

**MAGNA
ELECTRO
CASTINGS
LIMITED**

**Annual Report
2005 - 2006**

Board of Directors

Sri.L.G.Ramamurthi (Chairman)
Sri.V.Rajendran
Sri.J.Vijayakumar
Sri.K.Gnanasekaran
Smt.R.Nandini
Dr. Jairam Varadaraj
Sri.N.Krishna Samaraj (Managing Director)

Auditors

M/s. S.Krishnamoorthy & Co
Chartered Accountants,
Coimbatore 641 012.

Bankers

1. Corporation Bank
Industrial Finance Branch,
1604, Trichy Road,
Coimbatore 641 018.

2. Indian Bank
31, Variety Hall Road,
Coimbatore 641 001.

Company Secretary

Sri. R. Ravi

Registrars & Share Transfer Agents

S.K.D.C.Consultants Limited
PB No.2979, No.11, S.N.Das Layout,
Street No.1, Tatabad, Coimbatore - 641 012.

Listing with Stock Exchanges

Coimbatore Stock Exchange Ltd.
The Stock Exchange, Mumbai.

Registered Office

43, (Old No.62) Balasundaram Road,
Coimbatore 641 018.
Phone : 91 422 2210109
Fax : 91 422 2216209

Factory**A. FOUNDRY DIVISION**

SF No.34 and 35 Part,
Coimbatore Pollachi Main Road,
Mullipadi village,
Tamaraiikulam Post,
Pollachi Taluk,
Coimbatore District 642 109.
Phone : 91 4259 259316
Fax : 91 4259 259451

B. WIND ENERGY DIVISION

- a) Andhiyur Village, Pollachi Taluk
- b) Ganapathipalayam Village, Pollachi Taluk

Internet

E-mail : magnacast@vsnl.com

Website : www.magnacast.com

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NOTICE

NOTICE is hereby given that the 16th Annual General Meeting of the Members of Magna Electro Castings Limited will be held at 10.00 a.m. on Monday, 31st July, 2006, at Hotel Residency, Avanashi Road, Coimbatore -641 018, to transact the following business.

ORDINARY BUSINESS

1. To receive, consider and adopt the audited Balance Sheet as at 31st March, 2006 and the Profit and Loss Account for the year ended on that date together with the Directors' Report and the Auditors' Report thereon.
2. To declare a dividend.
3. To appoint a Director in place of Sri.V.Rajendran, who retires by rotation and is eligible for re-appointment.
4. To appoint a Director in place of Smt.R.Nandini, who retires by rotation and is eligible for re-appointment.
5. To appoint Auditors and fix their remuneration. The present Auditors, M/s S.Krishnamoorthy & Co., are eligible for re-appointment.

SPECIAL BUSINESS:

6. To consider and if thought fit, to pass with or without modification(s), the following Resolution as a Special Resolution:

Resolved that pursuant to the provisions of Section 269 and other applicable provisions of the Companies Act, 1956 read with Schedule XIII to the Act, consent of the Company be and is hereby accorded to the re-appointment of Sri. N.Krishna Samaraj, as Managing Director of the Company for a further period of 5 (five) years with effect 17th January 2007, with liberty to the Board of Directors (hereinafter referred to as "the Board" which term shall be deemed to include any Committee of the Board constituted to exercise its powers, including the powers conferred by this Resolution) to alter and vary the terms and conditions .

Resolved Further that the Board be and is hereby authorized to take all such steps as may be necessary, proper or expedient to give effect to this Resolution.

7. To consider and if thought fit, to pass with or without modification(s), the following Resolution as a Special Resolution:

A) RESOLVED that in terms of Sections 198,269,309 and other applicable provisions of the Companies Act, 1956 read with Schedule XIII thereto, or any statutory modification(s) or enactments thereof, consent of the Company be and is hereby accorded to the payment of remuneration to Sri. N.Krishna Samaraj, Managing Director of the Company for a further period of three years with effect from 1st August 2006 on the following terms, with liberty to the Board of Directors (hereinafter referred to as "the Board", which term shall be deemed to include any Committee of the Board constituted to exercise its powers, including the powers conferred by this Resolution) to alter and vary the terms and conditions and /or remuneration, subject to the same not exceeding the limits specified under Schedule XIII to the Companies Act, 1956 or any statutory modification(s) thereof:

- | | |
|----------------------|--|
| 1. Salary | : Rs. 1,75,000 per month |
| 2. Commission | : Commission not exceeding 3 % of the Net Profits. |
| 3. Benefits | : As detailed below: |

MAGNA**a) Provident Fund :**

Contribution to Provident Fund not exceeding 12% of salary

b) Contribution to Pension /Super annuation Fund:

Such contribution together with contribution to Provident Fund shall not exceed 27% of the salary.

c) Gratuity:

Gratuity payable shall not exceed half a month salary for each completed year of service.

d) Use of Company's car and telephone at residence:

Provision of car for use on Company's business and telephone at residence will not be considered as perquisites. Personal long distance calls on telephone and use of car for personal use shall be billed by the Company.

