



ANNUAL REPORT

HINDUSTAN
COMPOSITES
LIMITED

BOARD OF DIRECTORS

Raghu Mody
P. K. Choudhary
Keith M. Robinson
D.Lawson Lyon
T. Akiyama
V.B. Haribhakti
A. B. Vaidya
Col. S.P. Wahi

Chairman
Managing Director

COMPANY SECRETARY

Renuka Daga

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 Limited,
Protoprima Chambers, II Floor, Suren Road,
Andheri (East), Mumbai-400 093.

WORKS

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

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ANNUAL REPORT 2001-02**NOTICE OF ANNUAL GENERAL MEETING**

Notice is hereby given that the Thirty Eighth Annual General Meeting of the Company will be held at The Convention Hall, 4th Floor, Y. B. Chavan Centre, General Jagannath Bhosale Marg, Nariman Point, Mumbai-400 021 at 4.00 p.m. on Thursday the 8th August, 2002 to transact the following business.

ORDINARY BUSINESS

- 1) To consider, approve and adopt the audited Balance Sheet as at 31st March, 2002 and Profit and Loss Account for the year ended 31st March, 2002 together with the Report of the Directors and Auditors thereon.
- 2) To declare a dividend on equity shares for the year ended 31st March, 2002.
- 3) To appoint a Director in place of Mr. V.B. Haribhakti who retires by rotation and being eligible, offers himself for reappointment.
- 4) To appoint a Director in place of Mr. T. Akiyama who retires by rotation and being eligible, offers himself for reappointment.
- 5) To appoint auditors and to fix their remuneration.

SPECIAL BUSINESS

- 6) To consider and, if thought fit, to pass with or without modifications, the following resolution as an Ordinary Resolution: "RESOLVED THAT Shri. Raghu Mody be and is hereby appointed as Director of the Company."
- 7) To consider and, if thought fit, to pass with or without modifications, the following resolution as an Ordinary Resolution: "RESOLVED THAT pursuant to Sections 198, 269, 309, 310, & 311 read with Schedule XIII and other applicable provisions, if any, of the Companies Act, 1956, and subject to such approval, if any, as may be necessary, consent of the Company be and is hereby accorded to the re-appointment of Mr. P.K. Choudhary as Managing Director of the Company for a period of 3 years w.e.f. 18th March, 2002 on the terms and conditions as set out in the Explanatory Statement attached to this Notice be and is hereby approved, with liberty to the Board of Directors to revise the terms with regard to remuneration, from time to time, within the limits provided for in the said Schedule XIII or any amendment thereof for the time being in force.

RESOLVED FURTHER that the Board of Directors of the Company be and is hereby authorised to take such steps as may be necessary to give effect to this resolution."

- 8) To consider and if thought fit, to pass, with or without modifications, the following resolution, as a Special Resolution: "RESOLVED THAT pursuant to the provisions of Section 31 and other applicable provisions, if any, of the Companies Act, 1956, the Articles of Association of the Company be altered in the manner as follows:
 - (i) Following new Article 16A be inserted :
"The Company may from time to time, Buy-back its Equity shares to the extent and in the manner permissible under the provisions of the Companies Act, 1956 or any Rules framed thereunder."
 - (ii) In Article 56 the words and figures "Section 111" be substituted with the words and figures "Section 111A".
 - (iii) Following new Article 87A be inserted :
"Notwithstanding anything contained herein the Articles of Association of the Company, in case of resolutions relating to such business as the Central Government may by notification declare to be conducted by postal ballot, the Company may get such resolution passed by means of a postal ballot or electronic form in terms of Section 192A of the Companies Act, 1956, as amended, instead of transacting business in General Meeting of the Company."
 - (iv) To replace in Article 148A (10) the word and figures "370 and 372" by the figure "372A".
 - (v) In Article 162 following new proviso be inserted:
"Provided that the Company can also pay the dividend by crediting it directly to the Bank accounts of the shareholders through Electronic Fund Transfer System of the Banks or any other mode which in the opinion of the Board of Directors is appropriate for the Shareholders."

