

11th Annual Report 2009-10

Emerging
Global Leader



Limit-less opportunities Drive positive change

Be the change you want to see Lateral thinking

Lateral thinking **Lateral thinking**

Rise to opportunities Rise to opportunities

Drive positive change Drive positive change

Limit-less opportunities

Drive positive change Rise to opportunities Rise to opportunities

Rise to opportunities Rise to opportunities **Drive positive change**

Be the change you want to see

Limit-less opportunities Drive positive change

Be the change you want to see Lateral thinking

Lateral thinking **Lateral thinking**

Rise to opportunities Rise to opportunities

Drive positive change Drive positive change

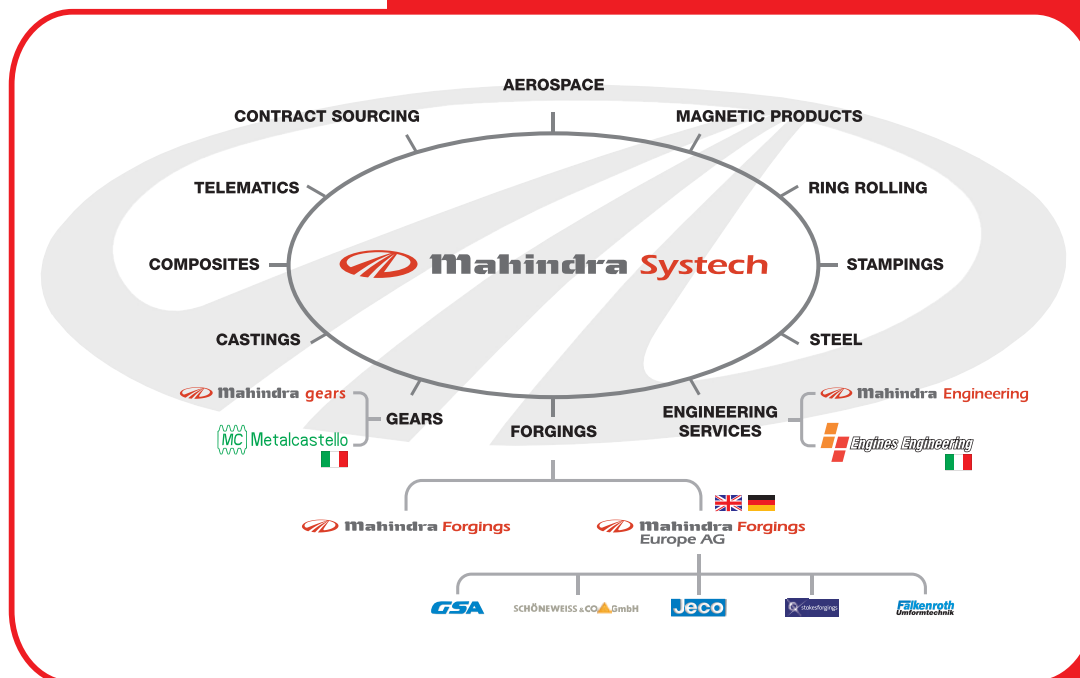
Rise to opportunities Rise to opportunities **Drive positive change**

Drive positive change Rise to opportunities Rise to opportunities

Be the change you want to see

Limit-less opportunities Limit-less opportunities





Established in 2004, Mahindra Systech was formed to capture growing demand of Indian Autocomp with increasing domestic vehicle production & shift of western Automotive OEMs to LCC for components.

Systech was formed with a combination of organically & inorganically grown companies. Systech has state-of-the-art manufacturing capabilities in significant processes such as Forgings, Castings, Gears, Stampings, Ring Rolling, Steel, Composites, Magnetic Products & Telematics in addition to allied services like Engineering Services & Contract Sourcing.

Systech believes in full service solutions, "Design to Delivery (D2D)" to its customers. Design, Manufacturing & Sourcing capabilities act together to offer fully integrated & seamless "Art to Part" capability to customers fulfilling Systech's Vision.

Systech through its 24 manufacturing plants (12 each in Europe and India) & over 10,000 employees is partner to global OEMs & Tier1s. Within a short span of four years, Mahindra Systech has notched revenues of US \$ 750mn (FY10). It is now among the largest component groups in India and its forgings business is among the largest globally.

Systech's association with the Mahindra group has enabled it to absorb its corporate values and principles and adhere to the established corporate governance practices. It also draws upon experience in automotive domain from Mahindra group's Automotive and Farm Equipment Sectors to serve its customers better. Being part of the Mahindra Group has helped Systech in winning new businesses and obtaining financial assistance.

