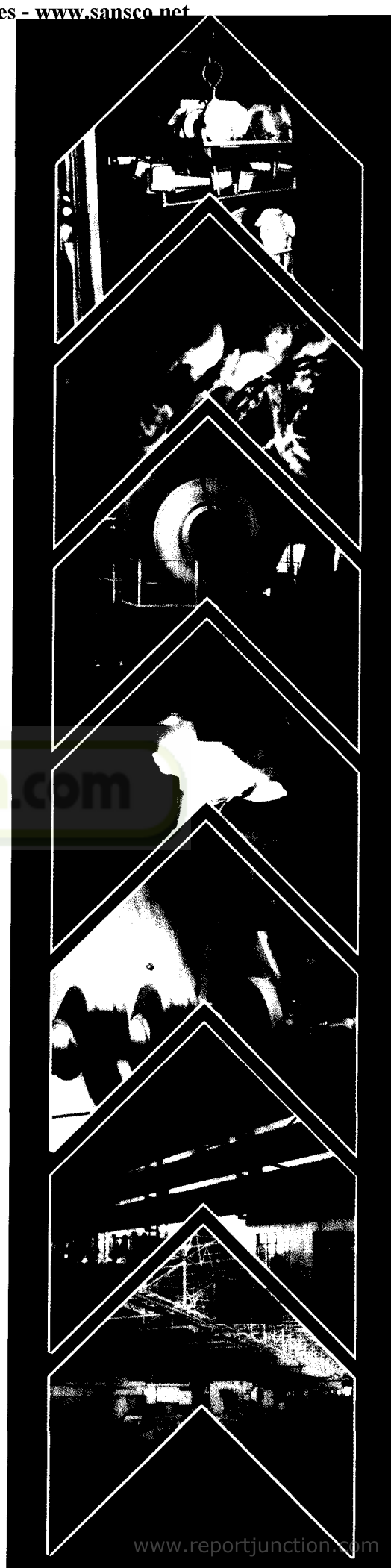
 **Mahindra automotive steels**

Report  junction.com

Mahindra Automotive Steels Limited
Annual Report 2005-2006



www.reportjunction.com

Mahindra Automotive Steels Limited
[Formerly known as Mahindra Automotive Steels Private Limited]

Board of Directors

Anand G. Mahindra
Chairman

Hemant Luthra

V. K. Chanana

R. R. Krishnan

Zhooben Bhlwandiwala

Romesh Kaul

Nikhillesh Panchal

Fall Mama

Mohit Burman

Manoj Jain
Chief Financial Officer

Ms. Payal Vyas
Company Secretary

Annual Report – 2005-06

Auditors

B. K. Khare & Co.

Chartered Accountants

Bankers

State Bank of India

Standard Chartered Bank

Registered Office

Mahindra Towers, P. K. Kurne Chowk,
Worli, Mumbai 400 018, India.

Factory

Gate No.856 to 860,
Chakan Ambethan Road,
Tal.: Khed, Dist.: Pune 410 501.

Notice

Notice is hereby given that the **SEVENTH** Annual General Meeting of the Members of **MAHINDRA AUTOMOTIVE STEELS LIMITED** will be held on Friday, 19th May 2006 at 11.00 a.m. at the Registered Office of the Company at Mahindra Towers, P. K. Kurne Chowk, Worli, Mumbai 400 018 to transact the following business:

1. To receive and adopt the audited Balance Sheet as at 31st March, 2006 and the Statement of Accounts for the year ended on that date and the Report of the Directors and Auditors thereon.
2. To appoint a Director in place of Mr. Hemant Luthra, who retires by rotation and being eligible offers himself for re-appointment.
3. To appoint M/s. B. K. Khare & Co. Chartered Accountants, the retiring Auditors of the Company as Auditors who shall hold office from the conclusion of this Annual General Meeting until the conclusion of next Annual General Meeting of the Company and to fix their remuneration.