Registered Office :
"Crystal",
79, Dr. Annie Besant Road
Worli, Mumbai - 400 018
Date : 7th May, 2002

By Order of the Board

RENUKA DAGA
Company Secretary



HINDUSTAN COMPOSITES LTD.

NOTES :

1. A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF AND THE PROXY NEED NOT BE A MEMBER. THE PROXY FORM SHOULD BE LODGED WITH THE COMPANY AT ITS REGISTERED OFFICE NOT LATER THAN FORTY-EIGHT HOURS BEFORE THE TIME OF COMMENCEMENT OF THE MEETING.
2. Explanatory Statement pursuant to Section 173(2) of the Companies Act, 1956 in respect of item No. 6, 7 and 8 of the notice set out above is annexed hereto.
3. Members are requested to notify the change in address, if any, immediately to the Registrars and Transfer Agents, viz. IIT Corporate Services Limited, Protoprima Chambers, II Floor, Suren Road, Andheri(East), Mumbai-400 093, quoting their Folio Numbers.
4. Members holding more than one Share Certificate in the same name under the different Ledger Folios are requested to apply for consolidation of such Folios and send the relevant Share Certificates to the Registrars and Transfer Agents.
5. The Company has already transferred all unclaimed dividend declared upto the Financial year ended 31st March 1995 to the General Revenue Account of the Central Government as required by the Companies Unpaid Dividend (Transfer to the General Revenue Account of the Central Government) Rules, 1978. Those shareholders who have so far not claimed or collected their dividend upto the aforesaid Financial Year may claim their dividend from the Registrar of Companies, Maharashtra, Hakoba Compound, 2nd floor, Kalachowki, Mumbai 400 033.
6. Pursuant to the provision of Section 205A of the Companies Act, 1956 as amended, dividend for the financial year ended 31st March, 1996 and thereafter, which remain unpaid or unclaimed for a period of 7 years will be transferred to the Investor Education and Protection Fund(IEPF).

We give below the details of Dividends paid by the Company and their respective due dates of transfer to such fund of the Central Government if they remain uncashed with the Shareholders

| Date of Declaration of Dividend | Dividend for the year | Due Date of transfer |
|---------------------------------|-----------------------|----------------------|
| 2nd September, 1996 | 1995-96 | 19th October, 2003 |
| 11th August, 1997 | 1996-97 | 27th September, 2004 |
| 6th August, 1997 | 1997-98 | 22nd September, 2005 |

It may please be noted that once the unclaimed dividend is transferred to IEPF, as above, no claim shall lie in respect thereof.

7. The Register of Members and the Share Transfer Books of the Company will remain closed from 23rd July, 2002 to 8th August, 2002 (both days inclusive).
8. The Company has entered into Agreements with both the Depositories viz. National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL) for custody and Dematerialisation of securities. Members can avail the depository facilities by approaching any of the Depository Participants of NSDL and CDSL.
9. The Companies (Amendment) Act, 1999 extended nomination facility to individuals holding shares in Companies. Share holders, in particular whose holding is in single name, are requested to avail of the above facility by furnishing to the Company the particulars of their nomination. Share holders may please write to the Company / Registrars and Transfer Agents for obtaining the prescribed Nomination Form.
10. The Company has listed its shares at the Stock Exchange, Mumbai, National Stock Exchange of India Ltd., and The Calcutta Stock Exchange. Upto date listing fees of these exchanges have been paid.

ANNEXURE TO THE NOTICE

EXPLANATORY STATEMENT PURSUANT TO SECTION 173(2) OF THE COMPANIES ACT, 1956

Item no.6

Shri Raghu Mody has been the Chairman of the Company since 1987 and Whole-Time Director since 1st March 1994. His last term of office as Whole-time Director expired on 28th February 2002. In view of his other pre-occupations, Mr. Raghu Mody expressed his desire not to be reappointed as whole-time Director but to continue as a non-executive Director.

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In order to enable him to continue as Director, the Board was pleased to appoint him as an Additional Director w.e.f 1st March 2002, and pursuant to the provisions of Section 260 of the Companies Act, 1956, he holds office upto the date of the forthcoming Annual General Meeting.

