

L.G. BALAKRISHNAN & BROS LIMITED COIMBATORE



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**50th
ANNUAL REPORT
2005 - 2006**

10 YEAR FINANCIALS

	1996-97	1997-98	1998-99	1999-2000	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
OPERATING RESULTS										
Sales (Including Excise duty)	12629.26	15371.73	16734.63	17224.98	19491.96	20734.43	25238.30	29833.76	40836.10	46974.54
Profit before Depreciation										
Interest & Tax	2134.70	2256.99	2347.25	2193.59	2426.20	2498.47	3149.03	4099.90	5533.68	6083.02
Profit before Interest & Tax	1706.66	1665.27	1730.47	1541.93	1698.90	1635.02	2089.81	2848.90	3910.18	4129.54
Profit before Tax (PBT)	593.76	441.57	589.64	490.64	780.37	826.38	1376.01	2002.68	2407.06	2215.01
Profit after Tax (PAT)	520.81	291.57	474.64	365.64	650.37	653.76	954.51	1361.08	1649.22	1359.42
Dividends	70.48	88.43	88.43	78.61	137.56	157.21	216.17	235.82	628.85	235.82
Dividend Tax	7.05	8.84	9.73	8.64	14.03	-	27.70	30.21	84.43	33.07
Retained Profits	443.28	194.30	376.48	278.39	496.78	496.55	710.64	1095.05	935.94	1090.53
SOURCES AND APPLICATION OF FUNDS										
SOURCES OF FUNDS:										
Share Capital	313.23	393.03	393.03	393.03	393.03	393.03	393.03	786.06	786.06	786.06
Reserves & Surplus	3724.09	4771.39	5147.87	5426.26	5925.04	5335.90	6046.54	6748.56	7729.96	8784.65
Net Worth	4037.32	5164.42	5540.90	5819.29	6318.07	5728.93	6439.57	7534.62	8516.02	9570.71
Debt	5835.04	7382.08	6433.37	5875.18	5488.71	5184.37	4952.48	6007.27	12790.26	18381.26
Deferred Tax Liability (Net)	-	-	-	-	-	1018.31	1009.81	1001.41	1276.76	1848.02
Funds Employed	9872.36	12546.50	11974.27	11694.47	11806.78	11931.61	12401.86	14543.30	22583.04	29799.99
APPLICATION OF FUNDS:										
Gross Fixed Assets	6291.14	8153.86	8721.44	9351.00	10479.31	11645.46	13160.83	15162.75	19921.25	28235.21
Depreciation	1857.54	2534.49	3147.34	3797.46	4377.40	5104.99	6011.76	7203.68	8586.77	10453.53
Net Fixed Assets	4433.60	5619.37	5574.10	5553.54	6101.91	6540.47	7149.07	7959.07	11334.48	17781.68
Capital Work-in-Progress	91.46	270.86	299.40	193.66	148.71	91.66	36.76	68.30	2971.71	1183.77
Investments	756.61	281.24	189.86	188.93	168.31	167.99	174.82	669.28	398.19	370.67
Gross Current Assets	6488.60	9544.65	8588.94	8482.60	8907.74	9080.57	10241.89	12182.11	16044.52	21447.96
Current Liabilities & Provisions	1897.91	3238.02	2732.83	2765.36	3547.29	3962.78	5200.68	6335.46	8175.76	10984.09
Net Current Assets	4590.69	6306.63	5856.11	5717.24	5360.45	5117.79	5041.21	5846.65	7868.76	10463.87
Deferred Revenue Expenditure	-	68.40	54.80	41.10	27.40	13.70	-	-	9.90	-
Net Assets Employed	9872.36	12546.50	11974.27	11694.47	11806.78	11931.61	12401.86	14543.30	22583.04	29799.99
RATIOS:										
ROCE(%)	18.10%	14.47%	13.83%	12.48%	13.80%	12.65%	13.99%	16.98%	19.10%	13.80%
PBT to Sales (%)	4.70%	2.87%	3.52%	2.85%	4.00%	3.99%	5.45%	6.71%	5.89%	4.72%
Return on Networth (%)	12.90%	5.65%	8.57%	6.28%	10.29%	11.41%	14.82%	18.06%	19.37%	14.20%
Earnings per Share (Rs.)	1.66	0.74	1.21	0.93	1.65	1.66	2.43	1.73	2.10	1.73
Dividend Per Share (Rs.)	0.23	0.22	0.22	0.20	0.35	0.40	0.55	0.30	0.80	0.30
Book Value per share (Rs.)	11.89	12.14	13.10	13.81	15.08	13.58	15.38	8.59	9.83	11.18
Debt Equity Ratio (Times)	1.45	1.43	1.16	1.01	0.87	0.90	0.77	0.80	1.50	1.92
Fixed Assets Turnover (Times)	2.85	3.06	2.99	3.10	3.34	3.28	3.69	3.95	4.23	3.23
Net Working Capital Turnover (Times)	2.75	2.44	2.86	3.01	3.64	4.05	5.01	5.10	5.19	4.49