SPECIAL BUSINESS

4. To consider and if thought fit, to pass, with or without modification(s), the following resolution as an Ordinary Resolution :

"RESOLVED THAT in accordance with the provisions of Section 257 and all other applicable provisions, if any, of the Companies Act, 1956, Mr. Romesh Kaul, who was appointed by the Board of Directors as an Additional Director of the Company and who holds office upto the date of this Annual General Meeting under Section 260 of the Companies Act, 1956 and in respect of whom the Company has received a notice in writing from a member proposing the candidature of Mr. Romesh Kaul for the office of Director, be and is hereby appointed a Director of the Company liable to retire by rotation."

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

"RESOLVED THAT in accordance with the provisions of Section 257 and all other applicable provisions, if any, of the Companies Act, 1956, Mr. Nikhilesh Panchal, who was appointed by the Board of Directors as an Additional Director of the Company and who holds office upto the

date of this Annual General Meeting under Section 260 of the Companies Act, 1956 and in respect of whom the Company has received a notice in writing from a member proposing the candidature of Mr. Nikhilesh Panchal for the office of Director, be and is hereby appointed a Director of the Company liable to retire by rotation."

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

"RESOLVED THAT in accordance with the provisions of Section 257 and all other applicable provisions, if any, of the Companies Act, 1956, Mr. Anand Mahindra, who was appointed by the Board of Directors as an Additional Director of the Company and who holds office upto the date of this Annual General Meeting under Section 260 of the Companies Act, 1956 and in respect of whom the Company has received a notice in writing from a member proposing the candidature of Mr. Anand Mahindra for the office of Director, be and is hereby appointed a Director of the Company liable to retire by rotation."

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

"RESOLVED THAT in accordance with the provisions of Section 257 and all other applicable provisions, if any, of the Companies Act, 1956, Mr. V. K. Chanana, who was appointed by the Board of Directors as an Additional Director of the Company and who holds office upto the date of this Annual General Meeting under Section 260 of the Companies Act, 1956 and in respect of whom the Company has received a notice in writing from a member proposing the candidature of Mr. V. K. Chanana for the office of Director, be and is hereby appointed a Director of the Company liable to retire by rotation."

8. To consider and if thought fit, to pass, with or without modification(s), the following resolution as an Ordinary Resolution :

"RESOLVED THAT in accordance with the provisions of Section 257 and all other applicable provisions, if any, of the Companies Act, 1956, Mr. Zhooben Bhiwandiwalla, who was appointed by the

Board of Directors as an Additional Director of the Company and who holds office upto the date of this Annual General Meeting under Section 260 of the Companies Act, 1956 and in respect of whom the Company has received a notice in writing from a member proposing the candidature of Mr. Zhooben Bhiwandiwalla for the office of Director, be and is hereby appointed a Director of the Company."

9. To consider and if thought fit, to pass, with or without modification(s), the following resolution as an Ordinary Resolution :

"RESOLVED THAT in accordance with the provisions of Section 257 and all other applicable provisions, if any, of the Companies Act, 1956, Mr. Fali Mama, who was appointed by the Board of Directors as an Additional Director of the Company and who holds office upto the date of this Annual General Meeting under Section 260 of the Companies Act, 1956 and in respect of whom the Company has received a notice in writing from a member proposing the candidature of Mr. Fali Mama for the office of Director, be and is hereby appointed a Director of the Company liable to retire by rotation."

10. To consider and if thought fit, to pass, with or without modification(s), the following resolution as an Ordinary Resolution :

"RESOLVED THAT in accordance with the provisions of Section 257 and all other applicable provisions, if any, of the Companies Act, 1956, Mr. Mohit Burman, who was appointed by the Board of Directors as an Additional Director of the Company and who holds office upto the date of this Annual General Meeting under Section 260 of the Companies Act, 1956 and in respect of whom the Company has received a notice in writing from a member proposing the candidature of Mr. Mohit Burman for the office of Director, be and is hereby appointed a Director of the Company liable to retire by rotation."