In view of his extensive and varied experience, the Board considers it desirable that the Company should continue to receive the benefit of his advice and experience. His appointment is therefore recommended.

Notice under Section 257 of the Companies Act, 1956 and the requisite deposit has been received from a Member, signifying his intention to propose the appointment of Shri Raghu Nandan Mody as a Director. This may also be treated as individual Notice to the Members, pursuant to Section 257(1A) of the Companies Act, 1956.

Except Shri Raghu Mody, no other Director is concerned or interested in this Resolution.

Item no.7

Mr. P. K. Choudhary was first appointed as a wholtime Director of the Company on 18th March, 1996 for a period of 3 years and later re-appointed as Whole time Director on 18th March 1999. In the year 2001, he was re-designated as Managing Director of the Company. He has, thus, completed two successful terms as executive Director and the Company has greatly benefited from his long tenure.

In terms of Article 132 of the Articles of Association, read with Section 198, 269 and 309 of the Companies Act, 1956, the Board of Directors re-appointed Mr. P. K. Choudhary as Managing Director for a period of 3years w.e.f. 18th March 2002. Mr. P. K. Choudhary is a qualified Chartered Accountant and a qualified Company Secretary. The terms and conditions of the appointment of Mr. P. K. Choudhary are as under:

1. Salary : Rs.40,000 per month, with an increase which may be decided by the Board of Directors from time to time within the limits, specified in Schedule XIII of the Companies Act, 1956
2. Accommodation : Free furnished accommodation with reimbursement of the cost of electricity, water, gas and maintenance in the premises and reimbursement of the cost of servants, etc not exceeding Rs.4,200 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 with driver.
4. Medical : Reimbursement of medical expenses and insurance premium for self, spouse and dependant children, not exceeding Rs.40,000 per annum.
5. Leave Travel Concession : As per the rules of the Company's Scheme not exceeding Rs.1,00,000 per annum.
6. Provident and other funds including Superannuation and Gratuity : As per the rules of the Company's Scheme.
7. Personal Accident Insurance : Premium not to exceed Rs.5,000 per annum.
8. Club Subscription : Reimbursement of club subscription fees of two clubs.
9. Leave Encashment : Encashment of leave accumulation as per the rules of the Company.

The above remuneration 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.

In view of considerable gain to the Company by the appointment of Mr. P. K. Choudhary through his expertise and experience, the Directors recommend the Ordinary Resolution for approval of the members.

Except Mr. P. K. Choudhary, none of the Directors are interested in this resolution.

Item No. 8

Pursuant to the changes in the provisions of the Companies Act, 1956 and with a view to give the members the advantages of the modernised facilities, a few articles of Association of the Company pertaining to these issues are proposed to be amended.

The Articles of Association are also enabled to buy back shares of the Company in accordance with the provisions of the Companies Act, to provide the existing members an exit to the mutual advantage of the Company and its members.

Your Directors recommend the Special Resolution for approval of the members.

None of the Directors are interested in the said resolution.

Date : 7th May, 2002
Regd. Office :
"Crystal" 79, Dr. A.B. Road, Worli,
Mumbai - 400 018

By order of the Board of Directors

RENUKA DAGA
Company Secretary



HINDUSTAN COMPOSITES LTD.

DIRECTORS' REPORT

Your Directors present their Thirty-eighth Annual Report together with the Audited Accounts for the year ended 31st March, 2002.

1. FINANCIAL RESULTS

| | Year ended | |
|--|------------------|------------------|
| | 31st March, 2002 | 31st March, 2001 |
| | Rs. Lacs | Rs. Lacs |
| Net Sales | 5,615 | 5,406 |
| Operating Profit before interest & depreciation | 765 | 606 |
| Interest | (350) | (302) |
| Gross Profit | 415 | 304 |
| Depreciation | (225) | (230) |
| Profit before extraordinary item and tax | 190 | 74 |
| Employees separation cost | (110) | (172) |
| Profit before tax | 80 | (98) |
| Provision for taxation - Current | (6) | - |
| - Deferred | (29) | - |
| Profit / (Loss) after taxation | 45 | (98) |
| Profit available for appropriation after adjustments | 113 | - |
| APPROPRIATIONS | | |
| Proposed Dividend | 33 | - |
| Surplus carried to Balance Sheet | 80 | - |
| | 113 | - |

2. DIVIDEND

The Directors are happy that this year they are able to recommend, albeit small, a dividend of Rs.33,00,000, being 6% of the paid up equity capital of the Company, out of the profits for the year (previous year : nil).