- B) Resolved Further, where in any financial year, during the currency or tenure of the Managing Director, the Company has no profits or its profits are inadequate, the Managing Director shall be paid a minimum remuneration by way of salary and benefits not exceeding in the aggregate the amounts as specified in Section II (1)(A) of Part II of Schedule XIII to the Companies Act, 1956

Resolved Further that the Board be and is hereby authorized to take all such steps as may be necessary, proper or expedient to give effect to this Resolution.

Explanatory Statement under Section 173 (2) of the Companies Act, 1956.**Item no 6 and 7**

Sri. N.Krishna Samaraj was re-appointed as Managing Director of the Company for a further term of three years effective from 17.01.2004. The remuneration payable to him was approved by the members at the 13th Annual General Meeting held on 22nd August 2003.

During the last three years, the Company has witnessed a phenomenal growth in turnover and net profits, under his able guidance and stewardship. The Company has also further planned to expand its activities in the next three years.

Taking into consideration the above, the Board of Directors of the Company at its Meeting held on May 29, 2006 have re-appointed Sri. N.Krishna Samaraj as Managing Director of the Company for a further period of five years effective from 17th January 2007.

The remuneration proposed to be paid to him, as set out in the Notice, has been determined by the Remuneration Committee of the Board and is within the limits fixed by Schedule XIII to the Companies Act, 1956.

The re-appointment and remuneration payable to Sri. N.Krishna Samaraj as Managing Director is subject to the approval of the members at the ensuing Annual General Meeting. Hence the resolution. Your Directors commend the resolution for your approval.

This may also be treated as an abstract under section 302 of the Companies Act, 1956.

Directors Sri.N.Krishna Samaraj, Sri.L.G.Ramamurthi and Sri. J.Vijayakumar, may be deemed to be interested or concerned in the resolution.

By order of the Board

Coimbatore
29th May 2006

R.Ravi
Company Secretary

NOTES

1. A member entitled to attend and vote is entitled to appoint one or more proxies to attend and to vote instead of himself and a proxy need not be a member of the Company. Proxy forms in order to be effective must reach the Company's registered office not less than 48 hours before the meeting.
2. The Register of Members of the Company will remain closed during the period from 18th July 2006 to 31st July 2006 (both days inclusive).
3. Dividend when approved will be paid to such of the members whose names appear in the Register of Members of the Company as on 31st July 2006. In respect of shares held in dematerialized form, the dividend will be paid on the basis of beneficial ownership as per the details furnished by the Depositories for this purpose at the end of business hours on 17th July 2006.
4. Members holding shares in physical form are requested to notify any change in their address/mandate/bank details to the Company's Registrar and Share Transfer Agents. Members holding shares in electronic form are requested to notify any change in their address/mandate/bank details to their respective Depository Participant(s).
5. The Company has paid the annual listing fees for the period 2006-2007 to the Stock Exchange, Mumbai while in respect of Coimbatore Stock Exchange, fees has not been paid, since the demand notice has not been received as yet.
6. Those members who have not encashed /received dividend warrants of earlier years may return the time barred dividend warrants to the Company or its Registrars and Share transfer Agents for issue of fresh Demand drafts.
7. Pursuant to the provisions of Section 205A of the Companies Act, 1956, as amended, such dividend which remain unpaid/unclaimed for a period of seven years will be transferred to Investor Education and Protection Fund constituted by the Central Government under Section 205C of the Act. The amount lying in the unpaid dividend account of earlier years is furnished below:

Year	Amount (Rs.)
2000-2001	2,02,560.00
2001-2002	2,70,212.00
2002-2003	2,38,151.00
2003-2004	2,22,275.00
2004-2005	2,71,879.00
8. We invite all our members to visit our website at www.magnacast.com for a virtual tour of our factory and a review of our products and services.
9. Members are requested to bring along with their Annual Report their Client ID and DP ID Numbers for easy identification of attendance at the Annual General Meeting.

