

**BOARD OF DIRECTORS**

Raghu Mody	Chairman
P. K. Choudhary	Managing Director
Vinay Sarin	Executive Director
V. D. Ingle	Executive Director
Varunn Mody	
Keith M. Robinson	
D. Lawson Lyon	
V. B. Haribhakti	
A. B. Vaidya	
Lt. Gen. (Retd.) K. S. Brar	
Haigreve Khaitan	Alternate Director to Mr. Keith Robinson
Amit Goenka	G. M. Finance & Company Secretary


**AUDITORS**

Lodha &amp; Co.

**SOLICITORS**

Khaitan &amp; Co.

**BANKERS**

Bank of Baroda  
Union Bank of India

**REGISTERED OFFICE**

B-11, Paragon Condominium,  
Pandurang Budhkar Marg, Worli,  
Mumbai - 400 013.

**REGISTRAR & TRANSFER AGENTS**

Link Intime India Pvt. Ltd  
(Formerly Intime Spectrum Registry Limited)  
C-13, Pannalal Silk Mills Compound,  
LBS Marg, Bhandup (W),  
Mumbai - 400 078.

**WORKS**

Paithan : D-2/1, MIDC Industrial Area.  
Bhandara : C-10/1, Bhandara Indl. Area, Gadegaon.  
Jalna : C-11, Addl. Jaina Indl. Area.

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## NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Forty Fifth Annual General Meeting of the Company will be held at Hall of Culture, Nehru Centre, Dr. Annie Besant Road, Worli, Mumbai - 400 018 at 4.00 p.m. on Thursday, 10<sup>th</sup> day of September 2009 to transact the following business:

### ORDINARY BUSINESS

1. To consider, approve and adopt the Audited Balance Sheet as at 31<sup>st</sup> March 2009 and Profit and Loss Account for the year ended 31<sup>st</sup> March 2009 together with the Report of the Directors and Auditors thereon.
2. To appoint Director in place of Mr. V. B. Haribhakti, who retires by rotation and being eligible, offers himself for re-appointment.
3. To appoint a Director in place of Mr. D. L. Lyon, who retires by rotation and being eligible, offers himself for re-appointment.
4. To appoint Auditors to hold office from the conclusion of this Annual General Meeting until the conclusion of the next Annual General Meeting and to authorise the Board of Directors to fix their remuneration.

### SPECIAL BUSINESS

5. To consider and, if thought fit, to pass with or without modifications, the following resolution as an **Ordinary Resolution**:  
**"RESOLVED THAT** Lt. Gen. (Retd.) K. S. Brar, who was appointed as an Additional Director by the Board of Directors with effect from 30<sup>th</sup> September 2008 pursuant to Article 112 of the Articles of Association of the Company and who holds office under the said Article and Section 260 of the Companies Act, 1956 upto the date of this Annual General Meeting, and in respect of whom the Company has received notice under Section 257 of the Companies Act, 1956 proposing his candidature for the office of Director, be and is hereby appointed as a Director of the Company, who shall be liable to retire by rotation."
6. To consider and, if thought fit, to pass with or without modifications, the following resolution as an **Ordinary Resolution**:  
**"RESOLVED THAT** pursuant to Section 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. V. D. Ingle as Executive Director – Manufacturing of the Company for a period from 9<sup>th</sup> August 2008 to 31<sup>st</sup> March 2009 and further reappointed for a period of 1 year w.e.f. 1<sup>st</sup> April 2009, 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** in the event of any loss or inadequacy of profits of the Company during the tenure of Mr. V. D. Ingle as Executive Director – Manufacturing of the Company, the remuneration as set out in the Explanatory Statement attached to

this Notice shall be payable as minimum remuneration to him.

**RESOLVED FURTHTER THAT** the Board of Directors of the Company be and is hereby authorized to take such steps as may be necessary to give effect to this resolution."

