 845.00 |
| Profit after tax | 1616.34 | 1396.31 |
| Balance brought forward from previous year | 98.77 | (949.37) |
| Surplus in Profit and Loss A/c | 1715.11 | 446.94 |
| Less: Arrears of cumulative preference | | |
| Dividend and current year preference dividend | 923.11 | 305.34 |
| Less: Dividend Distribution Tax | 129.46 | 42.83 |
| Balance in profit & loss account carried over | 662.54 | 98.77 |

Business Operations:

Your Company experienced significant growth during the year under review, with sales revenue increasing to Rs 39524 lakhs from Rs 32952 lakhs during the previous year. Profit before tax increased to Rs 2502 lakhs from Rs.2241 lakhs.

Dividend

The Company paid arrears of cumulative preference dividend for the years 2001-02 to 2005-06 and Preference dividend for 2006-07 amounting to Rs 923.11 lakhs.

With a view to consolidate its reserves, the Board has decided not to recommend any equity dividend for the year under review.

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 by 17% to 73056 tonnes compared to 62442 tonnes in the previous year. Gross production during the year also increased by 16% to 76945 tonnes compared to 66460 tonnes in 2005-2006.

Turnover at Rs 39524 lakhs was higher by 20% compared to Rs. 32952 lakhs last year.

Demand for castings continues to be good in view of the continued buoyancy 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 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 changing 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, if any. 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 2006-07 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, 2007 was Rs 1.65 lakhs.

EPORT OF THE DIRECTORS



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 foundries/New acquisition

The Company is in the process of setting up a new foundry near Chennai with an initial capacity of 50000 tons of grey iron castings. Land has been purchased in SIPCOT Industrial area near Sriperumbudur, Kancheepuram District of Tamil Nadu. The new foundry is expected to commence commercial operations during the second quarter 2007-08. The existing foundries at Ennore and Hyderabad are also being revamped.

Personnel

Relationship between the Management and the Employees continues to be satisfactory.

Directors

M/s R Seshasayee, D G Hinduja and P N Ghatalia 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 & 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.

Auditors' Report

With regard to observations made by the Statutory Auditors in the annexure to para 3,

item XVII of the Auditors' Report to Members as per Companies (Auditors' Report) Order 2003 (as amended) issued by the Central Government in terms of sub Section (4 A) of Section 227 of the Companies Act, 1956, it is to be noted that these loans were specifically drawn against disbursement of sanctioned External Commercial Borrowing (ECB) for the greenfield project. On drawal of the ECB, these loans would be liquidated.

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 and all the employees for their continued support.

On behalf of the Board

Report

Junction.com

R J Shahaney Chairman

Chennai May 3, 2007

NNEXURE A TO THE DIRECTORS' REPORT



Disclosures

A) CONSERVATION OF ENERGY

The Company continues its efforts to optimise energy utilisation through auditing, better energy 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 were less energy efficient. The Company is increasing the use of power from wind mills, resulting in savings in energy costs.

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

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

- Materials with better properties are being developed.
- 2. Benefits derived as a result of the above R & D:
- Improved dimensional accuracy, higher quality and better surface finish of castings and materials with improved properties.
- 3. Future Plan of Action:
- Auto pour to improve metal pouring.
- Development of better sands for improved castings.
- Installation of equipments for faster development of castings.
- 4. Expenditure on R & D:
 - a) Capital : Rs. 10.50 lakhs
 - b) Recurring: Rs. 95.02 lakhs
 - c) Total : Rs.105.52 lakhs
 - d) Total R & D expenditure as a percentage of total turnover : 0.27%

Technology Absorption, Adaptation and Innovation:

- Efforts in brief, made towards technology absorption, adaptation and innovation:
- New automatic sand mixer commissioned

- successfully in the foundries at Ennore. A new sand cooler has also been commissioned in the east land foundry.
- New material has been introduced for Channel furnace lining to reduce energy requirements for Hot metal holding.
- A new lining material to reduce energy consumption and to increase lining life, has also been introduced.
- 2. Benefits derived as a result of above efforts:
- The Company is keeping abreast of contemporary technologies in the foundry industry, and is in a position to manufacture castings to meet high expectations 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.

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 May 3, 2007 R J SHAHANEY Chairman

NNEXURE B TO THE DIRECTORS' REPORT



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, 2007 and of the results of operations for the year ended March 31, 2007.

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.

NNEXURE C TO THE DIRECTORS' REPORT



Report on Corporate Governance

(Forming part of the Annual Report 2006-2007)

Philosophy on Code of Corporate Governance

- 1. The Company is 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 believes in enhancement of its service to all its stakeholders.
- 2. a) Board of Directors: The Board of Directors is headed by a non-executive Chairman and consists of the following Directors as on March 31, 2007:

i) Non Executive Directors

a) Promoter Group : Mr D G Hinduja, (Vice Chairman)

(Alternate: Mr Y M Kale)

Mr A Spare Mr F Sahami

b) Connected with : Mr R Seshasayee

Associate Companies Mr R J Shahaney (Chairman)

) Independent : Mr D J Balaji Rao

Mr P <mark>N Ghatali</mark>a Mr S Ragothaman

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 2006 - 2007 :

| Date of Meeting | Board Strength | No. of Directors Present |
|------------------|----------------|--------------------------|
| April 28, 2006 | 11 | 10 |
| July 30, 2006 | 10 | 9 |
| October 29, 2006 | 9 | 8 |
| January 30, 2007 | 9 | 9 |

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

The last Annual General Meeting was held on August 1, 2006.





| Name of Director | No. of Board Mtgs attended | | | Membership as on 31 03 2007 | |
|---|-------------------------------|-----|---------------------------------------|---|--|
| | | | Other Boards (Note.1) Excl. EFL | Other Board Committes(Note.2) Excl. EFL | |
| Mr R J Shahaney | 4 | Yes | 3 | 1 (as Chairman) | |
| Mr D J Balaji Rao | 4 | Yes | 7 | 9 (3 as Chairman) | |
| MR F J Colon Martinez* | - | No | - | - | |
| Mr PN Ghatalia | 4 | Yes | 8 | 7 (4 as Chairman) | |
| Mr D G Hinduja | 4 | Yes | 4 | - | |
| Mr Y M Kale (Alternate to Mr D G Hinduja) | - | No | 2 | 1 (as Chairman) | |
| Mr S Ragothaman | 3 | Yes | 6 | 5 (3 as Chairmar | |
| Mr G Sagone (**Alternate to Mr F J Colon Ma | ırtinez) - | - | - | - | |
| Mr F Sahami | 4 | Yes | 1 | 1 | |
| Mr R Seshasayee | 4 | Yes | 7 | - | |
| Mr A Spare | 4 | Yes | 2 | - | |
| Mr Stephen Young *** | 1 | No | - | - | |
| Mr V Mahadevan | 4 | Yes | | - | |

Note 1: Excludes Foreign Companies, Private Limited Companies and Alternate Directorships.

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 the 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 2006-2007:

| Date of Meeting | Committee Strength | No. of Directors Present |
|------------------|--------------------|--------------------------|
| April 28, 2006 | 4 | 4 |
| July 29, 2006 | 4 | 4 |
| October 29, 2006 | 4 | 3 |
| January 30, 2007 | 4 | 4 |

^{2:} Only Audit Committee and Shareholders/Investors Grievance Committee are reckoned for this purpose.

^{3: *}Mr Colon Martinez ceased to be a Director effective 30/07/2006

^{**} Mr G Sagone ceased to be an Alternate Director effective 30/07/2006

^{***} Mr Stephen Young ceased to be a Director effective 01/08/2006