L.G. BALAKRISHNAN & BROS LIMITED

DIRECTORS

Sri. L.G.Varadarajulu
 Sri. B. Vijayakumar - Managing Director
 Sri. P.S. Balasubramanian - Joint Managing Director
 Sri. P. Balasubramanian
 Sri. C. Nachiappan
 Sri. S. Sivakumar
 Sri. V. Govindarajulu
 Sri. P. Shanmugasundaram
 Sri. T. Muralidhar Bhagavat

COMPANY SECRETARY

Sri. M. Lakshmi Kanth Joshi

AUDITORS

M/s. Deloitte Haskins & Sells
 Chartered Accountants

BANKERS

Corporation Bank
 Andhra Bank
 Union Bank of India
 IndusInd Bank Limited
 ICICI Bank Limited
 IDBI Bank Limited
 The Bank of Nova Scotia
 UTI Bank Limited
 HDFC Bank Limited
 EXIM Bank
 BNP Paribas
 Standard Chartered Bank

REGISTRAR AND SHARE TRANSFER AGENTS

Cameo Corporate Services Limited
 "Subramanian Building"
 No.1, Club House Road,
 Chennai- 600 002.

REGISTERED OFFICE

6/16/13, Krishnarayapuram Road,
 Ganapathy, Coimbatore - 641 006.



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50th ANNUAL GENERAL MEETING

Date	: 30th August 2006
Day	: Wednesday
Time	: 10.30 A.M
Venue	: Ardra Convention Centre Kaanchan, 9, North Huzur Road Coimbatore- 641 018.
Book Closure Dates	: 16.08.2006 to 30.08.2006 (Both Days Inclusive)



NOTICE

Notice is hereby given that the Fiftieth Annual General Meeting of the Members of the Company will be held on Wednesday, the 30th day of August, 2006 at 10.30 A.M at Ardra Convention Centre, Kaanchan, 9, North Huzur Road, Coimbatore - 641 018, to transact the following businesses:

AGENDA

ORDINARY BUSINESS

1. To consider and adopt the Audited Accounts of the Company for the year ended 31st March, 2006, the Report of the Board of Directors to the shareholders and the Report of the Auditors of the Company.
2. To declare a dividend.
3. To appoint a Director in the place of Sri. C. Nachiappan, who retires by rotation, and being eligible, offers himself for re-appointment.
4. To appoint a Director in the place of Sri P.Shanmugasundaram, who retires by rotation, and being eligible offers himself for re-appointment.
5. To re-appoint Messrs. Deloitte Haskins & Sells, Chartered Accountants as Auditors, to hold office from the conclusion of this Annual General Meeting until the conclusion of the next Annual General Meeting and to fix their remuneration.

SPECIAL BUSINESS

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

RESOLVED that a formal agreement be entered with the family members of Late Sri. L.G. Balakrishnan for the continued usage of the name "LGB" for the company purposes and for new ventures to be promoted by the company as long as it is under the direct management control of the family members of Late Sri. L.G. Balakrishnan.