11. To consider and if thought fit, to pass, with or without modification(s), the following resolution as an Ordinary Resolution :

"RESOLVED THAT in supersession of the resolution passed by the shareholders at the Extra- Ordinary General Meeting of the Company held on 27th January 2000 and pursuant to the provisions of Sections 293(1)(a) and 293(1)(d) of the Companies

Act, 1956 and all other applicable provisions of the Companies Act, 1956 and the Memorandum and Articles of Association of the Company, consent of the Company be accorded to the Board of Directors from time to time borrowing moneys and, if they think fit, for mortgaging or charging the Company's undertaking and any property or any part thereof to secure such borrowings, up to a continuous limit for the time being and from time to time remaining undischarged of Rs.300,00,00,000/- (Rupees Three Hundred Crores Only) (apart from temporary loans obtained from the Company's Bankers in the ordinary course of business) even though the moneys to be borrowed together with the moneys already borrowed by the Company may exceed the aggregate of the paid-up share capital of the Company and its free reserves, that is to say, reserves not set apart for any specific purpose."

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

"RESOLVED THAT pursuant to Section 21 of the Companies Act, 1956 and subject to the approval of the Central Government, the name of the Company be and is hereby changed from "Mahindra Automotive Steels Limited" to "Mahindra Forgings Limited."

NOTES:

- (A) EXPLANATORY STATEMENT AS REQUIRED UNDER SECTION 173(2) OF THE COMPANIES ACT, 1956 IS ANNEXED HERETO.
- (B) A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF AND A PROXY NEED NOT BE A MEMBER. PROXIES IN ORDER TO BE EFFECTIVE MUST REACH THE COMPANY'S REGISTERED OFFICE NOT LESS THAN 48 HOURS BEFORE THE MEETING.

By Order of the Board

Director

Registered Office:

Mahindra Towers,
P. K. Kurne Chowk
Worli, Mumbai 400 018.

28th April 2006

Explanatory Statement

Explanatory Statement under Section 173(2) of The Companies Act, 1956.

Item Nos. 4 to 10

Mr. Romesh Kaul and Mr. Nikhilesh Panchal were appointed as Additional Directors of the Company at the Board Meeting held on 18th August 2005. Subsequently, Mr. Anand Mahindra, Mr. V. K. Chanana, Mr. Zhooben Bhiwandiwalla, Mr. Fali Mama and Mr. Mohit Burman were appointed as Additional Directors of the Company at the Board Meeting held on 28th April 2006.

All the Directors have a rich and varied experience and expertise in their respective spheres of activity, business, occupation or vocation carried on by them.

The Board is of the view that the knowledge and experience of all the aforesaid Directors would be of immense benefit and value to the Company and therefore the Directors recommend the resolution for approval of the members.

None of the Directors of the Company other than Mr. Romesh Kaul, Mr. Nikhilesh Panchal, Mr. Anand Mahindra, Mr. V. K. Chanana, Mr. Zhooben Bhiwandiwalla, Mr. Fali Mama and Mr. Mohit Burman are deemed to be concerned or interested in the respective resolutions proposing their appointment.

Item No. 11

Pursuant to the provisions of Section 293(1) (d) of the Companies Act, 1956, the Board of Directors of a company cannot borrow money in excess of the amount of the paid-up capital of the company and its free reserves without the approval of the shareholders in a General Meeting.

At the Extra-Ordinary General Meeting of the Company held on 27th January 2000, the shareholders, by an Ordinary Resolution, had empowered the Board of Directors of the Company to borrow moneys, upto Rs.100,00,00,000/- (Rupees One Hundred Crores Only) even though such borrowing would be in excess of the paid-up capital and free reserves of the Company.

In view of the de-merger of the Chakan division of Amforge Industries Limited (AIL) from AIL on a going concern basis into the Company, it may be necessary for the Company to additionally borrow monies from time to time upto an amount not exceeding Rs.300,00,00,000/- (Rupees Three Hundred Crores) from Financial Institutions/Banks and/or from other bodies corporate as the case may be for meeting the Company's long term working capital requirements.

The consent of the members of the Company is required to enable the Board of Directors of the Company to create mortgages/charges in favour of the Lenders upto a limit of Rs.300,00,00,000/- (Rupees Three Hundred Crores).

The approval of the shareholders is required to the enhancement of the borrowing limits as above.

Your Directors recommend passing of this resolution as an Ordinary Resolution.

None of the Directors has any particular interest in this item of business.

