

INDIA MOTOR PARTS & ACCESSORIES LIMITED

IMPAL

2005 – 2006

52nd ANNUAL REPORT

Distribution Network



BOARD OF DIRECTORS

Sri S NARAYANAN

Chairman

Sri S RAM

Sri V GOPALAKRISHNAN

Sri ANANTH RAMANUJAM

Sri S RAVINDRAN

Sri N KRISHNAN

Managing Director

AUDIT COMMITTEE

Sri V GOPALAKRISHNAN

Chairman

Sri S RAVINDRAN

Sri N KRISHNAN

AUDITORS

M/S SUNDARAM & SRINIVASAN
CHENNAI

Chartered Accountants

Sri S M SUNDARAM

Chief Financial Controller

Sri B SHANMUGASUNDARAM

Secretary

BANKERS

STATE BANK OF INDIA and
STATE BANK OF MYSORE

REGISTERED OFFICE

21, Patullos Road,
Chennai - 600 002

CORPORATE OFFICE

"Sundaram Towers"
III Floor, # 46, Whites Road,
Chennai - 600 014

WEBSITE

www.impal.net

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Branches: AGRA – AHMEDABAD – ALLAHABAD – ASANSOL – BANGALORE – BARODA – BATHINDA – BHILWARA – BHUBANESWAR – CALICUT – CHANDIGARH – CHENNAI – COCHIN – COIMBATORE – CUTTACK – DHANBAD – GANDHIDHAM – GUWAHATI – HISAR – HUBLI – HYDERABAD – JAIPUR – JALANDHAR – JAMSHEDPUR – JODHPUR – KANPUR – KOLHAPUR – KOLKATA – KOTA – LUDHIANA – MADURAI – MANGALORE – NAGPUR – NAVI MUMBAI – NEW DELHI – PATNA – PUNE – RAIPUR – RAJKOT – RANCHI – SALEM – SAMBALPUR – SILIGURI – SURAT – TRICHY – TIRUNELVELI – UDAIPUR – VARANASI – VIJAYAWADA

INDIA MOTOR PARTS & ACCESSORIES LIMITED

Executives

| | |
|----------------------|---|
| Sri P HARIHARAN | Asst. Vice President (Marketing) |
| Sri L KUMAR | Asst. Vice President (Marketing) |
| Sri U RAVINDRANATH | Dy. General Manager (Accounts) |
| Sri N KARTHIKEYAN | Dy. General Manager (Marketing) |
| Sri R SUNDARARAJAN | Asst. General Manager |
| Sri S R SWAMINATHAN | Asst. General Manager (Material Services) |
| Sri L SRINIVASAN | Area Manager |
| Sri V R RANGANATHAN | Area Manager |
| Sri MUKESH RASTOGI | Area Manager |
| Sri R SIVARAMAN | Area Manager |
| Sri K GOPALAKRISHNAN | Area Manager |
| Sri S P SRIVASTAVA | Area Manager |
| Sri M S HARIGOPAL | Asst. Area Manager |
| Sri V SRIDHAR | Senior Manager (Information Systems) |
| Sri N SUNDARAM | Senior Manager (Accounts) |
| Sri R RAMAN | Senior Manager (Accounts) |

FINANCIAL HIGHLIGHTS

(Rs. in Lakhs)

| | 2001-02 | 2002-03 | 2003-04 | 2004-05 | 2005-06 |
|----------------------------|----------|----------|----------|----------|----------|
| Share Capital | 208.00 | 208.00 | 208.00 | 415.98 | 415.98 |
| Reserves & Surplus | 4578.86 | 5047.42 | 5673.83 | 6148.66 | 6723.57 |
| Net Worth | 4786.86 | 5255.42 | 5881.83 | 6564.64 | 7139.55 |
| Capital Employed | 5233.63 | 5630.19 | 6200.41 | 6884.64 | 7812.75 |
| Sales | 17582.85 | 17975.39 | 19281.69 | 21349.62 | 20707.03 |
| Profit Before Tax | 1250.21 | 1287.00 | 1402.95 | 1517.06 | 1382.93 |
| Profit After Tax | 838.39 | 820.53 | 919.72 | 1014.84 | 906.94 |
| Dividend Amount | 249.60 | 312.00 | 260.00 | 291.19 | 291.19 |
| Dividend % | 120 | 150 | 125 | 70 | 70 |
| Earnings per share (Rs.) | 40.31 | 39.45 | 44.22 | 24.40 | 21.80 |
| Book Value Per Share (Rs.) | 230.14 | 252.66 | 282.78 | 157.81 | 171.63 |