It is **FURTHER RESOLVED** that an appropriate royalty shall be paid in the event of change in the management control.

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

RESOLVED that lumpsum remuneration not exceeding Rs. 44 .00 lakhs be paid to Sri. T. Muralidhar Bhagavat, Director of the Company who was Incharge for Forging Division of the Company upon ceasing responsibility of the operations of the Division.

EXPLANATORY STATEMENT

(Pursuant to Section 173(2) of the Companies Act, 1956)

ITEM No.6

The trade name "LGB" rests with the family members of Late Sri. L.G. Balakrishnan. Due to the changing business environment, it becomes necessary to enter and formalize an arrangement of usage. It is proposed that, the Company will continue to use the name "LGB" free of cost as long as the company is under the management control of the descendants of Late Sri. L.G. Balakrishnan. It is also proposed to enter into a separate agreement in this regard.

The promoters have given un-restricted rights for the usage of the name "LGB" to the Company in any form as part of names of the new Companies proposed to be incorporated or any such ventures to be undertaken in any State of India or elsewhere.

It is further proposed that an appropriate royalty agreement be finalized by the Board for payment of royalty for the use of the name "LGB" in the event of change in management control.

None of the directors is interested or concerned in this resolution except Sri. B. Vijayakumar and Sri. L.G. Varadarajulu since they are the promoters of the Company.

**ITEM No.7**

Sri. T. Muralidhar Bhagavat, Director of the Company was Incharge of the operations of Forging Divisions of Mysore and Bangalore for the past 2 years. The Company had acquired the operations of MGM Industries and Swathe Gears and Heat Treaters pursuant to slump sale agreements entered into with the respective undertaking from 1st June 2004. Sri. T. Muralidhar Bhagavat by virtue of his past experience as agreed was incharge of the said divisions and operations for the past two years. With effect from 1st April, 2006 the operations of the Forging Divisions have come under the direct operational control of the company. As part of the original arrangement, it is proposed to pay a lumpsum remuneration not exceeding Rs.44 lakhs for the service rendered by Sri. T. Muralidhar Bhagavat for the past two years.

None of the directors other than Sri. T. Muralidhar Bhagavat is interested or concerned in the resolution.

NOTES:

1. **Every member entitled to attend and vote at a meeting is entitled to appoint a proxy to attend and vote instead of himself. Such proxy need not be a member of the Company.**
2. **The proxy form duly filed in and stamped has to be delivered to the Company not later than 48 hours before the time of holding the aforesaid meeting.**
3. Members holding shares in physical form are requested to intimate the Change of Address and their Bank Account details such as Bank Name, Branch with address and Account number for incorporating the same in Dividend Warrants to M/s. Cameo Corporate Services Limited, "Subramanian Building" No. 1, Club House Road, Chennai- 600 002 quoting their respective folio numbers and those holding shares in the Demat form shall intimate the

above details to their Depository Participants with whom they have Demat account.

4. The register of members and the share transfer register of our company will remain closed from 16-08-2006 to 30-08-2006 (both days inclusive).
5. Pursuant to Section 205-A of the Companies Act, 1956, all unclaimed dividends shall be transferred to the "Investor Education and Protection Fund" of the Central Government after a period of seven years from the date of declaration. Shareholders who have not encashed the dividend warrants for the years 1998-99 and thereafter are requested to write to the Secretarial Department of Company at 6/16/13, Krishnarayapuram Road, Ganapathy, Coimbatore- 641 006 for claiming the dividend.
6. With respect to payment of Dividend, the Company provides the facility of Electronic Clearing Service (ECS) to shareholders residing in the following cities: Ahmedabad, Bangalore, Baroda, Bhuvaneshwar, Bhopal, Chandigarh, Chennai, Coimbatore, Guwahati, Hyderabad, Indore, Jaipur, Kanpur, Kolkata, Lucknow, Mumbai, Madurai, Nagpur, New Delhi, Patna, Panjim, Pune, Surat, Trivandrum, Vijaywada, Vishakapatnam.