7. To consider and, if thought fit, to pass with or without modifications, the following resolution as an **Ordinary Resolution**:

**"RESOLVED THAT** pursuant to Section 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. Vinay Sarin as Executive Director – Marketing of the Company from a period of one year w.e.f. 9<sup>th</sup> August 2008, 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** in the event of any loss or inadequacy of profits of the Company during the tenure of Mr. Vinay Sarin as Executive Director – Marketing of the Company, the remuneration as set out in the Explanatory Statement attached to this Notice shall be payable as minimum remuneration to him.

**RESOLVED FURTHTER THAT** the Board of Directors of the Company be and is hereby authorized 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 provisions of Sections 198 and 309(4) and all other applicable provisions, if any, of the Companies Act, 1956, and Articles of Association of the Company, consent of the Company be is hereby given for the payment of commission to the Non-Executive Directors of the Company upto 1% (one per cent) of the net profit of the Company as computed in accordance with the provisions of Section 349 and 350 of the Companies Act, 1956 for the 5 (Five) financial years commencing from the financial year 1<sup>st</sup> April 2009 .

**RESOLVED FURTHTER THAT** the Board of Directors of the Company be and is hereby authorized to give effect to the above resolution."

By order of the Board of Directors

Place : Mumbai  
Date: 20<sup>th</sup> May 2009

**Amit Goenka**  
G.M. Finance & Company Secretary

**Regd. Office :**  
B-11, Paragon Condominium,  
P. B. Marg, Worli, Mumbai – 400 013

## 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. The Register of Members and the Share Transfer Books of the Company will remain closed from 7<sup>th</sup> September, 2009 to 10<sup>th</sup> September, 2009 (both days inclusive).
3. The shares of the Company are listed on Bombay Stock Exchange Ltd., National Stock Exchange of India Ltd., and The Kolkata Stock Exchange Association Limited. Listing fees for the financial year 2009 – 2010 has been paid to all the stock exchanges except The Kolkata Stock Exchange Association Limited., where the company has applied for de-listing.
4. Members are requested to bring their copies of the Annual Report to the Meeting.
5. Members who hold the shares in dematerialized form are requested to bring their client ID and DPID numbers for easier identification of attendance at the meeting.
6. Pursuant to the provisions of Section 205A of the Companies Act, 1956, as amended, unclaimed dividend for the financial years ended upto 31<sup>st</sup> March 2001 have been transferred to the Investor Education and Protection Fund (IEPF).

The details of dividend declared by the Company and its due date for transfer to Investor Education and Protection Fund, as per the Companies Act, 1956, if they remain unclaimed by the Shareholders are given below:

Date of Declaration of Dividend	Dividend for the year	Due Date for Transfer
8 <sup>th</sup> August 2002	2001 - 2002	7 <sup>th</sup> September 2009

7. Queries on accounts and operations of the Company, if any, may please be sent to the Company seven days in advance of the meeting so that the answers may be made available at the Meeting.

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

### Information of Directors being proposed for appointment / re-appointment (as required under Clause 49(VI)(A) of the Listing Agreement)

**Mr. V.B. Haribhakti**, aged 80 years, is a leading Chartered Accountant and senior partner of Chartered Accountants Firm, M/s. Haribhakti & Co., with several years of in-depth proficiency in Corporate Affairs, Accounts & Finance. He has been an independent Non-Executive Director of the Company since 1994. He is also the Chairman of Audit Committee of the Company.

**Mr. D. Lawson Lyon**, aged 64 years, has served as a Director on our Board since 1994. He was the Managing Director of Pearsalls Limited, U.K. He possesses rich and varied management experience.

**Lt. Gen. (Retd.) K. S. Brar**, aged 75 years, has rich and varied management experience. He is also the member of Audit Committee of the Company.

**Mr. V.D. Ingle**, aged 62 years, is a Science Graduate, associated with the Company for 35 years and has considerable experience in the manufacturing function of the Company.

**Mr. Vinay Sarin**, aged 61 years, a post graduate in Management from Jamnalal Bajaj Institute of Management Studies, Mumbai is associated with the Company for the last 21 years having a total business experience of 39 years in Automobile Industry.

