

REPORT AND ACCOUNTS 2007

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Lokesh Machines Limited

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BOARD OF DIRECTORS

Mr Mullapudi Lokeswara Rao	Managing Director
Mr K Krishna Swamy	Director (Technical)
Mr B Kishore Babu	Executive Director
Mr M Srinivas	Director (Auto Component)
Mr M Srikrishna	Director (CNC Machines Division)
Mr B R Mahesh	Director
Mr V Sankar	Nominee Director of IDBI
Dr Y Satyanarayana	Director
Mr R Mohan Reddy	Director
Mr Y Venkata Rao	Director

STATUTORY COMMITTEES

AUDIT COMMITTEE

Mr B R Mahesh - Chairman
Dr Y Satyanarayan - Member
Mr V Shankar - Member

REMUNERATION COMMITTEE

Dr Y Satyanarayana - Chairman
Mr V Shankar - Member
Mr B R Mahesh - Member

SHAREHOLDER/INVESTOR GRIEVANCE REDRESSAL COMMITTEE

Mr M Srinivas - Chairman
Mr R Mohan Reddy - Member
Mr Y Venkata Rao - Member

COMPANY SECRETARY

Bijan Kumar Dash

BANKERS

State Bank of Hyderabad Industrial Finance Branch Panjagutta, Hyderabad - 500 082	Punjab National Bank Saifabad Branch Hyderabad - 500 004	State Bank of Indore Abids Hyderabad - 500 001
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AUDITORS

STATUTORY AUDITORS

M/s Brahmayya & Co.,
Chartered Accountants
Flat no 403 & 404
Golden Green Apartments
Erramanjal Colony
Hyderabad- 500 082

INTERNAL AUDITORS

M V Narayana Reddy & Co.
Chartered Accountants
Ameerpet, Hyderabad

REGISTRARS & TRANSFER AGENTS

Karvy Computershare Private Limited.
Karvy House, 46, Avenue 4,
Street No: 1, Banjarahills,
Hyderabad- 500 034

REGISTERED OFFICE

B-29, EEIE, Stage II
Balanagar
Hyderabad - 500 037

WORKS

Temple Road, Bonthapally, Medak District, Andhra Pradesh	B - 25 & 36, EEIE, Stage II, Balanagar, Hyderabad, Andhra Pradesh	Ravalkol village, Medchal Mandal, Rangareddy Distt, Andhra Pradesh	Plot No 41, IDA Balanagar, Hyderabad
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NOTICE OF 23rd ANNUAL GENERAL MEETING

NOTICE is hereby given that the Twenty Third Annual General Meeting of **Lokesh Machines Limited** will be held on Thursday, the 27th September, 2007 at 10.00 a.m. at Jublee Hills International Centre, Near Jublee Hills Check Post, Road No 14, Hyderabad, 500 033 to transact the following business:

ORDINARY BUSINESS

1. To receive, consider and adopt the Balance Sheet as at 31st March 2007 and the Profit and Loss Account for the year ended on that date together with the Reports of Directors and Auditors thereon.
2. To declare Dividend.
3. To appoint a Director in place of Mr. K Krishnaswamy, who retires by rotation and is eligible for reappointment.
4. To appoint a Director in place of Dr. Y Satyanarayana, who retires by rotation and is eligible for reappointment.
5. To appoint Auditors and fix their remuneration.

**By Order of the Board
for Lokesh Machines Limited**

Bijan Kumar Dash
Company Secretary

Place : Hyderabad
Date : 27th August, 2007

NOTES :

1. A Member entitled to attend and vote at the above meeting is entitled to appoint a proxy and vote instead of himself and such proxy need not be a member of the Company.
2. Proxies should be deposited at the Registered Office of the Company not less than Forty-Eight hours before the scheduled commencement of the meeting.
3. The Register of Members and Share Transfer Books of the Company will remain closed from 20th September 2007 to 27th September 2007, both days inclusive on account of the Annual General Meeting and Dividend payment.
4. The Dividend as recommended by the Board, if sanctioned at the Meeting, will be paid to those members whose names appear on the Register of Members as on 27th September 2007, or to their nominees. In respect of shareholding in dematerialised form, dividend will be paid to the beneficial owners as at the end of business on

20th September 2007, as per details to be furnished by the depositories for the purpose.