Vision

To create World's most Valuable, Innovative,
"Art to Part" auto component entity
that partners with its global customers
to meet & surpass their business needs



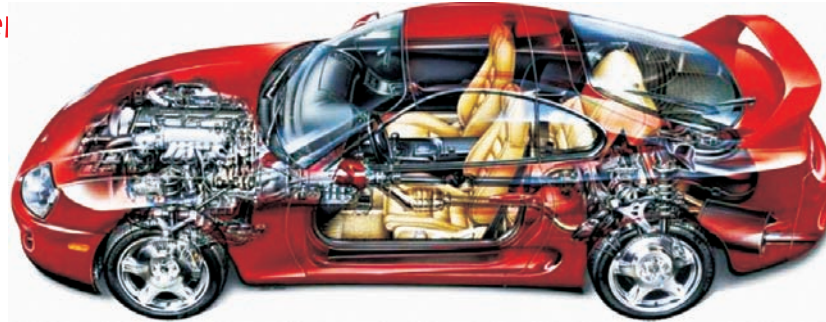
STEEL
FORGINGS
CASTINGS
STAMPINGS
GEARS
RING ROLLING
COMPOSITES
MAGNETIC PRODUCTS
TELEMATICS
ENGINEERING SERVICES
CONTRACT SOURCING
AEROSPACE

One Stop Solution Provider



Product Portfolio

Passenger



Schöneweiss

Links/Arms
Knuckles
Wheel Carriers
Spindles
Shafts

Jeco

Links/Arms
Pistons
Knuckles
Ball Joints
Axle Shafts

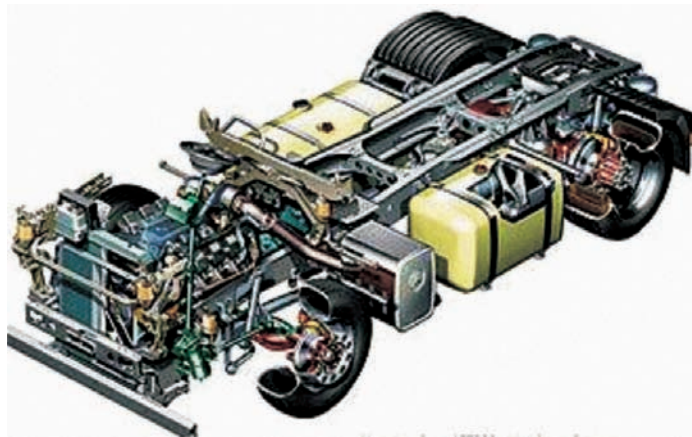
Stokes

Hubs/Spindles
Links/Arms
Shafts/Gears
Flanges/Yokes
Levers/Brackets

MFL

Crankshafts
Knuckles
Con Rods
Links/Arms

Commercial Vehicles



Schöneweiss

Front Axle Beams
Crankshafts
Camshafts
Knuckles/Spindles
Wheel Carriers
Brackets
Con Rods

Jeco

Front Axle Assly.
Links/Arms
Pistons
Knuckles
Ball Joints
Axle Shafts

Stokes

Hubs/Spindles
Links/Arms
Shafts/Gears
Flanges/Yokes
Levers/Brackets

MFL

Knuckles
Con Rods
Links/Arms
Shafts
Stub Axles

BOARD OF DIRECTORS

- Anand G. Mahindra Chairman
- Hemant Luthra
- Zhooben Bhiwandiwalla
- Deepak Dheer Managing Director
- V. K. Chanana
- Mohit Burman
- Fali P. Mama
- Nikhilesh Panchal
- Harald Korte
- Oliver Scholz
- Daljit Mirchandani
- Piyush Mankad
- Ajay Mantry Chief Financial Officer
- Krishnan Shankar Company Secretary & GM - Legal

COMMITTEES OF THE BOARD**Audit Committee**

- V. K. Chanana
- Mohit Burman
- Zhooben Bhiwandiwalla
- Nikhilesh Panchal
- Fali P. Mama
- Daljit Mirchandani

Remuneration / Compensation Committee

- Mohit Burman
- Anand G. Mahindra
- Hemant Luthra
- V. K. Chanana
- Nikhilesh Panchal
- Daljit Mirchandani

Share Transfer and Shareholders' / Investors' Grievance Committee

- Daljit Mirchandani
- V. K. Chanana
- Fali P. Mama

REGISTERED OFFICE

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

FACTORY

Gat No. 856 to 860
Chakan Ambethan Road
Taluka: Khed, Dist. Pune - 410 501.

AUDITORS

B. K. Khare & Co.
Chartered Accountants
706/708, Sharda Chambers
Mumbai – 400 020.

REGISTRAR AND SHARE TRANSFER AGENTS

Karvy Computershare Private Limited
Karvy House, 46, Avenue 4
Street No. 1, Banjara Hills
Hyderabad – 500 034.