NOTICE TO SHAREHOLDERS

NOTICE is hereby given that the **Fifty-second Annual General Meeting** of the Shareholders of the Company will be held at **10:30 a.m. on Wednesday, the 30th day of August 2006**, at **The Music Academy**, 168 (Old No.306), T T K Road, Chennai – 600 014, to transact the following business:

Ordinary Business

1. To receive and adopt the audited statement of accounts for the year ended 31st March, 2006 and to consider the reports of the Directors and Auditors thereon.
2. To record interim dividend paid.
3. To elect a Director in the place of Sri V Gopalakrishnan, who retires by rotation and being eligible, offers himself for re-election.
4. To consider and if thought fit, to pass with or without modification the following resolution as an Ordinary Resolution:
"RESOLVED THAT M/s Sundaram & Srinivasan, Chartered Accountants, the retiring Auditors be and are hereby reappointed as Statutory Auditors of the Company to hold office from the conclusion of this meeting upto the conclusion of the next Annual General Meeting of the Company on such remuneration as may be decided by the Board of Directors exclusive of out of pocket expenses and levies such as service tax."

Special Business

5. To consider and if thought fit, to pass with or without modifications, the following Resolution as an Ordinary Resolution:
"RESOLVED THAT Sri S Ram be and is hereby appointed as a Director of the Company 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 Sri S Ravindran be and is hereby appointed as a Director of the Company liable to retire by rotation."
7. To consider and if thought fit, to pass with or without modifications, the following Resolution as a Special Resolution:
"RESOLVED THAT pursuant to Section 31 and other applicable provisions, if any, of the Companies Act, 1956, the Articles of Association of the Company be amended as follows:
Insertion of the following Article as 4(b) after the existing Article 4(a)
 4(b) The Shares in the Company shall be transferred by an instrument in writing in prescribed form, and in the manner provided under the provisions of Section 108 of the Act, the Rules prescribed thereunder and any modification thereof.
Insertion of the following Article as 34(A) after the existing Article 34
 34(A) No unclaimed dividend shall be forfeited by the Company before the claim becomes barred by law.
8. To consider and if thought fit, to pass with or without modifications, the following Resolution as a Special Resolution:
"RESOLVED THAT in accordance with the provisions of the Securities and Exchange Board of India (Delisting of Securities) Guidelines, 2003 and other applicable laws, if any, the Company hereby accords its approval to delist the equity share capital of the Company, comprising of 41,59,800 equity shares of Rs.10/- each, from the Madras Stock Exchange Limited."

Chennai
14th July 2006

By Order of the Board
B Shanmugasundaram
 Secretary

EXPLANATORY STATEMENT UNDER SECTION 173 OF THE COMPANIES ACT, 1956

Item No. 5

Sri S Ram was appointed as a Director of the Company on 24th January 2006 to fill the casual vacancy on the Board caused by the resignation of Sri S Viji. Pursuant to Section 262 of the Companies Act, 1956, Sri S Ram holds office up to the date of the forthcoming Annual General Meeting. A notice under Section 257 of the Companies Act, 1956 has been received from a member signifying his intention to propose the appointment of Sri S Ram as a Director of the Company. The Board of Directors recommend his appointment.

Interest of Directors

None of the Directors, except Sri S Ram is concerned or interested in the resolution.

Item No. 6

Sri S Ravindran was appointed as Additional Director on 24th January 2006. Pursuant to Section 260 of the Companies Act, 1956, Sri S Ravindran holds office up to the date of the forthcoming Annual General Meeting. A notice under Section 257 of the Companies Act, 1956 has been received from a member signifying his intention to propose the appointment of Sri S Ravindran as a Director of the Company. The Board of Directors recommend his appointment.