5. Dividends in respect of shares held in dematerialised form shall be credited to the beneficial owner's bank account directly through Electronic Clearing Service (ECS) subject to availability of bank account details and 9 digits code number. In case the said details have not been provided to the concerned Depository Participant or there is any change, the same may please be intimated to the concerned Depository Participant immediately. Shareholders holding shares in Physical Form and desirous of availing the Electronic Clearing Service (ECS) facility are requested to complete the ECS Form attached to this Annual Report and forward the same to the Company's Registrars and Transfer Agent.

Brief Resume of Directors proposed to be reappointed

(In terms of Clause 49 of the Listing Agreement)

Dr Y Satyanarayana

Dr. Y Satyanarayana (67) is a mechanical engineer from Osmania University, and a Ph.D from Poona University. He was senior fulbright fellow at Havard Business School during 1976-78 for post doctoral work. He had a distinguished career in Andhra Pradesh Road Transport Organisation (APSRTC). From a Trainee Engineer in 1960, he grew to the position of Executive Director of APSRTC.

After his retirement from APSRTC, he is at present an Advisor on Energy, Environment, Urban Governance and Infrastructure in Administrative Staff College of India, Hyderabad.

Apart from having published over 30 papers in renowned management journals, he has also published four widely acclaimed books on transportation & management. He has been a recipient of a number of prestigious awards including "Best Engineer of the Year" Award of Federation of Andhra Pradesh Chamber of Commerce and Industry (FAPCCI) in 1984.

Mr. K Krishnaswamy

Mr. K Krishnaswamy (66) has Bachelor of Technology(Mechanical) degree under his belt. He has 41 years of vast experience in designing.

He started his career with HMT during 1964 and after a long stint in all its divisions, became the Chief Engineer in-charge of its design department during 1978-1983. Mr.Krishna Swamy, during his stay at HMT had received training under experts in design field including Cross Company Inc., USA, the then collaborator of HMT. He had designed a number of machines notable among them being rotary Indexing Machines, Linear Transfer Machines, Line Boarding Machines etc. Based on deep knowledge in designing machines that suit the requirement of customer.

LOKESH MACHINES LIMITED



23rd Report of the Board of Directors

Your Directors have pleasure in presenting the Twenty Third Annual Report together with the Audited Statement of Accounts for the financial year ended March 31, 2007.

Financial Results

The Audited Balance Sheet of your Company as at March 31, 2007, the Profit & Loss Account for the year ended on that date and the report of the Auditors thereon are being circulated with this report. The salient features of the financial Results are as follows:

Particulars	Rs in Lacs (2006-07)	Rs in Lacs (2005-06)
Net Sales	8,961.68	7,798.74
Other Income	125.87	62.04
Total Income	9,087.54	7,860.78
Profit before Depreciation, Interest and Taxes	2,455.82	2,175.98
Depreciation	377.20	333.04
Profit before Interest and Taxes	2,078.63	1,842.94
Interest and Finance Charges	401.61	499.78
Profit before Taxes	1,677.02	1,343.16
Provision for Taxes	607.51	520.15
Profits after Taxes	1,069.51	823.01

Your Directors are pleased to report a growth of around 30.00% in the net profit. Even after a 34.18% increase in the Share Capital, the EPS was maintained at 9.28 as against the EPS of 9.38 in previous year. The Company could achieve this Net Profit in spite of 46% increase in the personnel cost from Rs 747.14 Lacs to Rs.1091.29 Lacs incurred due to additional recruitment and increments given to the ex personnel to retain talented work force.

Out of the profits, the Directors propose a transfer of an amount of Rs.124.05 lacs to the General Reserves.

Dividend

Your Directors are pleased to recommend a Final Dividend of 10%. After the interim dividend of 15% paid in the month of March 2007, the total dividend payout for the year would be 25%, amounting to Rs294.44 lacs exclusive of dividend tax.