## ITEM NO. 5

Lt. Gen. (Retd.) K. S. Brar was appointed as an Additional Director of the Company w.e.f. 30<sup>th</sup> September 2008 by the Board of Directors under Article 112 of the Articles of Association of the Company. In terms of Section 260 of the Companies Act, 1956, Lt. Gen. (Retd.) K. S. Brar holds office only up to the date of the ensuing Annual General Meeting of the Company. The Company has received a notice in writing from a member pursuant to Section 257 of the Act together with the requisite deposit proposing his candidature for the office of the Director of the Company.

In view of considerable gain to the Company by the appointment of Lt. Gen. (Retd.) K. S. Brar through his expertise and experience, the Directors recommend the Ordinary Resolution for approval of the members.

None of the Directors, except Lt. Gen. (Retd.) K. S. Brar is interested or concerned in the said resolution.

## ITEM NO. 6

Mr. V. D. Ingle was re-appointed as Executive Director – Manufacturing of the Company for a period from 9<sup>th</sup> August 2008 to 31<sup>st</sup> March 2009 and further reappointed for a period of 1 year w.e.f. 1<sup>st</sup> April 2009, on the following terms and conditions:

1. Salary	Rs. 38,000/- per month, and Special Allowance of Rs. 20,000/- 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 etc., not exceeding Rs. 2,000/- per month. In case no accommodation is provided, the payment of HRA subject to the ceiling of sixty percent of the salary.
3. Conveyance / Motor Car	Provision of motor car with driver or Rs. 20,000/- per month.

4.	Medical	Reimbursement of medical expenses and insurance premium for self, spouse and dependant children, not exceeding Rs. 15,000/- per annum.
5.	Leave Travel Concession	As per rules of the Company's Scheme not exceeding Rs. 70,000/- per annum.
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 of two clubs.
9.	Leave encashment	Encashment of leave accumulation as per the rules of the Company.

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

In view of considerable gain to the Company by the re-appointment of Mr. V. D. Ingle through his expertise and experience, the Directors recommend the Ordinary Resolution for approval of the members.

Except Mr. V. D. Ingle, none of the Directors are interested in this resolution.

#### ITEM NO. 7

Mr. Vinay Sarin was re-appointed as Executive Director – Marketing of the Company for a period of 1 year w.e.f. 9th August 2008 on the following terms and conditions:

1.	Salary	Rs. 38,000/- per month, and Special Allowance of Rs. 20,000/- 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 etc., not exceeding Rs. 2,000/- per month. In case no accommodation is provided, the payment of HRA subject to the ceiling of sixty percent of the salary.
3.	Motor Car	Provision of motor car with driver of Rs. 20,000/- per month.

4.	Medical	Reimbursement of medical expenses and insurance premium for self, spouse and dependant children, not exceeding Rs. 15,000/- per annum.
5.	Leave Travel Concession	As per rules of the Company's Scheme not exceeding Rs. 70,000/- per annum.
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 of two clubs.
9.	Leave encashment	Encashment of leave accumulation as per the rules of the Company.

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

In view of considerable gain to the Company by the re-appointment of Mr. Vinay Sarin through his expertise and experience, the Directors recommend the Ordinary Resolution for approval of the members.

Except Mr. Vinay Sarin, none of the Directors are interested in this resolution.

#### ITEM NO. 8

In consideration of and in due appreciation of the services rendered by the Directors of your Company, who are not in its whole time employment, an annual payment of them by way of commission is proposed, subject to the limits of 1% of net profit as provided under section 309 (4) of the Companies Act, 1956.

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

All Directors except whole Time directors are concerned or interested in this resolution.

By order of the Board of Directors

Place : Mumbai  
Date: 20<sup>th</sup> May 2009

**Amit Goenka**  
G.M. Finance & Company Secretary

**Regd. Office :**  
B-11, Paragon Condominium,  
P. B. Marg, Worli, Mumbai – 400 013

## DIRECTORS' REPORT

Your Directors present their Forty Fifth Annual Report together with the Audited Accounts for the year ended 31<sup>st</sup> March 2009.