Interest of Directors

None of the Directors, except Sri S Ravindran is concerned or interested in the resolution.

Item No.7

The equity shares of the Company have been listed and admitted to dealings on the National Stock Exchange of India (NSE) with effect from 7th October 2005. As per listing requirements of NSE, amendments are proposed to the Articles of Association of the Company for including specific provisions relating to share transfers and unclaimed dividends. Accordingly, a special resolution is placed before the Members for their approval.

Interest of Directors

None of the Directors are interested in the resolution.

Item No. 8

The Equity Shares of your company are listed on the Madras Stock Exchange Limited (MSE) and the National Stock Exchange of India Limited (NSE), a stock exchange having nation wide terminals. While the shares of your Company are frequently traded on the NSE, there has been no trading on the MSE after March 2004. SEBI has issued Guidelines for delisting of securities which inter-alia provides for voluntary delisting of shares by a company from the stock exchanges.

It is therefore proposed to delist the equity shares of your company from the MSE subject to shareholders approval. The Equity Shares of the Company would however continue to be listed on NSE.

Accordingly, a Special Resolution is submitted for consent of shareholders.

Interest of Directors

None of the directors are interested in the resolution.

Chennai
14th July 2006

By Order of the Board
B Shanmugasundaram
Secretary

PARTICULARS OF THE DIRECTORS SEEKING APPOINTMENT / REAPPOINTMENT IN THE FORTHCOMING ANNUAL GENERAL MEETING PURSUANT TO CLAUSE 49 OF THE LISTING AGREEMENT

1. Item No.3 of the Notice

Name of the Director : Sri V Gopalakrishnan
Age : 76 Years
Qualification : B.E.

Sri V Gopalakrishnan has been on the Board of the Company since 1988. He is also a member of the Audit Committee. He was with M/s Binny Limited for many years and retired as its Chief Engineer. He was a member of the Technical Advisory Committee and the Vice Chairman of Karnataka Chapter of the Indian Institution of Plant Engineers. Sri V Gopalakrishnan holds 916 Equity Shares in the Company.

Other Directorships – Nil

2. Item No.5 of the Notice

Name of the Director : Sri S Ram
Age : 66 Years
Qualification : B.E.(Mech.), MS (Prod. Engg.)

Sri S Ram was appointed as Director of the company on 24th January 2006. He has over 3 decades of work experience in Vehicle and Component Industry. Sri S Ram holds 9950 Equity Shares in the Company.

Details of other Directorships / Committee membership held

Chairman & Managing Director

- (a) Wheels India Limited
- (b) Axles India Limited

Director

- (a) T V Sundram Iyengar & Sons Limited
- (b) Sundaram Industries Limited
- (c) Southern Roadways Limited
- (d) Sundaram Finance Limited
- (e) TVS Automotive Europe Limited., UK
- (f) Irizar TVS Limited
- (g) TVS Logistics Services Limited

Committee Membership

Axles India Limited - Chairman, Audit Committee
Wheels India Limited - Member, Shareholders/Investors Grievance Committee

3. Item No.6 of the Notice

Name of the Director : Sri S Ravindran
Age : 54 Years
Qualification : B.Com, A.C.A.

Sri S Ravindran was appointed as Additional Director of the company on 24th January 2006. He has diverse experience in various positions in Auto-ancillary industry, Educational printing, Publishing and Distribution Industry and Health Care Industry, in India and abroad for over 30 years. Sri S. Ravindran holds 400 Equity Shares in the Company.

Details of other Directorships / Committee membership held

- (a) Transenergy Limited
- (b) Light Alloy Products Limited
- (c) ABI-Showatech (India) Limited
- (d) Aztec Auto Limited
- (e) Wichitra Auto Limited

Committee Membership

ABI Showatech (India) Ltd – Member, Audit Committee

DIRECTORS' REPORT TO THE SHAREHOLDERS

Your Directors have pleasure in submitting the **52nd Annual Report** together with the Audited Accounts for the year ended 31st March 2006.