Implementation of the project and utilization of the issue Proceeds

Your Directors wish to report in terms of Clause 43 of the Listing Agreement with the Stock Exchanges that the Company has successfully completed the setting up of the facility for machining and supply of Cylinder Blocks and Cylinder Heads for Ashok Leyland Limited. After successful trial runs, your company has started the commercial production of the facility set up for the Ashok Leyland from April 2007.

In course of implementation of project certain revisions have been effected. Internal procedural problems in the suppliers countries and pre inspection rejections resulted in delay in arrival of some of the imported machineries. Your company have been able to achieve certain economies by identifying alternate machines at a lower. There has however, been some cost overrun in civil works and indigenous Plant and Machinery The details pf the project cost envisaged at the time of IPO and the revised project cost are given below.

PARTICULARS	PROJECTED COST AS PER PROSPECTUS	REVISED	ALREADY SPENT	Rs in Lacs TO BE SPENT
Component Division	2098.50	2462.01	2107.91	354.10
Machine Division	1829.26	1586.30	1328.55	257.75
Working Capital	773.32	773.32	773.32	-
IPO Expenses	300.00	356.16	356.16	-
Total	5001.08	5177.79	4565.94	611.85



It can be seen that there has been a marginal overrun of about 3.52% in implementation of the project this additional amount is being met out of internal generation after utilizing the entire proceeds of public issue

DIRECTORS' RESPONSIBILITY STATEMENT

In accordance with the provisions of Section 217 (2AA) of the Companies Act, 1956, the Directors of your Company confirm:

- I. That all applicable accounting standards have been followed in the preparation of annual accounts and that there are no material departures
- II. That the directors 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 as at 31st March, 2007 and of the profit of the Company for the year ended on that date.
- 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. That the Directors prepared the annual accounts on a going concern basis.

CORPORATE GOVERNANCE

A detailed report on Corporate Governance together with the Auditors Certificate on its compliance is annexed as Annexure – 'A'

MANAGEMENT DISCUSSION AND ANALYSIS REPORT

The Management Discussion and Analysis Report is annexed as Annexure –'B' to this Report.

PARTICULARS OF EMPLOYEES

The details of employees as envisaged by Section 217(2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975 is annexed as Annexure 'C' to this Report.

ADDITIONAL PARTICULARS

Particulars of conservation of energy, technology absorption and foreign exchange earnings and outgo as required under section 217(1)(e) of the Companies Act, 1956, read with the Companies (Disclosure of particulars in the Report of the Board of Directors) Rules, 1988, are given below:

Conservation of energy

Your company is not a power intensive industry, and hence the scope for significant measures for conservation of energy is limited.

Technology Absorption, Research and Development

Your Directors are pleased to report that the Ministry of Science and Technology, Govt. of India has accorded recognition to the in house R & D unit of your Company till 31.03.2008. The Company has been continuing its efforts in carrying out R & D activities for development of products and processes.

Foreign Exchange Earnings and Outgo

(i) Foreign Exchange Earnings: Rs.438.16 lacs

(ii) Foreign Exchange Outgo :

For Capital Goods	Rs.892.18 lacs
For Components on CIF basis	Rs.639.10 lacs
Towards Foreign Travel	Rs. 09.59 lacs



DIRECTORS

Mr. K. Krishna Swamy and Dr. Y. Satyanarayana retire by rotation at the ensuing Annual General Meeting, and being eligible offer themselves for re-appointment. Resolutions are being proposed at the ensuing Annual General Meeting proposing the reappointment of Mr. K. Krishna Swamy and Dr. Y. Satyanarayana as Directors of the Company. As required by clause 49 of the Listing Agreement with the Stock Exchange, brief resumes of Mr. K. Krishna Swamy and Dr. Y. Satyanarayana are included in the notice convening the Annual General Meeting.

AUDITORS

M/s. Brahmayya & Co, Chartered Accountants, the auditors of the Company retires and is eligible for re-appointment.