### 1. FINANCIAL RESULTS

	Rs.Lacs Year ended 31 <sup>st</sup> March 2009	Rs.Lacs Year ended 31 <sup>st</sup> March 2008
Net Sales	7731	7158
Other Income	302	117
Profit before interest, depreciation & separation cost:	1120	807
Interest (Net)	(279)	(411)
Depreciation (Net)	(350)	(328)
Profit before separation cost and tax	491	68
Employees separation cost	(346)	(383)
Profit / (Loss) before tax	145	(315)
Provision for taxation		
- Current (including FBT)	(18)	(19)
- Deferred	(86)	135
Profit / (Loss) after taxation	41	(199)

### 2. DIVIDEND

Although the company made an operating profit, it is felt prudent to conserve its resources. The directors therefore do not recommend any dividend for the year ended 31<sup>st</sup> March 2009.

### 3. PERFORMANCE

The year 2008-09 posed an unprecedented challenge to Industry, as a direct consequence of the global economic slow-down and the turmoil in the financial markets. The Indian economy, linked to global markets, witnessed a sharp impact with much lower than expected GDP growth. Automotive sector was one of the worst hit with heavy commercial vehicles bearing the maximum brunt, on account of contraction in demand and non-availability of easy finance. The timely intervention of the Govt. of India with financial stimulus packages could contain the down slide and cushioned to a large extent the adverse economic impact.

Despite these daunting conditions, the Company's performance in the year 2008-09 was marked with higher sales and improved operational profit. This was achieved with greater focus on the railway / export segments, alongwith upgradation of manufacturing processes, improvement in technology and cost control measures.

The turnover of the Company increased by 8% to Rs. 77.31 Crores from Rs. 71.58 Crores in the previous year. The gross profit went up from Rs. 8.07 Crores to Rs. 11.21 Crores. Interest payments during the year were much lower at Rs. 2.79 Crores (Rs. 4.11 Crores), mainly on account of repayment of loan taken for employee separation cost. Provision for depreciation was higher at

Rs. 3.50 Crores (Rs. 3.28 Crores) on account of investment in fixed assets.

Therefore, after providing for interest & depreciation, the profit before extra ordinary item was much higher at Rs. 4.91 Crores (Rs. 0.68 Crores) and after the item relating to employee separation cost of Rs. 3.46 Crores (Rs. 3.83 Crores), there was a profit of Rs. 1.45 Crores, as against a loss of Rs. 3.15 Crores in the previous year.

Although, the Company's Plant at Paithan achieved a higher turnover, profitability remained under pressure with lower price realization on its products, due to highly competitive market conditions.

Working of the Bhandara Plant was satisfactory. With the installation of the HDB Card, working is expected to improve further.

Working of the Jalna Plant remained subdued with a lower order-book in the Industrial segment owing to the effects of the economic slow-down.

The Company participated at the Automechanika Fair at Frankfurt, Germany in September 2008, thus improving its exposure to new products and global markets.

The management continues to explore various options to unlock the value of the Company's Ghatkopar property.

Although, the overall position in the current year remained competitive and challenging, the Company hopes to post better results in the coming year with positive signs of recovery in the economy and the Company's continuous focus on quality and cost controls.

### 4. 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.

### 5. PERSONNEL

The information required under Section 217 (2A) of the Companies Act, 1956 is not given as none of the employee was in receipt of remuneration in excess of the limits specified thereunder

### 6. CONSERVATION OF ENERGY & TECHNOLOGY ABSORPTION

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

### 7. FOREIGN EXCHANGE EARNINGS AND OUTGO

Foreign Exchange earning from exports amounted to Rs 950 Lacs, of FOB value basis whilst the outgo for raw materials, components and spares amounted to Rs. 814 Lacs.

### 8. DIRECTORS

The Board is pleased to appoint Lt. Gen. (Retd.) K.S. Brar, as Additional Director w.e.f. 30<sup>th</sup> September, 2008. Pursuant to the provisions of Section 260 of the Companies Act, 1956, he holds



office upto the date of forthcoming Annual General Meeting. The Company have received a notice under Section 257 of the Companies Act, 1956 and the requisite deposit from a member signifying his intention to propose the appointment of Lt. Gen. (Retd.) K.S. Brar as Director of the Company.