(Rs. in Lakhs)

| Financial Results | 31.03.2006 | 31.03.2005 |
|---|----------------|------------|
| Profit before Tax | 1382.93 | 1517.06 |
| Add: Provision written back no longer required | — | 8.48 |
| Less: Provision for taxation (including deferred tax) | 475.99 | 510.70 |
| Profit after Tax | 906.94 | 1014.84 |
| Add: Balance in P&L A/c brought forward from previous year | 319.91 | 254.10 |
| Profit available for appropriation | 1226.85 | 1268.94 |
| Appropriations | | |
| Dividend: | | |
| – Interim | 291.19 | 291.19 |
| – Final | — | — |
| Dividend Tax (Including Surcharge) | 40.84 | 40.84 |
| General Reserve | 600.00 | 617.00 |
| Surplus Balance in Profit & Loss Account | 294.82 | 319.91 |

Performance

The Sales turnover of the Company for the year ended 31st March 2006 at **Rs.207.07** Crores was lower than that achieved during the previous year by 3%. The previous year turnover was Rs.213.50 Crores.

The Profit Before Tax for the year under review at Rs.13.83 Crores is lower than that of the previous year by 8.8%. Correspondingly, the Profit After Tax is also lower by 10.6%. While your Company's costs continue to be among the lowest in the industry, margins are under pressure due to increased competition.

Dividend

The Board of Directors in July 2006 have declared an Interim Dividend of Rs. 7/- per equity share on the

paid up capital of Rs.415.98 lakhs for the year ended 31st March 2006. The dividend, together with dividend tax of Rs.40.84 lakhs absorbs a sum of Rs.332.03 lakhs. The Board of Directors propose to treat the said interim dividend as the total dividend for the year.

NSE Listing

Your Company's shares have been listed and admitted for dealing on the National Stock Exchange of India on 07th October 2005, to provide more liquidity for our shares. The response from the market is good and the shares actively traded.

Management Discussion and Analysis Report

Management Discussion and Analysis, in compliance with clause 49 of the Listing Agreement is attached, forming part of this report.

Corporate Governance

A detailed report on corporate governance, together with a certificate from the Statutory Auditors in compliance with clause 49 of the Listing Agreement is attached, forming part of this report.

Directors

Sri S Viji, a Director since 1995, resigned from the Board with effect from 24th January 2006. Sri S Ram was appointed in his place as a Director of your Company on 24th January 2006 and will hold office upto the forthcoming Annual General Meeting. Sri S Ravindran was appointed as Additional Director of the Company on 24th January 2006 and will hold office upto the forthcoming Annual General Meeting. Notices under Section 257 of the Companies Act, 1956 have been received from Members, proposing their appointment as a Director of the Company at the ensuing Annual General Meeting. Sri K R Ragavan, a Director since 1983 resigned from the Board with effect from 20th March 2006.

The Chairman and the Board of Directors placed on record their appreciation of the valuable services,

counsel and guidance rendered by both Sri S Viji and Sri K R Ragavan during their period of long association with the Company.

Sri V Gopalakrishnan, Director, retires by rotation and being eligible offers himself for re-election.

Auditors

The Auditors, M/s. Sundaram & Srinivasan, Chartered Accountants, Chennai, retire and are eligible for re-appointment. A certificate under Section 224(1B) of the Companies Act, 1956 has been received from them.

Information as per Section 217 (1) (e) of the Companies Act, 1956

Your Company has no activity relating to conservation of energy or technology absorption. During 2005-2006, the Company did not have any foreign exchange earnings or outgo other than travel and subscription expenses.

Personnel

There is no employee, particulars of whom are required to be furnished u/s 217(2A) of the Companies Act, 1956.

Directors' responsibility statement

As required u/s 217(2AA) of the Companies Act, 1956, your Directors state that:

- i) in the preparation of the annual accounts, the applicable accounting standards have been followed.
- ii) the Directors have 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 ended 31st March, 2006 and of the profit of the Company for that year.
- iii) the Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956, for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities.
- iv) the Directors have prepared the annual accounts on a going concern basis.