Shareholders holding shares in the physical form, who wish to avail ECS facility, may authorize the Company with their ECS mandate in the prescribed form (enclosed) or can be had from Registrar and Transfer Agents M/s. Cameo Corporate Services Limited on request. Request for payment of dividend through ECS for the year 2005-2006 should be lodged with M/s. Cameo Corporate Services Limited on or before 16-08-2006

7. Members who are holding shares under more than one folio may approach the Company's Share Transfer Agent for consolidation.
8. Members can avail the nomination facility, under Section 109 A of the Companies Act,



- 1956, by filing up Form No 2B with the Share Transfer Agent and by execution of the relevant form with the Depository Participants concerned.
9. Since the Company has Sub-divided the shares of Rs. 10/- each into Re.1/- each Members are requested to obtain the Original Shares of Re.1/- each in exchange of the Shares of Rs.10/- each by surrendering the same to the Company.
10. Members are requested to bring their copy of the Annual Report with them to the Annual General Meeting.
11. Any member who needs any clarification on the accounts or operation of the Company should write to the Company Secretary, so as to reach him at-least 7 days before the meeting, so that the information required can be made available at the meeting.

Coimbatore
29-05-2006

By Order of the Board,
M. Lakshmi Kanth Joshi
Company Secretary

A brief resume in respect of the proposed appointment and re-appointment of Directors is given below in terms of Clause 49 of the Listing Agreement

Sri. C. Nachiappan, aged 71 years is a Medical Practitioner by profession and a businessman. His knowledge and expertise in the business activities over 4 decades benefited the Company. He is in the Board since 1983.

Other Directorships

Aqua Marine Private Limited

L.G.B. Auto Products Limited

Elgi Automotive Services Limited

Number of Shares held in the Company

68,000 equity shares of Re.1/- each

Member of Committee

L.G. Balakrishnan & Bros Limited

Remuneration Committee - Chairman

Member of Committee in other
Public Companies

Nil

Sri. P. Shanmugasundaram aged 58 is a Chartered Accountant by profession and Law graduate. His vast experience in the profession over 2 decades brought fruitful benefits to the Company. He is associated with the Company since 2001.

Other Directorships

Sabare International Limited

Elgi Automotive Services Limited

L.G.B. Auto Products Limited

D.S.M. Soft Private Limited.

Number of Shares held in the Company

Nil

Member of Committee

L.G. Balakrishnan & Bros Limited

Audit Committee - Chairman

Member of Committee in other
Public Companies

Sabare International Limited

Audit Committee - Chairman



DIRECTORS' REPORT

Ladies and Gentlemen,

Yours Directors are pleased to present the 50th Annual Report and the audited accounts for the year ended March 31, 2006.

The performance of the Company for the financial year ended March 31, 2006 is summarized below:

FINANCIAL RESULTS :

Particulars

(Rs. In Lakhs)

	31-03-2006	31-03-2005
Gross profit before interest, depreciation	6083.02	5533.68
Less:		
Interest	1953.48	1503.12
Depreciation	1914.53	1623.50
Profit Before Tax	2215.01	2407.06
LESS: Provisions for		
Taxation		
Current Income Tax	240.00	490.00
Deferred Tax	571.26	267.84
Fringe Benefit Tax	44.33	-
Profit After Tax	1359.42	1649.22
ADD : Balance brought forward	620.92	695.66
Available for appropriation	1980.34	2344.88
APPROPRIATIONS :		
1. Proposed Dividend on Equity Shares	235.82	628.85
2. Tax on Dividend	33.07	84.43
3. Transfer to General Reserves	135.94	1010.68
4. Balance carried over	1575.51	620.92
	1980.34	2344.88

DIVIDEND

Your Directors have recommended a dividend of Re 0.30 per equity share on 7,86,06,320 equity shares of Re.1/- each for the financial year ended 31 st March, 2006, if approved at the ensuing Annual General Meeting, will be paid to (i) all those members whose names appear in the Register

of Members as on 30-08-2006 and (ii) all those whose names appear on that date as beneficial owners as furnished by National Securities Depository Limited and Central Depository Services (India) Limited.