The Board of Directors re-appointed Mr. Vinay Sarin as Executive Director – Marketing for a period of 1 year w.e.f. 9<sup>th</sup> August, 2008, subject-to confirmation by shareholders at the forthcoming Annual General Meeting.

The Board of Directors have also re-appointed Mr. V.D. Ingle as Executive Director – Manufacturing w.e.f. 9<sup>th</sup> August, 2008 to 31<sup>st</sup> March, 2009 and further re-appointed for a period of 1 year w.e.f. 1<sup>st</sup> April 2009, subject-to confirmation by shareholders at the forthcoming Annual General Meeting.

Mr. V.B. Haribhakti and Mr. D.L. Lyon, Directors retire by rotation and being eligible offer themselves for re-appointment.

## 9. AUDITORS

M/s Lodha & Co., the Auditors of your Company who hold office until the conclusion of the forthcoming Annual General Meeting, being eligible, offer themselves for re-appointment.

## 10. CORPORATE GOVERNANCE

As required by the Listing Agreement, the Corporate Governance Report, including Management Discussion and Analysis Report and the Certificate of Compliance from the Auditors, is attached and forms part of this Report

## 11. DIRECTORS' RESPONSIBILITY STATEMENT

On the basis of information placed before them, the Directors state that –

- (i) in the preparation of the annual accounts, the applicable accounting standards had been followed alongwith proper explanation relating to material departures;
- (ii) appropriate accounting policies have been selected and applied 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) 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 annual accounts have been prepared on a going concern basis

## 12. ACKNOWLEDGEMENT

The Directors gratefully acknowledges the support and co-operation given by all dealers, distributors, employees, shareholders and bankers and look forward to their continued support.

By order of the Board of Directors

Place: Mumbai  
Date : 20<sup>th</sup> May 2009

Raghu Mody  
Chairman

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 ended 31<sup>st</sup> March 2009.

# ANNEXURE TO THE DIRECTORS' REPORT

## CONSERVATION OF ENERGY

Based on the recommendation of Energy Consultancy Firm, the Company has implemented following Energy conservation programmes.

- Focus on design and development of energy effective moulding dies for Railway Brake Block, commercial vehicle linings with 33% reduction in electricity consumption in moulding area.
- Installed variable frequency drives on all the dust collectors with effective saving of 5%.
- Increased the capacitor bank to maintain power factor to unity all the time.

## R & D

- (1) Specific Areas where R & D being carried out by the Company.

1.1 High Friction Brake Blocks for Freight Wagon and Locomotives.

1.2 Non-Asbestos Organic Disc Brake Pads for Passenger Car and 2-Wheeler applications.

1.3 Non-Asbestos moulded Clutch Facing for commercial vehicle application.

- (2) Benefits of above R & D :  
Additional business with Railways, OEM's and After-market.
- (3) Future Plan of Action.  
3.1 'LL' Type Railway Brake Blocks.  
3.2 Disc Brake Pads for off the road vehicles.
- (4) Expenditure
 

4.1 Capital	- Nil
4.2 Recurring	- Rs.56 Lacs
4.3 Total	- Rs. 56 Lacs
4.4 Total as a % of Turnover.	- 0.72%

## TECHNICAL ABSORPTION, ADAPTATION & INNOVATION

Association with the overseas consultancy firm for technical know-how continues.

## MANAGEMENT DISCUSSION AND ANALYSIS REPORT

### OVERALL REVIEW

The year 2008-09 witnessed unprecedented economic turmoil across global markets fuelled by an uncertain financial environment. The early part of the year witnessed global inflationary pressure with run away price increases for major raw materials like oil, coal, minerals and other commodities, followed by global economic slow-down. The series of fiscal measures announced by the Govt. of India during the course of the year has helped to stabilize the situation and these are expected to start bearing positive results in the coming months.

