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HINDUSTAN COMPOSITES LTD.

ANNUAL REPORT 1998-99

BOARD OF DIRECTORS

Raghu Mody Chairman & Wholetime Director
 Dr. V. R. Rajan Managing Director
 P. K. Choudhary Executive Director - Finance
 D. Lawson Lyon
 Keith M. Robinson
 A. B. Vaidya
 Kantikumar R. Podar
 V. B. Haribhakti
 P. K. Khaitan (Alternate Director to Mr. K. M. Robinson)

COMPANY SECRETARY

Krishna Mony. B

AUDITORS

Lodha & Co.
 Chartered Accountants

SOLICITORS

Khaitan & Co.

BANKERS

Bank of Baroda
 Union Bank of India
 Syndicate Bank

REGISTERED OFFICE

"Crystal"
 79, Dr. A. B. Road, Worli
 Mumbai - 400 018.

REGISTRARS

IIT Corporate Services Ltd.
 IIT House, Opp. Vazir Glass Works
 J. B. Nagar, M. Vasanji Road
 Andheri (East), Mumbai - 400 059.

WORKS

Mumbai : L. B. S. Marg, Gharkopar, Mumbai 400 086.
 Paithan : D-2/1, MIDC Industrial Area.
 Bhandara : C-10/1, Bhandara Industrial Area, Gadegaon.
 Jalna : C-11, Addl. Jalna Industrial Area.

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ANNUAL REPORT 1998-99**NOTICE OF ANNUAL GENERAL MEETING**

Notice is hereby given that the Thirty Fifth Annual General Meeting of the Company will be held at Kamalnayan Bajaj Hall, Bajaj Bhavan, 226, Nariman Point, Mumbai - 400 021 at 4.00 p.m. on Monday, the 9th August, 1999 to transact the following business:

- 1) To consider, approve and adopt the audited Balance Sheet as at 31st March, 1999 and Profit and Loss account for the year ended 31st March, 1999 together with the Report of the Directors and Auditors thereon.
- 2) To declare a dividend on equity shares for the year ended 31st March, 1999.
- 3) To appoint a Director in place of Mr. D. L. Lyon who retires by rotation and being eligible, offers himself for reappointment.
- 4) To appoint a Director in place of Mr. V. B. Haribhakti who retires by rotation and being eligible, offers himself for reappointment.
- 5) To appoint auditors and to fix their remuneration.

6) SPECIAL BUSINESS:

- a) To consider and if thought fit to pass with or without modification, the following resolution as an ordinary resolution;
RESOLVED THAT pursuant to sections 198, 269, 302, 309, 310 & 311 read with Schedule XIII and other applicable provisions if any, of the Companies Act, 1956, the Company hereby approves the reappointment of Mr. P. K. Choudhary as a Wholetime Director of the Company effective from 18th March, 1999 for a period of 3 years on the following terms and conditions.

- | | |
|--|---|
| 1. Salary | : Rs. 20,000 per month in the scale of Rs. 20,000 -3,500 - 27,000. |
| 2. Accommodation | : Free furnished accommodation with reimbursement of the cost of electricity, water and gas consumed in the premises and reimbursement of the cost of servants not exceeding Rs. 1,000 per month. |
| | In case no accommodation is provided by the Company, the payment of House Rent Allowance subject to the ceiling of sixty percent of the salary. |
| 3. Motor Car | : Provision of motor car and driver. |
| 4. Medical | : Reimbursement of Medical expenses for self, spouse and dependant children. |
| 5. Leave Travel Concession | : As per rules of the Company's scheme not exceeding Rs. 75,000/- per year. |
| 6. Provident and other funds including Superannuation and Gratuity | : As per rules of the Company's Scheme |
| 7. Personal Accident Insurance | : As per rules of the Company's Scheme. |
| 8. Club subscription | : Reimbursement of club subscription fees to two clubs. |

The above remuneration to be paid as minimum remuneration in the absence or inadequacy of profits, subject to the provisions of Part II of Schedule XIII to the Companies Act, 1956.

"FURTHER RESOLVED THAT the above remuneration shall be paid as minimum remuneration in the absence or inadequacy of profits, subject to the provisions of part II of Schedule XIII to the Companies Act, 1956".

26th April, 1999

By order of the Board

Regd. Office:

"Crystal",
79, Dr. A. B. Road,
Worli, Mumbai - 400 018.

(KRISHNA MONY B.)
COMPANY SECRETARY



HINDUSTAN COMPOSITES LTD.

NOTES:

1. The relative Explanatory Statement pursuant to Section 173 of the Companies Act, 1956 in respect of the special business under Item No. 6 is annexed hereto and forms a part of this Notice.
2. A MEMBER ENTITLED TO ATTEND AND VOTE IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE ONLY ON A POLL INSTEAD OF HIMSELF AND THE PROXY NEED NOT BE A MEMBER.
3. A proxy in order to be effective must be deposited at the Registered Office of the Company not less than 48 hours before the commencement of the meeting.
4. To check the ever increasing trend of fraudulent encashment / misappropriation of dividend warrants posted by the companies to their Shareholders, we request you to kindly inform our Registrars & Share Transfer Agents, IIT Corporate Services Ltd., your Account Number with Name and Branch details of the Bank which will be printed in the dividend warrant along with your name.
5. The Register of members and Share Transfer Books of the Company will remain closed from Monday, the 19th July, 1999 to Friday, the 13th August, 1999 (both days inclusive).
6. The Dividend on Shares as recommended by the Board of Directors of the Company, if declared at the meeting will be made payable to those shareholders whose names stand on the Register of Members as on Friday, the 13th August, 1999.