In order to continue high growth initiate the Board has formulated a dividend policy with the total pay out in the range of 20% to 25% of the net earnings for each year with exact percentage being decided based on capital expenditure and expansion for the period.

REVIEW OF OPERATIONS :

The management team of our Company has performed impressively and has attained the targets set for them. Correspondingly the Company has achieved the targets set in terms of turnover, registering a turn over of Rs.491.91 Crores (including Subsidiary Company turnover-Textiles). The previous year's turnover include a turnover of Rs.47.85 Crores pertaining to division which has been subsequently hived off. The actual growth therefore is a healthy by 28.73%.

However the target in terms of profitability could not be achieved for the following reasons.

1. Unexpected delay in finalizing financial arrangements, delayed the Greenfield forging project. This operation is now set to begin only in the first quarter of 2007. The delay has resulted in not servicing our existing production machines in the forging divisions.
2. The cost of raw materials prices has not been absorbed due to reluctance of our customers in accepting the same. This has led to a delay in our price adjustments.

In our cold forgings operations, our Company has invested heavily in specialized machines. These machines are in the process of being installed and as such we are incurring heavy interest costs without the corresponding turnover. The division is also undertaking restructuring of its product portfolio.

The Fine Blanking Divisions has achieved the targets and profits set for it and the fine blanking team is very confident of producing qualitative results for this year.



The historic transmission division has turned out an impressive performance and met the targets set out for them in full. With the expansion programmes now in place and with the necessary steps taken in terms of restructuring the product portfolios, securing price increase for the raw material price hikes and cost reduction methods, your Company will turn out better results in the current year.

EXPANSION PROGRAMME :

Our Company had acquired the assets of the MGM Industries and Swathe Gears and Heat Treaters pursuant to slump sale agreement with effect from 1st June, 2004. Sri. T. Muralidhar Bhagavat, Director, who was incharge of the operations of the Forging Division for the past 2 years as per the arrangement at the time of purchase. With effect from 1st April, 2006 the operations have been under the control of our Company. The Board of Directors taken on record its appreciation and thankfulness to the excellent services rendered by Sri. T. Muralidhar Bhagavat during the tenure of his office.

The Company is vigorously making up the lost time in commissioning up the new plant for forging at our lands near Annur. For the transmission division, the Company has acquired lands at Pune and Utharanchal and the building work has already started at Utharanchal.

These two expansion projects, have already been initiated with assistance from International Finance Corporation, Washington (IFC) a subsidiary of World Bank. The Investment comprises an equity investment of 5 Million U S \$ equivalent (Rs.22.07 Crores) and a term loan on long term basis of 15 Million U S \$ equivalent (Rs.66.12 Crores). With this move IFC is now an esteemed shareholder of our Company with a holding of 6.58% of our enhanced Paid up Capital. The Directors are very happy and wish to extend their warm welcome to IFC as a member of our Company. The Directors look forward to a good interaction with various members of the IFC giving us access to a qualitative global operations.

This mark a significant step in the growth of the Company and its access to both domestic & overseas markets.

RIGHTS ISSUE OF OPTIONALLY CONVERTIBLE SECURED BONDS:

The Company is in the verge of issuing on Rights Basis of Optionally Convertible Secured Bonds for an extent of Rs. 100 Crores which may be convertible into or exchangeable into equity shares or debentures to be converted into equity shares at a future date or convertible secured bonds entitling the persons to apply for equity shares or any combination thereof at a premium as may be decided by your Board of Directors with a view to augment financial resources for the Company for repayment of existing high cost debts and also to convert short term loans into long term loan.