### PRODUCTION RANGE

Our Company is engaged in the manufacturing and marketing of fibre based composite materials, consisting of Friction and Sealing products. Friction Materials include Brake Liners, Roll Linings, Clutch Facings, Disc Brake Pads used in Heavy and Light Trucks, Passenger Cars, 2 / 3 wheelers, off-road-vehicles, Construction & Mining equipment. Composition Brake Blocks are also used by the Railways. Sealing materials include Jointings, Textile and Insulation Board used in automobiles and other industries.

### OPPORTUNITIES AND THREATS

Though demand from automotive sector particularly from O.E. segment continue to be low, Company foresees better opportunities in Railway & Export segment. Upgradation in technology, improvement in manufacturing process will continue to be a driving force for the Company. However, with continued slow-down and with many small players in the Indian Market, more particularly in the small scale sector, prices have been under constant pressure resulting in lower realization. This threat is being overcome by constant product upgradation, cost reduction, value engineering and finding new markets both locally and globally.

### BUSINESS OUTLOOK

Although, market conditions remained highly competitive during the current year, the Company expects improved results with the upgradation of its process technology, improvement in productivity and several cost cutting measures. The Company has identified a growth potential covering entire range of Asbestos-free products. The Company continues to focus on the growth of its OEM business through focus on R & D.

### RISKS AND CONCERNS

The Asbestos based products are being replaced with Asbestos-Free products internationally as well as by major customers in India. The Government is also putting stricter control on manufacture and usage of Asbestos based products. While the Company is systematically displacing Asbestos based production with Asbestos-free production, a complete transition can be only in a phased manner.

### INTERNAL CONTROL SYSTEMS AND ADEQUACY

The Company believes that Internal Control is a necessary concomitant of governance. The Company has effective internal control systems under which Management Reports on key performance indicators and variance analysis are made. Regular Management Committee Meetings are held, where these reports and variance analysis are discussed and action plan initiated with proper follow-up. The Internal Audit function also reviews the execution of all operations to ensure controls are adequate. Operational Reports are tabled at Board Meetings after being discussed in Audit Committee Meetings.

### HRD / INDUSTRIAL RELATIONS

The thrust of the Company's human resource development is to create a responsive and market-driven organization with emphasis on performance. Continuous appraisal of the competencies of the personnel in line with job requirements are carried out to provide for necessary training to personnel thereby facilitating higher levels of output and productivity. The industrial relations at Paithan, Bhandara & Jalna are satisfactory.

### COMPANY'S FINANCIAL PERFORMANCE AND ANALYSIS

The Company's financial performance and analysis is already discussed in detail in the Directors' Report which forms part of the Annual Report.

### CAUTIONARY STATEMENT

The statement in the Management Discussion and Analysis Report cannot be construed as holding out any forecasts, projections, expectations, invitations, offers, etc. within the meaning of applicable securities laws and regulations. This Report basically seeks to furnish information, as laid down within the different headings to meet the Listing Agreement requirements.

## AUDITORS' REPORT

To  
The Members,  
Hindustan Composites Limited.

1. We have audited the attached Balance Sheet of Hindustan Composites Limited as at 31<sup>st</sup> March, 2009, the Profit & Loss Account and also the Cash Flow Statement of the Company for the year ended on that date annexed thereto. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with the auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. As required by the Companies (Auditor's Report) Order, 2003 issued by the Central Government of India in terms of sub-section (4A) of Section 227 of the Companies Act, 1956 (hereinafter referred to as the 'Act'), we enclose in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.
4. Further to our comments in the Annexure referred to in paragraph (3) above, we report that:
  - a) We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;
  - b) In our opinion, proper books of account as required by law have been kept by the Company so far as it appears from our examination of those books;