3. PERFORMANCE

Despite the continuing recessionary conditions, both in global and domestic markets, affecting the automobile industry in particular, the Company could improve its working for the year under review. The Sales turnover has increased by 4% , from Rs.54 crores to Rs.56 crores. The performance could have been still better but for the illegal strike by the workmen at the Bhandara Plant for about 4 months during the year.

The Gross Profit has gone up by 26%, from Rs.606 lakhs to Rs.765 lakhs, and the Net Profit, after considering extraordinary item of Rs.110 lakhs, stood at Rs.80 lakhs as against a loss of Rs.98 lakhs in the previous year. Improvement in profitability was achieved mainly with a better product mix and rigorous cost control measures adopted at various levels. Although the business conditions remained very difficult throughout the year, the Company's focused attention towards export / railway business has, to a great extent, off-set the slackness in domestic demand.

Performance of the Company's Paithan Plant was satisfactory.

At its Bhandara Plant, there was disruption of production in the beginning of the year. The Industrial Relations issue was resolved amicably, with a revised productivity linked settlement for 3 years. After signing of the new Agreement, the Plant is now working smoothly. However, the profitability of the Plant is affected mainly because of stiff competition from unorganised sector.

At the Ghatkopar Plant, though the Management had entered into a productivity-linked agreement in year 2000 and some of the surplus manpower was separated under VRS, the situation is still not satisfactory. With the supply/demand proportion turning adverse for most of the products manufactured at Ghatkopar, price realisation continued to be low. Also, despite various efficiencies achieved at operational level as a result of vigorous cost control measures, viz. saving on raw material, power & fuel cost, etc., the desired results at Ghatkopar could not be achieved due to the extremely high labour costs and poor productivity levels.

All the 3 Units and the Head Office of the Company have now been accredited with ISO 9001 (2000) certification by the world renowned DNV, of Netherlands, for manufacturing and marketing of friction materials, sealing materials and insulation materials.

Although a highly competitive situation continues in the current year, the Company expects to post further better results in the coming years with upgradation of

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process technology, improvement in product quality, rationalisation of manpower and several cost cutting measures. The Company has identified growth potential in areas of entire range of Asbestos-free products.

4. EXPORTS

Despite the stiff competitive situation, the Company was able to maintain its growth level and achieved an export turnover of Rs.702 lakhs, registering an increase of 21% over the previous year. The Company has added some new countries in its customer portfolio during the year. The Company has also participated in the AAPEX-2001 Exhibition which was held at Las Vegas, U.S.A. in November, 2001.

5. PUBLIC DEPOSITS

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

6. AUDITORS' REPORT

The observation made by the Auditors in their Report is self-explanatory and has 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 not given as no employee has drawn salary prescribed thereunder.

8. CONSERVATION OF ENERGY & TECHNOLOGY ABSORPTION

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

9. FOREIGN EXCHANGE EARNINGS AND OUTGO

Foreign Exchange earning from exports and others amounted to Rs.722 lakhs, whilst the outgo for raw materials, components, spares and capital goods amounted to Rs. 530 lakhs.

10. DIRECTORS

The Board records its appreciation for the valuable services rendered by Shri. K. R. Podar, who resigned as Director of the Company owing to indifferent health during the year. Shri. K. R. Podar had been associated with the Company as Director since 1987. During his long tenure as Director, the Company had immensely benefited from his varied experience.