DIRECTORS' REPORT

Dear Shareholders,

Your Directors have pleasure in presenting the 16th Annual Report and Audited Accounts of the Company for the year ended 31st March 2006.

FINANCIAL RESULTS

	Accounting year ended 31.3.2006	Accounting year ended 31.3.2005
	(Rs. in lakhs)	(Rs. in lakhs)
Total Revenue	4717.38	3125.61
Gross Profit	1163.73	550.37
Interest	145.61	80.79
Depreciation	267.42	100.76
Net Profit before tax	750.70	368.82
Provision for Income tax	63.25	29.00
Provision for Deferred tax	263.51	105.68
Provision for Fringe Benefit Tax	5.25	--
Proposed transfer to General Reserve	200.00	150.73
Proposed dividend	142.04	96.23
Provision for Corporate tax on Dividend	19.92	13.50
Balance brought forward	92.93	119.25
Surplus carried over	146.40	92.93

DIVIDEND

Your Directors are pleased to recommend a dividend of 21 % for the year and a Special dividend of 10% to mark the Tenth Anniversary of operations of the Company, making a total dividend of 31% on the paid-up equity share capital. This will absorb an amount of Rs 161.96 lakhs, inclusive of Corporate tax on dividend payment.

OPERATIONS

Your Company has registered impressive growth in total revenue and profits during the year under review. While the total revenue during the year has increased from Rs.3125.61 lakhs in the previous year to Rs.4717.38 lakhs, an increase of 50.65%, the Profit before tax has increased from Rs.368.82 lakhs in the previous year to Rs.750.70 lakhs, an increase of 105.34 %. This is mainly because of the better product mix adopted by the Company, focusing on those products which had greater contribution, eliminating in the process, products which did not have any contribution. The prices of certain critical raw materials were highly volatile and added to this, the appreciation of the Rupee against the US Dollar for most part of the year under review did have an effect on the profits. As outlined in our last year's report, the actions taken by your Directors to improve the margins has delivered the expected results. Taking into account the above, your Directors are of the opinion that the performance of the Company during the year under review has been satisfactory.

There was a keen demand for our products in the overseas market and this is reflected in the exports on FOB basis during the year increasing by 85.65 %, from Rs.1746.43 lakhs to Rs.3242.32 lakhs.

PROJECTS IMPLEMENTED

The Company commissioned in August 2005 one 1650 kw Wind Electric Generator at a cost of Rs.969.17 lakhs in Ganapathipalayam village, Pollachi Taluk. This unit has generated 20.52 lakhs units of wind power during the year. The newly commissioned Wind Electric Generator along with the 750 kw installed in the previous year, has the capability to generate about 60% of Company's power requirements at the present production levels.

The Company has installed Simulation Software solution, which will enable the Company to retain and improve its leading edge capability in product development. This investment will enable the Company to reduce its cost of production by improving yield and decreasing rejection rate. Further it will enable the Company to provide better designed products with consistent quality at the right price.

OUTLOOK FOR CURRENT YEAR

Your Directors are pleased to state that there is an increasing demand for the Company's products, both in the domestic and export markets. The general economy being buoyant and with all round growth, your Directors are confident that the Company will be able to increase its turnover and profitability in the fiscal year 2006-07.

FUTURE PLANS

Your Directors are taking steps to increase the capacity in a phased manner over the next two years from the existing level of 600 MT per month to 1200 MT per month. Your Directors are in the process of identifying and evaluating the various proposals on hand to increase the capacity. Your Directors are confident that the increased capacity will start to be in place by 2007-08 which will enable the Company to focus on bigger size castings requirements of non- automotive customers, using Furan technology.

FINANCE

Your Company has availed Term Loan from its bankers to the extent of Rs.768 lakhs during the financial year under review towards part financing the cost of Wind Energy Generator. It may be noted that out of the total long term debts of Rs.1085.50 lakhs, Rs.204.10 lakhs relates to the Company's production activities and the balance Rs.881.40 lakhs is for the installation of the two Wind electric Generators.

The expansion project to double the capacity will cost about Rs.15 crores. The expenditure for the project is being planned in a phased manner during the current year and the following year. The sources of funds for the proposal will be a mix of internal accruals, term loans from banks and suppliers' credit.

QUALITY CERTIFICATION

As stated in the previous report, your Company's products are certified to conform to the latest ISO 9001:2000 and ISO/TS 16949:2002 norms. Your Company is planning to go in for ISO 14000 certification during the current year.