EXPLANATORY STATEMENT PURSUANT TO SECTION 173 OF THE COMPANIES ACT, 1956.

Item 6:

Mr. P. K. Choudhary was appointed as a Wholetime Director of the Company effective from 18th March, 1996 for a period of 3 years. His term of office as Wholetime Director has expired on 17th March, 1999. Considering his qualifications, experience and usefulness to the Company, he has been reappointed by the Board of Directors as Wholetime Director of the Company for a further period of 3 years effective from 18th March, 1999 subject to necessary approval(s). The revised terms of his remuneration, the details whereof as set out in the resolution are considered to be quite just, fair and reasonable as compared to other comparable personnel in the industry.

An abstract and memorandum of interest in accordance with the provisions of section 302 of the Companies Act, 1956 has already been circulated to all eligible members separately vide communication dated 21st January, 1999.

None of the Directors other than Mr. P. K. Choudhary, is concerned or interested in the Resolution.

26th April, 1999

By order of the Board of Directors

Regd. Office:

"Crystal",
79, Dr. A. B. Road,
Worli, Mumbai - 400 018.

(KRISHNA MONY B.)
COMPANY SECRETARY

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DIRECTORS' REPORT

Your Directors have pleasure in presenting their Thirty Fifth Annual Report together with the Audited Accounts for the year ended 31st March, 1999.

1. FINANCIAL RESULTS

	Year ended	
	31st March, '99 Rs. Lacs	31st March, '98 Rs. Lacs
Net Sales	5,556	5,842
Profit before interest, Depreciation and exceptional items	529	606
Interest (Net)	(213)	(208)
Depreciation	(157)	(125)
Voluntary Retirement Compensation	(74)	(44)
Profit before Taxation	85	229
Taxation	(6)	(25)
Profit after Taxation	79	204
Taxation adjustment relating to prior years	59	46
Transfer from Investment Allowance Reserve	48	—
Surplus brought forward from previous year	29	24
Profit available for appropriation	215	274
APPROPRIATIONS		
Debenture Redemption Reserve	33	33
Proposed Dividend	66	110
Corporate Dividend Tax	7	11
Transfer to General Reserve	55	90
Surplus carried to Balance Sheet	54	30
	215	274

2. DIVIDEND

Considering the working for the year and need to conserve the resources, your Directors have recommended payment of dividend at the rate of 12% for the year ended 31st March, 1999, which shall be tax free in the hands of shareholders.

3. PERFORMANCE

The performance of the Company during the year under review could have been better, but for the severe recessionary conditions affecting the Indian Industry in general and the Automobile industry in particular. Though the order book position has slightly improved, the liquidity crunch prevailing across the Industry has resulted in poor cash flow forcing the company to exercise its discretion in supplies. As a result, profitability has also been under pressure. Despite lower turnover, the Company could manage to perform at current levels of profitability because of better product mix and rigorous cost control measures. To cut the costs further, the

management had introduced the Early Voluntary Retirement Scheme for which 40 employees had opted. With a view to match the improved order book and in anticipation of better market conditions, the Company has continued its capital investment program even during these recessionary times by installing modern machinery including R & D equipments worth about Rs. 350 lacs which would eventually augment the quality as well as capacity of its products.

During the year, Paithan unit was awarded the coveted ISO : 9002 certification by the world renowned DNV of Netherlands for marketing and manufacture of Friction Materials.

The Company has also successfully set up Random Wound Clutch Facing facility at Bhandara using the modern technology and Equipments supplied by the internationally acclaimed M/s. Bendix Mintex, Australia.



HINDUSTAN COMPOSITES LTD.

4. EXPORTS

Despite the depressed situation in the domestic market, the Company has fared better against stiff global competition by posting an Export turnover of Rs. 613 lacs as against Rs. 537 lacs during the previous year recording a growth of 14%. The Company's products have now become well established in Export markets spread across 30 countries including Greece, Egypt, Australia and other Asian and African nations. During the year the Company has also introduced several new products for overseas markets viz. Asbestos free brake liners / Jointings as were indigenously developed by the in-house R & D efforts, especially to cater to new generation Automobile and Industrial applications. The Exports shall continue to be a strategic area for the Company as the management foresees a bright future for their products overseas.

The Company is in the process of obtaining the latest technology from well known global manufacturers to enable further expansion and modernisation.

5. PUBLIC DEPOSITS

There were no deposits at the end of the year and the Company did not accept any deposits from the public during the year.