ACKNOWLEDGEMENTS

Your Directors wish to place on record their appreciation of the support and co-operation extended by the State Bank of Hyderabad, State Bank of Indore, Punjab National Bank and IDBI Ltd.

Your Directors also wish to place on record their appreciation of the excellent enthusiastic support received from the team of dedicated employees in the activities of your Company.

on behalf of the Board

M.SRINIVAS
(Director)

M.LOKESWARA RAO
Managing Director



Annexure "A" to the Directors' Report Report on Corporate Governance (in compliance with Clause 49 of the Listing Agreement)

I. Company's Philosophy on Corporate Governance

Your Company believes that a strong code of Corporate Governance is not only desirable from the perspective of the owners and other stake holders of the company, but it goes a long way in promoting virtues of transparency as well as ethical way of doing business. Your Company's philosophy and approach towards Corporate Governance is to utilise it as an instrument in its quest for excellence.

II. Board of Directors

Your Board of Directors consists of 10 directors, 5 each being executive and non executive. Your Company does not have an executive Chairman, and one of the non executive directors is usually elected as a Chairman of the Board Meetings. Four of the non executive directors are independent.

During the year under review, 7 Board Meetings were held on the following dates:

April 15, 2006,
April 19, 2006,

July 31, 2006,
August 29, 2006,

October 26, 2006,
January 29, 2007,

March 15, 2007



The details of the attendance of the Directors at the Board Meetings are as follows:

Name of the Director	Attendance particulars			No of other Directorships and Committee member / Chairmanship		
	Board Meetings		Last AGM	Other Directorships (Public Companies)	Committee memberships	Committee chairmanships
	Held	Attended				
Mr.M. Lokeswara Rao Managing Director	07	06	Yes	Nil	Nil	Nil
Promoter- Executive Director						
Mr. B..Kishore Babu	07	05	Yes	Nil	Nil	Nil
Promoter- Executive Director						
Mr. M. Srinivas	07	07	No	Nil	Nil	Nil
Promoter- Executive Director						
Mr. M. Srikrishna	07	06	No	Nil	Nil	Nil
Promoter- Executive Director						
Mr. K. Krishna Swamy	07	04	Yes	Nil	Nil	Nil
Non- Promoter, Executive Director						
Mr. B.R.Mahesh	07	06	Yes	Nil	Nil	Nil
Independent Non Executive						
Mr. V. Shankar	07	04	No	Nil	Nil	Nil
Independent Non Executive (Nominee of IDBI)						
Dr. Y. Satyanarayana	07	05	Yes	Nil	Nil	Nil
Independent Non Executive						
Mr. R. Mohan Reddy	07	06	Yes	1	Nil	Nil
Independent Non Executive						
Mrs. Y. Venkata Rao	07	07	Yes	Nil	Nil	Nil
Non executive						

III. Audit Committee

Your Board has constituted an Audit Committee with Mr. B R Mahesh as the Chairman, Dr. Y Satyanarayana and Mr. V Shankar as its members. All the members of the Audit Committee are independent non executive directors. The Managing Director and the Finance Manager are permanent invitees to this Committee.

The terms of reference of the Audit Committee are in accordance with the provisions of Clause 49 of the Listing Agreement.

During the period under review three meetings of the Audit Committee were held on 31st July 2006, 26th October 2006 and 29th January 2007. While Mr. B R Mahesh and Dr. Y Satyanarayana attended all the meetings, Mr. V Shankar was absent in the meeting held on 26th October 2006.

IV Remuneration Committee

The Remuneration Committee comprises of Dr. Y Satyanarayana as Chairman, and Mr. B R Mahesh and Mr. V Shankar as Members. All the Members of the Committee are independent, non executive directors.

The Committee reviews the remuneration of the directors and senior executives, and formulates the remuneration policy.

During the period under review, the Committee has met once, on July 31, 2006, and discussed the remuneration policy. All members of the Committee were present.