- c) The Balance Sheet, the Profit and Loss Account and the Cash Flow Statement dealt with by this report are in agreement with the books of account;
- d) In our opinion, the Balance Sheet, the Profit and Loss Account and the Cash Flow Statement dealt with by this report comply with the Accounting Standards referred to in Section 211(3C) of the Act, to the extent applicable;
- e) On the basis of written representations received from the Directors, as on 31<sup>st</sup> March, 2009 and taken on record by the Board of Directors, we report that none of the Directors is disqualified as on 31<sup>st</sup> March, 2009 from being appointed as a Director in terms of Section 274 (1)(g) of the Act;
- f) In our opinion and to the best of our information and according to the explanations given to us, the said financial statements read together with "Significant Accounting Policies and notes to accounts" appearing in Schedule – 18 and those appearing elsewhere in the financial statements, give the information required by the Act, in the manner so required and give a true and fair view in conformity with the accounting principles accepted in India:
  - i) in the case of the Balance Sheet, of the state of affairs of the Company as at 31<sup>st</sup> March, 2009;
  - ii) in the case of the Profit and Loss Account, of the profit of the Company for the year ended on that date; and
  - iii) in the case of the Cash Flow Statement, of the cash flows of the Company for the year ended on that date.

For LODHA & COMPANY  
Chartered Accountants

**A. M. Hariharan**

Partner

Place: Mumbai

Date: 20<sup>th</sup> May 2009

Membership No. 38323



**ANNEXURE TO THE AUDITORS' REPORT****Annexure referred to in paragraph 3 of our report of even date to the Members of HINDUSTAN COMPOSITES LIMITED on the financial statements as at and for the year ended 31<sup>st</sup> March, 2009**

On the basis of such checks as we considered appropriate and according to the information and explanations given to us during the course of audit, we state that:

1. The Company has maintained proper records showing full particulars including quantitative details and situation of fixed assets. There is a phased programme of physical verification of all fixed assets over a period of three years, based on which physical verification of certain fixed assets was carried out during the year which, in our opinion, is reasonable considering the size of the Company and nature of its fixed assets. The discrepancies noticed on such physical verification were not material and the same have been properly dealt with in the books of account. No substantial part of fixed assets was disposed off during the year.
2.
  - a) The inventory has been physically verified by the management at reasonable intervals during the year. Inventory lying with third parties and in - transit is being verified by the management with reference to confirmations or statements of account or subsequent receipt of goods.
  - b) The procedures of physical verification of inventory followed by the management are reasonable and adequate in relation to the size of the Company and nature of its business.
  - c) The Company is maintaining proper records of inventory. The discrepancies noticed on verification of inventory between the physical stock and book records were not material and have been properly dealt with in the books of account.
3.
  - (a) During the year, the Company has not given any loan, secured or unsecured, to companies, firms, or other parties covered in the register maintained under Section 301 of the Act. Loans outstanding as at the end of previous year were repaid and the terms and conditions were not, prima facie, prejudicial to the interest of the Company.
  - (b) The Company has taken unsecured loan from a Company covered in the register maintained under Section 301 of the Act. The maximum amount outstanding during the year was Rs. / Thousand 32,500 (previous year Rs. / Thousand 107,500) and the year end balance is Rs. / Thousand 20,000 (previous year Rs. / Thousand 27,500). The rate of interest and other terms and conditions of loan taken, prima facie, are not prejudicial to the interest of the Company.
4. In our opinion and explanations given to us, having regard to the explanations that some of the items purchased are of special nature and suitable alternative sources do not exist for obtaining comparable quotations, there is an adequate internal control system commensurate with the size of the Company and the nature of its business for the purchase of inventories and fixed assets and for the sale of goods. During the course of our audit, no major weaknesses have been noticed in the internal control system.
5.
  - (a) According to the information and explanations given to us, we are of the opinion that particulars of contracts or arrangements that need to be entered in the register maintained under section 301 of the Companies Act, 1956 have been so entered.
  - (b) In our opinion and according to the information and explanations given to us, the transactions have been made in pursuance of contracts or arrangements entered in the register maintained under section 301 of the companies Act, 1956 and exceeding Rupees five lacs or more in respect of any party during the year, have been made at prices which are reasonable having regard to the prevailing market prices at the relevant time.
6. The Company has not accepted any deposits within the meaning of Section 58A, 58AA or any other relevant provisions of the Act and Rules framed thereunder.
7. The Company has an adequate internal audit system commensurate with the size and nature of its business.
8. We have broadly reviewed the cost records maintained by the Company pursuant to the rules made by the Central Government for the maintenance of cost records under Section 209(1) (d) of the Act in respect of Automotive parts and are of the opinion that, prima facie, the prescribed records have been made and maintained. However, we are not required to make a detailed examination of the records with a view to determine whether they are accurate or complete.
9.
  - a) According to the information and explanations given to us and according to the books and records as produced and examined by us, the undisputed statutory dues including Provident Fund, Investor Education and Protection Fund, Employees' State Insurance, Income Tax, Sales Tax, Wealth Tax, Service Tax, Customs Duty, Excise Duty, Cess and other material statutory dues as applicable have generally been regularly deposited by the Company during the year with the