6. AUDITORS' REPORT

The observations made by the Auditors in their Report are self-explanatory and have also been further amplified in the Notes to the Accounts.

7. PERSONNEL

The information required under Section 217 (2A) of the Companies Act, 1956 is given in an Annexure to this Report.

8. CONSERVATION OF ENERGY

- 8.1 The Company continues to take steps to conserve energy. The refractory linings of furnaces and steam pipeline insulation are being upgraded to reduce losses. A steam drum is being provided for one of our boilers to improve thermal efficiency.
- 8.2 A Condensate Recovery System is being installed to reduce heat losses in the steam system.
- 8.3 Gas fired ovens are being installed to replace electrically heated ovens.
- 8.4 Modernisation of machinery is being undertaken to do "one touch" value addition particularly in finishing operations.

8.5 Curtailing usage of non productive power has been effected, especially in offices.

8.6 Shift rationalisation and staggering of maximum demand continue as an ongoing measure of conservation.

9. TECHNOLOGY ABSORPTION

Particulars required under Section 217 (1) of the Companies Act, 1956 relating to technology absorption are given in an Annexure to this Report.

10. FOREIGN EXCHANGE EARNINGS AND OUTGO

Foreign Exchange earning from exports amounted to Rs. 563 lacs, on FOB value basis whilst the outgo for raw materials, components, spares and capital goods amounted Rs. 651 lacs. Further expenditure in Foreign Exchange for dividend and miscellaneous items amounted to Rs. 58 lacs.

11. DIRECTORS

During the year, the term of office of Mr. P. K. Choudhary, Wholetime Director has expired on 17th March, 1999 and the Board of Directors at their meeting held on 21st January, 1999 have approved his reappointment as Wholetime Director for a period of three years effective from 18th March, 1999, subject to your approval at the ensuing Annual General Meeting.

Mr. V. B. Haribhakti and Mr. D. L. Lyon, Directors shall be retiring by rotation and being eligible, offer themselves for reappointment.

12. AUDITORS

The Shareholders will be requested to appoint Auditors and fix their remuneration.

13. ACKNOWLEDGEMENT

Your Directors take this opportunity to thank Bank of Baroda, Union Bank of India, Syndicate Bank, Unit Trust of India and Industrial Development Bank of India for their support and co-operation during the year.

Your Directors also thank all employees of the Company for their continuous support.

By order of the Board of Directors

Mumbai, 26th April, 1999

RAGHU MODY
Chairman

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Additional information as required under Section 217(1)(e) of the Companies Act, 1956, read with the Rules framed thereunder forming part of the Directors' Report for the year 31st March, 1999.

ANNEXURE TO THE DIRECTORS' REPORT

A. Research & Development (R&D)

1. Specific areas where R&D is being carried out by the Company.

- 1.1 Development of Asbestos Free Jointings for General purpose application.
- 1.2 Asbestos Free Jointings for speciality applications.
- 1.3 New qualities of sealing material for Industrial and Automotive use.
- 1.4 Import Substitution.
- 1.5 Asbestos Free 'L' type and 'K' type Brake Blocks for Passenger Coach and EMU application.
- 1.6 Asbestos Free 'L' type Freight Wagon Blocks.

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

Improved product performance, Cost effective formulations, a wider range of products and focus on speciality products.

3. Future plan of Action:

Absorption of Bendix Mintex Technology for the manufacture of Asbestos Free/Random Wound clutch facings. Introduction of a wide range of Asbestos Free Heavy Duty Commercial Vehicle linings for the Export Market.

4. Expenditure on R&D:

	Rs.
4.1 Capital	1,69,530
4.2 Recurring	38,25,994
4.3 Total	39,95,524
4.4 Total as percentage of turnover	0.71%

B. Technical Absorption, Adaptation & Innovation

1. Efforts:

Continuous quality upgradation leading to Paithan and Bhandara units achieving ISO 9002 Certification. Process upgradation to improve cost effectiveness is in progress.

2. Benefits:

Improved Input / Output ratios leading to substantial savings in Raw Material consumption in all production departments.

3. Imported Technology:

Bendix Mintex Technology for the manufacture of Random Wound Facings commissioned and fully operational at Bhandara.

Statement required under Section 217 (2A) of the Companies Act, 1956 referred to in paragraph 7 of Directors' Report for the year ended 31st March, 1999 and forming part thereof showing names & particulars of employees of the Company.

Name and qualification	Age	Designation & nature of duties	Date of commencement of employment	Experience in years	Remuneration Received (Rs.)	Last Employment
Dr. V. R. Rajan, B. E. (Honours) PGDBA (IIM-A), Ph. D.	50	Managing Director	1.6.1998	26	8,07,676	Executive Director, Solarson Industries Ltd.

Notes:

1. The nature of employment of the aforesaid employee was contractual and the remuneration relates to that earned by him for part of the year.
2. None of the employees were related to any of the Directors or held more than 2% of the equity shares of the Company by himself or along with his spouse and dependent children.
3. Remuneration includes salary, Commission, allowances, contributions to provident and other funds including pension fund and value of perquisites calculated in accordance with the Income-Tax Act/Rules.