LABOUR

The relationship between the management and the employees during the year under review has been cordial and productive.

DIRECTORS

Sri.V.Rajendran and Smt.R.Nandini, Directors, retire by rotation at the ensuing Annual General Meeting and being eligible, offer themselves for re-election.

Sri. N. Krishna Samaraj has been reappointed as Managing Director for a further period of five years with effect from 17.01.2007. Necessary resolutions for reappointment and remuneration are being placed before the members for their approval.

The Directors of the Company have furnished necessary declarations required in terms of Section 274(1)(g) of the Companies Act, 1956 and the same has been taken on record.

MAGNA

CORPORATE GOVERNANCE

As required under Clause 49 of the Listing Agreement with the Stock Exchanges, the report on Management Discussion and Analysis, Corporate Governance as well as Auditor's Certificate regarding compliance of conditions of Corporate Governance forms part of this Annual Report.

INFORMATION PURSUANT TO SEC.217(1)(e) OF THE COMPANIES ACT,1956

The information required under Sec.217(1)(e) of the Companies Act,1956 is appended hereto in Annexure I and forms part of this Report.

INFORMATION PURSUANT TO SEC.217(2A) OF THE COMPANIES ACT, 1956

None of the employees were in receipt of remuneration in excess of the limits prescribed in this regard.

DIRECTORS RESPONSIBILITY STATEMENT

In terms of Section 217(2AA) of the Companies Act, 1956, the 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 judgments and estimates that were 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 of the Company for the year under review.
- iii. 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.
- iv. The Directors have prepared the annual accounts on a going concern basis.

CEO/CFO CERTIFICATION

As required under Clause 49 of the Listing Agreement with the Stock Exchanges, the Managing Director and the Head of Finance function have furnished necessary certificate to the Board on the financial statements presented.

AUDITORS

M/s S.Krishnamoorthy & Co, Chartered Accountants, retire at the ensuing Annual General Meeting and are eligible for re-appointment. The certificate required under Section 224(1B) of the Companies Act, 1956 has been furnished by them.

ACKNOWLEDGEMENT

The Directors wish to place on record their appreciation of the support and co-operation extended by the Company's Bankers M/s Corporation Bank and Indian Bank, the various Government Agencies and in particular the Tamilnadu Electricity Board and the staff and employees of the Company.

We pray for the grace of the Almighty for further growth of the Company.

On behalf of the Board of Directors

Place: Coimbatore
Date: 29th May, 2006

L.G.Ramamurthi
Chairman

ANNEXURE-I TO DIRECTORS' REPORT FOR THE YEAR 2005-2006

PARTICULARS PURSUANT TO SEC. 217 (1) (e) OF THE COMPANIES ACT, 1956 READ WITH COMPANIES (DISCLOSURE OF PARTICULARS IN THE REPORT OF THE BOARD OF DIRECTORS) RULES, 1988

Conservation of Energy:

Your Company continues its endeavour to improve energy conservation and utilisation. Various measures have been taken to conserve energy. The details of electricity consumed per metric tonne of good castings produced is given below:

YEAR	2001	2002	2003	2004	2005	2006
Number of units per Tonne of good castings	2166	1997	1979	1800	1680	1680

Power Consumption;**2005-06****2004-05**

Total Electricity(kwh)	1,04,91,991	100.00%	90,00,940	100.00 %
Own Generation-Windmill	31,71,168	30.22%	5,66,332	6.29%
Purchased from TNEB	73,20,823	69.78%	84,34,608	93.71%

Technology absorption & Research & Development

Research & Development(R&D) - The Company's new Furan Fast Loop Line technology has reduced sand waste generation considerably. This has enabled the Company to reduce production costs, waste generation and further the valuable natural resources are conserved.

The Company has developed alloy cast iron for piston for application in Marine engines.

The Company has installed Simulation Software for simulation modeling which will enable the Company to obtain first time approval of castings from customers quickly. This will enable the Company to reduce the rejection rate considerably.

Technology Absorption, Adaptation and Innovation:

- 1) Efforts made towards technology absorption, adaptation and innovation: Nil
- 2) Benefits derived as a result of the above efforts : Not Applicable
- 3) Information of Imported Technology (imported during the last 5 years from the beginning of the Financial Year)
 - a) Technology Imported None
 - b) Year of Import N.A.
 - c) Technology absorption N.A.

Foreign Exchange earnings & outgo

- a) Earnings : Rs. 3263.77 lakhs
- b) Outgo : Rs. 178.80 lakhs