Item No. 12

With a view to signify the true character and nature of business activities undertaken by the Company, it is proposed to change the name of the Company to "Mahindra Forgings Limited" subject to the approval of the Central Government.

None of the Director is concerned or interested in this item of business.

By Order of the Board

Director

Registered Office:
Mahindra Towers,
P. K. Kurne Chowk,
Worli, Mumbai 400 018

28th April 2006.

Directors' Report

To The Members

Mahindra Automotive Steels Limited

Your Directors have pleasure in presenting their 7th Annual Report and audited statement of accounts for the year ended 31st March, 2006.

Financial Highlights

	Rs in Lakhs
	2005-06
Gross Income.....	20426.06
Profit before Interest, Depreciation, Contingency and tax.....	1113.00
Less : Depreciation.....	534.68
Profit before Interest, Contingency and tax	578.32
Less : Interest and Finance cost	841.49
Loss before Contingency provision and tax	(263.17)
Less : Contingency provision	919.23
Loss before tax.....	(1182.40)
Less : Provision for tax – Fringe Benefit Tax.....	12.33
Loss for the year.....	(1194.73)
Loss carried to Balance Sheet	(1194.73)

The Company was not operational till year ended March, 2005 and only preliminary and preoperative expenses had been incurred since inception.

Operations

In pursuit of its objective to carry on the business of forging, a Scheme of Arrangement (the Scheme) was entered into with Amforge Industries Limited (AIL), a leading player in forging industry for strategic acquisition of the latter's plant at Chakan (near Pune). The Chakan unit of AIL is engaged in manufacturing crank shafts, connecting rods and stub axle forgings.

Pursuant to the Scheme which was approved by the High Court of Judicature at Bombay on 21st March, 2006, the Chakan unit of AIL was demerged and transferred to your Company with effect from 1st April, 2005. The Scheme resulted in accounting of goodwill of Rs.86.92 crores for your Company which amount will be amortized over 5 years beginning with the current financial year.

The Scheme also entailed an expansion of the capital base of the Company by issue of one equity

share and one preference share to the equity shareholders of AIL for every one equity share held in AIL as consideration for the business acquired under the Scheme. In accordance with the Scheme the word "Private" was dropped from your Company's name in the current year. Arrangements are underway for listing the equity shares and preference shares on the Bombay Stock Exchange Limited.

The gross income in the first year of operations amounted to Rs.204.26 crores and an operating profit of Rs.11.13 crores was registered. After depreciation and accounting for the major expenditure on business acquisition including provision for debt guaranteed under the Scheme as well as previously anticipated write off of obsolete items of stocks and doubtful book debts, the net resulted in a loss of Rs.11.94 crores.

As a result of the transfer of the Chakan unit of AIL, your Company has made a foray into the forging industry. This is a strategic step which will help in synergizing resources in a meaningful manner.

The general business environment in the industry has been buoyant owing to high growth being witnessed in the automobile sector. During the year, your Company set up a world class machining unit at Chakan and the same was commissioned in April, 2006.

Outlook

The demand in the automotive industry continues to be buoyant and the Company is expected to achieve better turnover and profitability in the coming years as a result of the organic and inorganic growth envisaged.

Dividend

Your Directors have not recommended payment of dividend in view of loss during the year.

Finance

Your Company became a direct subsidiary of Mahindra & Mahindra Limited (M&M), effective from 2nd June, 2005 following purchase by it from Mahindra Holdings & Finance Limited also its subsidiary, of 10,160 equity shares held in the Company and additional direct acquisition of 82,11,866 equity shares of Rs.10 each at a premium of Rs.87.42 per share aggregating Rs.80 crores. M&M also paid share application money to

your Company towards subscription of 49,78,444 number of equity shares of Rs.10 each at a premium of Rs.87.42 each aggregating Rs.48.5 crores. The shares will be allotted to M&M pursuant to the Scheme. The aforesaid amounts are being utilized for financing capital expenditure of Chakan machining unit and a part will also be applied towards redeeming the preference capital issued pursuant to the Scheme.