Remuneration paid to Executive Directors

During the period under review, the remuneration paid/payable to the executive directors including the Managing Director is as follows:

Name of the Director	Salary	P.F	Other Allowance	Commission	(Rs. In Lacs)
					Total
Mr. M.Lokeswara Rao (M.D)	24.00	0.09	-	17.69	41.78
Mr. B.Kishore Babu	15.00	0.09	-	-	15.09
Mr.K.Krishna Swamy	4.20	-	-	-	4.20
Mr.M.Srinivas	15.00	0.09	-	-	15.09
Mr.M.Srikrishna	15.00	0.09	-	-	15.09

Sitting Fee paid to non Executive Directors

The sitting fees paid to directors during the year under review was as follows:

Name of Director	No Meetings of Board or Committee attended	Sitting Fees paid (Rs)
Mr. B R Mahesh	10	25000
Mr. V Shankar	6	17250
Dr. Y Satyanarayana	8	21250
Mr. R Mohan Reddy	6	18750
Mr. Y Venkata Rao	8	23000

The Non-Executive Directors were paid sitting fees for attending the meetings of the Board or the Committees thereof at the rate of Rs. 250/- per meeting. With effect from July 31, 2006, the Sitting Fees payable to the Directors has been revised to Rs 4,000 per meeting of the Board or Committee thereof attended by them.

Shareholdings of Non Executive Directors as on July 31, 2007 :

Non-executive Directors	No.of Shares
Mr.B.R.Mahesh	1250
Mr.Y. Venkata Rao	18600

V. Shareholder/ Investor Grievance Redressal Committee

This committee comprises three members namely Mr. R.Mohan Reddy as its Chairman and Mr.Y.Venkata Rao and Mr.M.Srinivas as its members. The Committee is formed for the purpose of complying with the guidelines on Corporate Governance to monitor redressal of Complaints received from the shareholders and for considering the applications for transfer of shares.

During the financial year 2006-07, the Committee met three times on May 31, 2006, June 25 2006 and July 31, 2006.

Compliance Officer

Mr. Bijan Kumar Dash was appointed as Company Secretary and designated as Compliance Officer with effect from August 14, 2006.

Since the listing of the shares in May 2006, altogether 361 complaints were received till July 31, 2007, 276 of them relating to non receipt of Refund Orders, 60 of them relating non credit of shares to their accounts and 25 of them relating to the non receipt of the Dividend warrant. All the above complaints have been resolved, and on date of this Report, no Investor Complaint is pending.



VI Annual General Meeting

The dates, time and location of the last three Annual General Meetings are as follows:

Year	AGM	Venue	Date	Time
2003-04	20 th	B29, EEIE, STAGE II, Balanagar, Hyderabad - 500 037	30/09/2004	11AM
2004-05	21 st	B29, EEIE, STAGE II, Balanagar, Hyderabad - 500 037	30/09/2005	11AM
2005-06	22 nd	Plot No 41, IDA, Balanagar, Hyderabad – 500 037	27/09/2006	10AM

Special Resolutions

The following Special Resolutions were passed at the General Meetings of the Shareholders during the last 3 years.

AGM 2004:

Two Resolutions under Section 314 of the Companies Act, 1956, approving the increase of remuneration payable to Mr.M Srinivas and Mr. M. Srikrishna

EGM 2005 (15/11/2005): -

Amendment to Articles of Association

Approval under Section 81 (1A) of the Companies Act, 1956 approving further issue of 30 lac equity shares of Rs. 10/- each at a premium.

Postal Ballots

No resolution was passed by postal ballot during the last three years.

VII. Other Disclosures

Related Party Transactions

Details of transactions with related parties are provided in Note No. 19 to the Notes forming part of the Accounts in accordance with the provisions of Accounting Standard 18 (AS-18).

Non compliance and strictures

There were no instances of non-compliance by the company and imposition of penalties and strictures on the company by Stock Exchange or SEBI or any statutory authority on any matter relating to the capital markets during the last 3 years.

The company has no formal Whistle Blower Policy. However, this is to confirm that no personnel has been denied access to the audit committee.

The Company is committed to comply with mandatory and non-mandatory requirements of Clause 49 of the Listing Agreement.