Acknowledgement

The Directors thankfully acknowledge the excellent co-operation received from all the suppliers. The Directors also thank all the dealers for their good support. The Directors wish to thank State Bank of India and State Bank of Mysore for their continued support and co-operation. The Directors wish to record their appreciation for the sincere and dedicated services rendered by all the staff and executives of the Company.

On Behalf of the Board of Directors

Chennai
14th July 2006

S Narayanan
Chairman

MANAGEMENT DISCUSSION & ANALYSIS

The year under review witnessed moderate growth in vehicle industry. The Medium and Heavy commercial vehicle saw reasonable modest growth led by multi-axle and tractor trailer vehicles. In the light segment, growth was evident with the introduction of sub-one-ton vehicles for intra-city movements. Cars and multi-utility vehicles growth was boosted by sustaining the domestic market and exports. With good monsoons and agricultural credit availability, agricultural tractor segment witnessed robust growth in production.

Introduction of VAT in many of the States created hesitancy among the auto parts dealers in those States. The major markets of North and East were set-back due to this factor. Your Company managed to cross the Rs.200 Crores sales mark, registering sales of Rs.207.07 Crores compared to previous year's Rs.213.50 Crores. The effect of VAT in the earlier part of the year under review was significant. Your Company made vigorous efforts to bring up the sales volume in the second half to above Rs.200 Crore level. Profit after tax in the year under review ended with Rs.9.07 Crores versus previous year's Rs.10.15 Crores.

OUTLOOK

In the States where VAT was introduced in April 2005, it took sometime to persuade the trade to come under the new VAT regime and business gradually improved. VAT significantly affected us in North and East India in the first quarter; but by the end of the year under review, stability came in North India. However, in Kolkatta, Bihar etc normal business trends are yet to set in even at the end of the year.

As many VAT affected States hesitantly limped towards normalcy, more States introduced VAT on 1st April 2006. These are Gujarat, Rajasthan, Jharkhand and Chattisgarh. The Company has again been significantly impacted in these States in the first quarter, especially in April 2006. We are however hopeful that business will gradually improve.

Another significant development this year is the Union Government's act to increase the Excise Duty collection from the aftermarket business for automobile parts. Excise Duty, which was hitherto levied on List less Discount, has now been imposed on MRP less 33.5% abatement. This puts up the price of parts to trade in the range of 4% to 6%. Further, many items sourced by manufacturers from small-scale industries were earlier exempted from Excise Duty. By the new notification, this exemption has now been withdrawn. This development could affect our business in the second quarter of the year ending March 2007. However, we are pleased to inform you that in the first quarter of the year 2006-2007, the Company saw a sales increase of 25.28% compared to the corresponding quarter of the previous year (year under review).

Your Company has an extensive network of branches spread over almost all the States in the Union and a few Union Territories. We expect VAT introduction to curtail inter-State flow of material by arbitrageurs and progressively drive up sales in the consumption points. However, to enable this to happen fully, the Central Government will have to eliminate Central Sales Tax.

IT INITIATIVES

Your Company had installed a few years ago, a most modern and up-to-date retail transaction system tailor-made and custom built by a global technology firm. Reports are available up-to-date for data mining and to monitor the 49 branches from a single location. This system is further going to be improved upon for more efficiency during the coming year.

INTERNAL CONTROL SYSTEMS

The emphasis put forth by your company with respect to internal controls is extensive. There is an in-house Internal Audit Team, which visits branches regularly to check on the prevailing systems and controls and reports any shortcomings, which are rectified forthwith. Moreover, your Company also has External Auditors who have been appointed to carry out specific assignments at Head Office to check and improve the internal control systems.

The audit committee of the Board has met three times during the year under review along with internal auditors and the statutory auditors to review amongst others internal control systems and procedures.

HUMAN RESOURCES

The Management enjoys cordial relations with all its employees. In order to reduce attrition levels, especially with regard to our Accountants, modifications have been made in the remuneration package for most key personnel. This has been received well.