In accordance with the Scheme the Authorised Share Capital of the Company was re-organised and increased from Rs.40,00,00,000 (Rupees Forty Crores Only) to Rs.78,94,26,386 (Rupees Seventy Eight Crores Ninety Four Lakhs Twenty Six Thousand Three Hundred Eighty Six Only) comprising of 3,30,00,000 equity shares of Rs.10 each aggregating to Rs.33,00,00,000 (Rupees Thirty Three Crores Only) and 1,48,20,206, 4% non-cumulative redeemable non convertible preference shares of Rs.31 each aggregating Rs.45,94,26,386 (Rupees Forty Five Crores Ninety Four Lakhs Twenty Six Thousand Three Hundred Eighty Six Only). Pursuant to the Scheme, one equity share and one preference share will be issued to the equity shareholders of Amforge Industries Limited (AIL) for every one equity share held in AIL. Consequent upon the aforesaid allotment of equity shares, your Company will cease to be a subsidiary of M&M.

Directors' Responsibility Statement

Pursuant to Section 217(2AA) of the Companies Act, 1956, your Directors, based on the representation received from the Operating Management, and after due enquiry, confirm that:

- (i) in the preparation of the annual accounts, the applicable accounting standards have been followed;
- (ii) they have, in the selection of the accounting policies, consulted the Statutory Auditors and these have been applied consistently and reasonable and prudent judgments and estimates have been made 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 loss of the Company for the year ended on that date;
- (iii) proper and sufficient care has been taken 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 annual accounts have been prepared on a going concern basis.

Directors

Mr. Sanjay Joglekar, Mr. Romesh Kaul and Mr. Nikhilesh Panchal were appointed as Additional Directors of the Company at the Board Meeting held on 18th August, 2005.

Mr. S. Durgashankar and Mr. Sanjay Joglekar resigned as Directors of the Company at the Board Meeting held on 28th April, 2006. The Board has placed on record its appreciation of the services rendered by Mr. S. Durgashankar and Mr. Sanjay Joglekar during their tenure as Directors of the Company.

With a view to broad-base the Board and embarking on the wealth of experience and expertise of the Directors, 5 directors were appointed as Additional Directors of the Company subsequent to the year end viz. Mr. Anand G. Mahindra, Mr. V. K. Chanana, Mr. Zhooben Bhiwandiwalla, Mr. Fali Mama and Mr. Mohit Burman.

All the aforesaid Additional Directors hold office up to the date of the forthcoming Annual General Meeting. The Company has received notices from members signifying their intention to propose Mr. Anand G. Mahindra, Mr. V. K. Chanana, Mr. Romesh Kaul, Mr. Nikhilesh Panchal, Mr. Zhooben Bhiwandiwalla, Mr. Fali Mama and Mr. Mohit Burman as candidates for the office of Directors of the Company.

Mr. Anand G. Mahindra was also appointed as Chairman of the Company.

Mr. Hemant Luthra retires by rotation and, being eligible, offers himself for re-appointment.

Audit Committee

Subsequent to the year end, the Audit Committee was constituted by the Company and the terms of reference were approved by the Board. The Committee comprises of Mr. V. K. Chanana (Chairman of the Committee), Mr. Nikhilesh Panchal, Mr. Mohit Burman and Mr. R. R. Krishnan. A meeting of the Audit Committee was held for the purpose of reviewing and recommending the Balance Sheet and Profit & Loss Account for the year to the Board of Directors of the Company.

Remuneration Committee

Subsequent to the year end, the Remuneration Committee was constituted by the Company and the terms of reference were laid down. The Committee comprises of Mr. Anand G. Mahindra, Mr. Hemant Luthra, Mr. V. K. Chanana, Mr. Nikhilesh Panchal and Mr. Mohit Burman.

Auditors

During the year under review, M/s. CVK & Associates, Chartered Accountants, resigned as Statutory Auditors of the Company. The Company wishes to place on record its sincere appreciation of the services rendered by them during their tenure.

M/s. B. K. Khare & Co., Chartered Accountants were appointed as Statutory Auditors by the Company at its Extra-Ordinary General Meeting held on 7th March, 2006. The said Auditors retire at the forthcoming Annual General Meeting and have given their consent for re-appointment. The members will be required to appoint Auditors for the current year and fix their remuneration.