BANKERS

- State Bank of India
- Axis Bank Limited
- HDFC Bank Limited



C O N T E N T S

| | |
|--|----|
| Directors' Report | 3 |
| Management Discussion and Analysis | 14 |
| Corporate Governance | 26 |
| Accounts | 41 |
| Statement pursuant to Section 212 | 68 |
| Consolidated Accounts | 69 |



DIRECTORS' REPORT TO THE SHAREHOLDERS

To The Members,

Mahindra Forgings Limited

Your Directors present the 11th Annual Report of the Company together with the audited statement of accounts of your Company for the year ended 31st March, 2010.

Financial Highlights

| | Rs. in Lakhs | |
|--|--------------|---------|
| | 2009-10 | 2008-09 |
| Gross Income | 30,206 | 24,246 |
| Profit before Interest, Depreciation, Exceptional Items and tax | 4,757 | 1,149 |
| Less : Depreciation | 2,151 | 1,954 |
| Profit/(Loss) before Interest, Exceptional Items and tax | 2,606 | (805) |
| Less : Interest and Finance cost | 2,987 | 2,539 |
| Profit/(Loss) before Exceptional Items and taxes and prior period expenses | (381) | (3,344) |
| Less: Exceptional items | 9,019 | - |
| (Loss) before tax & before prior period expenses | (9,400) | (3,344) |
| Less: Prior period expenses | 71 | 133 |
| Profit/(Loss) before tax | (9,471) | (3,477) |
| Less : Provision for tax – | | |
| Current Tax | - | - |
| Deferred Tax | - | 650 |
| Fringe Benefit Tax (including prior period) | 2 | 13 |
| (Loss) for the year | (9,473) | (4,140) |
| Balance of Profit & Loss Account brought forward losses from earlier years | (3,321) | (3,882) |
| Add: Transfer from Securities Premium Account as approved in the Extraordinary General Meeting & confirmed by Honourable High Court of Bombay. | - | 4,701 |
| (Loss) carried to Balance Sheet | (12,794) | (3,321) |

Financials

During the year under review, your Company registered a Gross income of Rs.30,206 Lakhs as against Rs. 24,246 Lakhs in the previous year and Profit before Interest, Depreciation, Exceptional Items and tax of Rs.4,757 Lakhs as against Rs. 1,149 Lakhs in the previous year. The net loss before Exceptional Items,taxes and prior period expenses stood at Rs.381 Lakhs. The Gross Income of the Company has grown by 25 % over the previous year.

Operations

In Europe, there was a sharp decline in the auto industry in FY09 and FY10, and it was only in the last three months of FY10 that the European

automotive markets showed signs of revival. Your Company expects that this growth will sustain in FY11. Whereas in India, the prospects of automotive markets remain positive, with the support of expanding domestic automotive manufacturing business and global OEMs entering into lower operating cost countries like India.

In light of the difficult conditions being faced by your Company's operations especially in Europe as a result of the global economic downturn, Company had to go through the process of restructuring which resulted in reduction in personnel costs and other operating costs by 33% and 27% respectively at a consolidated level and



predominantly in the European Operations. A structured cost reduction program was put in place to achieve the above.

The European operations continuously partner their customers especially for new engine programs. The Company focuses on innovation to meet the demands of OEMs and to differentiate the Company from the competition.

The Indian operations continue to focus on improving rejection levels, yield and productivity. Another focus area of improvement has been die engineering. Indian operations are in the process of adopting new die welding technology in collaboration with European subsidiaries which will help in die cost reduction, die life increase, die block sinking improvement and die block machining improvement. Your Company is also adopting hard dies as against soft dies to reduce rejections and increase die life.

Changes in Share Capital and Issue of Shares

On 18th February, 2010 the authorised capital of your Company was increased from Rs. 117,94,26,386/- to Rs. 167,94,26,386/-.

On 24th February, 2010 your Company successfully completed the Qualified Institutional Placement (QIP) issue consisting of 1,62,41,300 equity shares of face value of Rs. 10/- at a price of Rs. 107.75 per equity share aggregating Rs. 175 Crores.

On 3rd March, 2010 the Company allotted 72,99,270 Warrants on a Preferential basis to Mahindra & Mahindra Limited (Promoters), convertible at the option of the Promoters within 18 months into equal number of equity shares at a price of Rs. 137/- per share. The Promoters have made an upfront payment of 25% of the aggregate price amounting to Rs. 25 Crores. Subsequently on 4th March, 2010 the Promoters exercised their option to convert 30,00,000 Warrants into equity shares out of 72,99,270 Warrants and have paid the balance of Rs. 30.82 Crores. The Promoters still have an option to convert balance 42,99,270 Warrants into equity shares by 3rd September, 2011.