appropriate authorities and there were no arrears as at 31<sup>st</sup> March, 2009 for a period of more than six months from the date they became payable.

- b) According to the records of the Company and the information and explanations given to us by the management, the details of disputed statutory dues which have not been deposited are as under:

Name of the Statutes	Nature of Date	Amount (Rs. in Thousand)	Period to which amount Relates	Forum where Dispute
Income Tax Act 1961	Income Tax	1,146	2003-04	C.I.T. (Appeals) Mumbai
Income Tax Act 1961	Income Tax	1,083	2005-06	C.I.T. (Appeals) Mumbai
Income Tax Act 1961	Income Tax	660	2006-07	C.I.T. (Appeals) Mumbai
<b>Sub Total</b>		<b>2,889</b>		
Central Sales Act 1956	Sales Tax	264	1997-98	Deputy Commissioner of Sales Tax (Appeal), Nagpur
Central Sales Act 1956	Sales Tax	294	2001-02	Deputy Commissioner of Sales Tax (Appeal), Nagpur
Central Sales Act 1956	Sales Tax	117	2002-03	Deputy Commissioner of Sales Tax (Appeal), Nagpur
Central Sales Act 1956	Sales Tax	533	2003-04	Deputy Commissioner of Sales Tax (Appeal), Nagpur
Central Sales Act 1956	Sales Tax	180	2002-03	Deputy Commissioner of Sales Tax (Appeal), Nagpur
<b>Sub Total</b>		<b>1,388</b>		

10. The Company does not have accumulated losses as at 31<sup>st</sup> March, 2009 and has not incurred a cash loss during the financial year ended on that date. The Company had not incurred cash loss in the immediate preceding financial year.
11. In our opinion and according to the information and explanations given to us, the Company has not defaulted in repayment of dues to financial institutions and banks.
12. During the year, the Company has not granted any loans and advances on the basis of security by way of pledge of shares, debentures and other securities.
13. In our opinion, the Company is not a chit fund or a nidhi /mutual benefit fund / society. Therefore, clause 4(xiii) of the Companies (Auditor's Report) Order 2003 is not applicable to the Company.
14. In our opinion, the Company is not a dealer or trader in shares, securities, debentures and other investments.
15. According to the information and explanations given to us, the Company has not given any guarantee for loans taken by others from banks or financial institutions.
16. According to the information and explanations given to us, the term loans were applied for the purposes for which the loans were obtained during the year.
17. According to the information and explanations given to us and on an overall examination of the balance sheet and cash flow statement of the Company, in our opinion, the funds raised on short-term basis have, prima facie, not been used for long-term investment.
18. During the year, the Company has not made any preferential allotment of shares to parties and companies covered in the register maintained under Section 301 of the Act.
19. The Company has not issued any debentures during the year.
20. The Company has not raised any money by way of public issue during the year.
21. During the course of our examination of the books and records of the Company, carried out in accordance with the generally accepted auditing practice in India and according to the information and explanations given to us, we have neither come across any instance of fraud on or by the Company, noticed or reported during the year, nor have we been informed of such case by the management.

For LODHA & COMPANY  
Chartered Accountants

**A. M. Hariharan**

Place: Mumbai

Partner

Date: 20<sup>th</sup> May 2009

Membership No. 38323