

# 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

Particulars	2006-07	2005-06	2004-05	2003-04	2002-03
<b>Income and Dividend</b>					
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	-	-	-
<b>Assets Employed</b>					
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
<b>Total</b>	<b>28749</b>	<b>18124</b>	<b>7990</b>	<b>6922</b>	<b>6580</b>
<b>Financed by</b>					
Net worth @	11449	10847	4176	3031	1779
Borrowed Funds	16695	6662	3814	3891	4801
Deferred Tax Liability	605	615	-	-	-
<b>Total</b>	<b>28749</b>	<b>18124</b>	<b>7990</b>	<b>6922</b>	<b>6580</b>
<b>General</b>					
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.



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.

Financial Results	2006-07 Rs.Lakhs	2005-06 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.



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

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Chennai  
May 3, 2007

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 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%

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



### **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.

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## 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)

- c) Independent : Mr D J Balaji Rao  
Mr P N Ghatalia  
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.



## ANNEXURE C TO THE DIRECTORS' REPORT

Name of Director	No. of Board Mtgs attended	Whether attended last AGM	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 P N 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 Chairman)
Mr G Sagone (**Alternate to Mr F J Colon Martinez)	-	-	-	-
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. 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				

### 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