ISSUE OF SHARES BY SUBSIDIARY COMPANY

Your Directors wish to inform that a letter of offer for subscription in equity shares of Rs.10/- each at a premium of Rs. 25/- aggregating an amount not exceeding Rs, 10 Crores is received from LGB Textiles Limited, our wholly owned subsidiary company. Your Directors explained the inability of your company to subscribe to the offer at present, owing to the proposed expansion programmes ahead. Hence it is proposed to renounce the rights in favour of any willing investors at the best possible premium, if any, for such renunciation.

Interested shareholders may contact the Secretarial Department of our company for further details with regard to the subscription

SUBSIDIARY COMPANY :

Consequent upon the order No.47/96/2006-CL-III dated 03-04-2006 received from the Department of Company Affairs, Government of India, the company is exempted from furnishing the audited financial results of the wholly owned subsidiary company, M/s. LGB Textiles Limited along with the annual report for the year 2005-2006.

INDUSTRIAL RELATIONS :

Industrial relations are cordial in all the units and your Directors appreciate the co-operation extended by the employees.

FIXED DEPOSITS :

The amount of fixed deposit available with the Company as on 31-03-2006 is Rs.582.16 Lakhs.



There are no overdue/unclaimed deposits as on 31-03-2006. There were no failure to make repayment of Fixed Deposits on maturity, on the fulfillment of the terms and conditions of your company's scheme.

LISTING WITH STOCK EXCHANGES :

Your Company Shares are listed at Coimbatore, Madras, Bombay and National Stock Exchanges. Necessary Listing Fees have been paid to all these stock exchanges for the year 2006-2007.

DIRECTORATE :

Sri C. Nachiappan and Sri P. Shanmugasundaram will be the Directors retiring by rotation at the ensuing annual general meeting and being eligible offer themselves for reappointment. The profile of the Directors to be re-appointed in the ensuing Annual General Meeting is given in the Annexure to this report.

AUDITORS :

The Company's Auditors Messrs. Deloitte Haskins & Sells are to retire at the ensuing Annual General Meeting. They are eligible for reappointment and have consented to act as Auditors of the Company, if appointed and the necessary certificate pursuant to Section 224(1B) of the Companies Act, 1956 have been received from them.

INFORMATION IN ACCORDANCE WITH SECTION 217 OF THE COMPANIES ACTS, 1956.

There are no employees within the meaning of Sub-Section (2A) of section 217 who are getting remuneration in excess of the amounts prescribed.

STATUTORY INFORMATION

The statement showing the particulars of Conservation of Energy, Technology Absorption, Adaptation and Innovation pursuant to Section 217(1)(e) of the Companies Act, 1956 read with the Companies (Disclosures of particulars in the Report of Board of Directors) Rules 1988 is given in the annexure forming part of this report.

CORPORATE GOVERNANCE

Pursuant to the requirement of Listing Agreements with the Stock Exchanges, yours Directors are pleased to annex the following:

1. Management Discussion and Analysis Report
2. A Report on Corporate Governance
3. Auditors Certificate regarding Compliance of conditions of Corporate Governance.

DIRECTORS' RESPONSIBILITY STATEMENT

In compliance with the provisions of Section 217(2AA) of the Companies Act, 1956, yours Directors wish to place the following on record:

1. In the preparation of the Annual Accounts, all the applicable accounting standards have been followed.
2. The accounting policies are consistently followed and the judgments and estimates made are reasonable and prudent so as to give a true and fair view of the state of affairs of the company as at 31st march, 2006 and of the profit of the company for the financial year.
3. The Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities.
4. These Annual Accounts have been prepared on a "going concern basis"

ACKNOWLEDGMENT

The relationship between the management and staff & workers is very cordial and your Directors wish to place on record their sincere appreciation for the devoted and efficient services rendered by all employees of the Company. Yours Directors thankfully acknowledge the continued co-operation and support rendered by Banks and Financial Institutions. It also thanks the customers and suppliers for their continued support and investors for reposing faith in the Company.

By Order of the Board

Coimbatore
29-05-2006

B. VIJAYAKUMAR
Managing Director

L.G. VARADARAJULU
Director