As required under the provisions of Section 224 of the Companies Act, 1956, the Company has obtained a written certificate from the above Auditors proposed to be re-appointed to the effect that their re-appointment, if made, would be in conformity with the limits specified in the said Section.

Public Deposits and Loans/Advances

The Company has not accepted any deposits from the public or its employees during the year under review.

The Company has not made any loans/advances which are required to be disclosed in the Annual Accounts of the Company pursuant to Clause 32 of the Listing Agreement with the parent company, Mahindra & Mahindra Limited.

Industrial Relations

Industrial Relations remained satisfactory during the year under review. A productivity linked wage

agreement was settled with Workmen's union in April, 2006.

Safety, Health and Environmental Performance

The Company has undertaken various initiatives on safety and health issues and has initiated various programmes to bring about general awareness among the employees on the same.

The requirements relating to various environmental legislations and environment protection have been duly complied by the Company.

Conservation of Energy & Technology Absorption and Foreign Exchange Earnings And Outgo

The particulars relating to energy conservation, technology absorption, 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 Board of Directors) Rules, 1988 are provided in the Annexure to this Report.

Particulars of Employees as required under Section 217(2A) of The Companies Act, 1956 and Rules framed there under

The Company had no employee who was in receipt of remuneration of not less than Rs.24,00,000 during the year ended 31st March, 2006 or not less than Rs.2,00,000 per month during any part of the said year.

For and on behalf of the Board

Anand G. Mahindra
Chairman

Mumbai, 28th April, 2006.

Annexure to the Directors' Report

Particulars as per the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 and forming part of the Directors' Report for the year ended 31st March, 2006

A. CONSERVATION OF ENERGY

(a) During the year, the Company has taken the following initiatives for conservation of energy:

(i) Electrical Energy

1. Automatic power factor controller installed at 2000 KW heater to get maximum power factor.
2. 'Conserve Air' installed on air compressor and uniform air pressure of 6.4 Kg./Sq.cm from variable 7.0 Kg./Sq.cm.
3. Two Reciprocating Compressors are replaced by two Screw Compressors of same capacity with lower power consumption.
4. 32 Dia induction heater coil for 600 KW heater and 90 Dia coil for 2000 KW heater rectified with 'perfect coupling' for reduced power consumption.
5. The illumination in the plant is improved by fixing fiber transparent sheet which resulted in energy saving on use of flood lights during day time.
6. Energy conservation team is formed and various corrective measures have been worked out, actions are in process.

(ii) Fuel Energy

1. Optimum use of Diesel Generating Set.
2. One of the heat treatment furnaces of 1 Ton / Hour capacity converted from LDO to Furnace Oil.

(b) Additional investments and proposals, if any, being implemented for reduction of consumption of energy:

It is an ongoing process to upgrade the existing equipments from time to time in line with the new developing technologies.

(c) Impact of the measures taken / to be taken at (a) & (b) above for reduction of energy consumption and consequent impact on the cost of production of goods:

Not ascertainable.

(d) Total energy consumption and energy consumption per unit of production as per Form – A of the Annexure to the Rules in respect of Industries specified in the Schedule.

Power & Fuel Consumption		2005-06
1. Electricity Purchased	: Quantity (KWH in Lakhs)	272.99
	: Total Amount (Rs. in Lakhs)	1016.02
	: Average Rate per unit (Rs.)	3.72
2. Furnace Oil *	: Quantity (Lakhs of Litres)	1.12
	: Total Amount (Rs. in Lakhs)	22.27
	: Average Rate per litre (Rs.)	19.88
*used for part of the year		
3. Light Diesel Oil	: Quantity (KL.)	2209.47
	: Total Amount (Rs. in Lakhs)	597.21
	: Average Rate per KL (Rs.)	27030
4. Consumption per unit of Production (Tons)	Fuel Used : Electricity	Units : KWH / Ton 1149
	: Furnace Oil	: Litre / Ton 13.60
	: Light Diesel Oil	: Litre / Ton 94.81