The Board of Directors was pleased to appoint Shri Raghu Mody as Additional Director w.e.f March 1, 2002 after his completion of a successful tenure as Whole-time Director. Pursuant to the provisions of Section 260 of the Companies Act, 1956, he holds office upto the date of the forthcoming Annual General Meeting. Notice under Section 257 of the Companies Act, 1956 and the requisite deposit has been received from a Member, signifying his intention to propose the appointment of Shri Raghu Mody as a Director.

In terms of Article 132 of the Articles of Association read with Section 198, 269 and 309 of the Companies Act, 1956, the Board of Directors re-appointed Shri P. K. Choudhary as Managing Director for a period of 3years w.e.f. 18th March 2002, subject to confirmation at the forthcoming Annual General Meeting.

Shri V. B Haribhakti and Shri. T. Akiyama, Directors retire by rotation and being eligible offer themselves for reappointment.

11. AUDITORS

The shareholders will be requested to appoint Auditors at the Annual general meeting.

12. CORPORATE GOVERNANCE

Under the Listing Agreement, the provisions of Clause 49 relating to Corporate Governance are applicable to the Company effective 31st March, 2003. However, the Company has already initiated steps to comply with the requirements. The Audit Committee has been formed pursuant to Section 292A of the Companies Act, 1956 under the Chairmanship of Mr. V. B. Haribhakti with Mr. Raghu Mody and Mr. A. B. Vaidya as members.

13. DIRECTORS' RESPONSIBILITY STATEMENT

The Directors confirm that-

- (i) in the preparation of the annual accounts, the applicable accounting standards had been followed alongwith proper explanation relating to material departures;
- (ii) the directors had selected such accounting policies and applied them consistently and made judgements and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the company at the end of the financial year and of the profit or loss of the company for that period;
- (iii) the Directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
- (iv) the Directors had prepared the annual accounts on a going concern basis.

14. ACKNOWLEDGEMENT

Your Directors take this opportunity to thank Bank of Baroda, Union Bank of India, Syndicate Bank, Unit Trust of India and the Industrial Development Bank of India, its employees 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,
Date : 7th May, 2002

RAGHU MODY
Chairman



HINDUSTAN COMPOSITES LTD.

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, 2002.

ANNEXURE TO THE DIRECTORS' REPORT

CONSERVATION OF ENERGY

As part of the Company's drive to reduce the cost of power and fuel, the following Energy conservation measures were implemented:

- Installation of piped Natural Gas a fuel for steam generation on Boilers at its Mumbai Plant.
- Replacement of High HP Motors with reduced capacity / compact motors as a result of survey using Energy Analyser.
- Introduction of roof lights to reduce the energy for lighting purpose to the extent of 35% .
- Installation of temperature controllers on the curing presses and sheeters.
- Improvement of power factor through proper distribution of capacitors , particularly for transformers and high Kw motors.

TECHNOLOGY ABSORPTION

A. Research & Development (R&D)

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

- 1.1 Asbestos free Railway Brake Block L & K type.
- 1.2 Asbestos-free Random Wound Clutch Facings for LCV, HCV's and Utility vehicles.
- 1.3 Asbestos-free ceiling material for Railways.
- 1.4 Asbestos-free Industrial Woven Brake Lining.
- 1.5 High performance Asbestos-free jointings.
- 1.6 Asbestos -free Disc Brake Pads.

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

Wider range of product enabling the Company to enter into additional business opportunities in Railways, OEM and Export segments.

3. Future plan of Action:

- 3.1 Asbestos-free friction material for off highway vehicles.
- 3.2 Bonded shoes for two wheelers/passenger cars.

4. Expenditure on R&D:

| | Rs. |
|-------------------------------------|-----------|
| 4.1 Capital | 32,860 |
| 4.2 Recurring | 31,09,253 |
| 4.3 Total | 31,42,113 |
| 4.4 Total as percentage of turnover | 0.56% |

B. Technical Absorption, Adaptation & Innovation

- 1.1 Continue the joint development work with different manufacturers of Asbestos-free fibres in Europe, Japan, Canada for the entire range of Asbestos -free products.
- 2.1 The Company has appointed an oversea based consulting firm for technology upgradation.