There has been an increase of Rs. 225.96 Crores (net of issue expenses) in the networth of your Company. A part of these proceeds from this issue were inter alia for repayment of borrowings of the Company, investment in subsidiaries and QIP issue expenses. The Company has temporarily invested the balance funds in liquid fund schemes of the Mutual Fund.

Pursuant to exercise of options by certain applicants under the Company's Employees' Stock Option Scheme, your Company has allotted 46,000 equity shares of face value of Rs. 10/- each at an exercise price of Rs. 83/- per equity share. The aforesaid issue of QIP, Preferential issue of shares and exercise of option has resulted in the issued and subscribed equity share capital increasing from Rs. 68,56,77,360/- to Rs. 87,85,50,360/-.

As a result of the above the shareholding of Promoters stands at 50.68%.

Management Discussion and Analysis

A detailed analysis of the Company's performance is contained in the Management Discussion and Analysis Report which forms part of the Annual Report.

Corporate Governance

Your Company is committed to transparency in all its dealings and places high emphasis on business ethics. Your Company has been following good Corporate Governance procedures. A report on Corporate Governance along with a Certificate from the Auditors of the Company regarding the compliance of conditions of Corporate Governance as stipulated under Clause 49 of the Listing Agreement forms part of the Annual Report.

Dividend

In view of the losses, your Directors do not recommend any dividend for the year.

Stock Options

The Remuneration/Compensation Committee of your Company has not granted any Stock Options to the employees during the year under review.

Details required to be provided under the Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999 are set out in Annexure I to this Report.

Industrial Relations

Industrial Relations generally remained cordial and harmonious throughout the year.

Safety, Health and Environment Performance

The Company has a Safety, Occupational Health and Environmental (SH&E) policy on occupational health, safety and environmental protection through which every employee is made responsible for the observance of the measures designed to prevent accidents, damage to occupational health and avoidable environmental pollutants.

Health and Safety

The Safety Committee of the Company has members comprising representatives from workers and executives from various departments who meet periodically to review the situation. Safety training and reporting of accidents are reviewed to resolve the safety issues and various initiatives such as emergency mock drills and advanced fire protection system for improving the Safety Performance have been taken. The Company has been imparting training to employees besides carrying out safety audits of various facilities of the Company.

The Company has achieved significant reduction in accidents/injuries by ensuring a safety culture throughout all levels of organization.



The Company continues its commitment to improve the well being of the employees and medical checkups are regularly conducted for its employees.

Environmental Initiatives

With a clear focus on the need for clean environment, the Company is now in the process of calculating carbon foot print and taking adequate measures to mitigate the causes. Your Company is also reporting its performance on Sustainable Development as a part of Global Reporting Initiative (GRI).

Waste and Waste Water Management

The Company has taken various initiatives to dispose its waste in environmentally sound manner and to achieve waste reduction. The water conservation awareness programmes are planned through observing World Water Day. The Company is committed towards resource conservation through water management methods such as recycling or re-use of treated waste water for gardening etc.

The Company attaches greater importance to environment monitoring by implementing various initiatives such as effluent treatment, increased Green Zones thereby complying and going beyond applicable environment legislations and regulations in a phased manner.

Corporate Social Responsibility

As part of Corporate Social Responsibility (CSR) initiatives, the employees of your Company participated in upgrading the skills by involving them in education, painting, tree plantation activities etc. of the local schools. The Company had also organized Blood Donation drives and participated in Nanhi Kali activities of Mahindra Group. Your Company encourages its employees in participating in local community development schemes such as Health checkup camp, AIDS awareness and global warming etc. The Company is planning a sustainable tree plantation and nurturing programme under Mahindra Hariyali by involving employees and local stake holders in large numbers. The overall focus of CSR would continue to be in the areas of health, education, environment and improving employability of youth.

'Sustainability' Initiatives

In the Directors' Report for 2008-09, the Shareholders were informed of your Company's participation in the Mahindra Group's 'Sustainability' initiatives. These initiatives have been taken forward during the year under review.

In October 2009, the 2nd Mahindra Sustainability Review for the year 2008-09 was published, wherein your Company's performance on the three bottom lines i.e. People, Planet and Profit, was also included. Again this year, this report was externally assured by Ernst & Young and rated with the highest level of A+ and GRI checked. This 2nd report reflects your Company's progression in this journey and its commitment to taking a more responsible and holistic approach to business.

During the year under review i.e 2009-10 a further progress was made in this journey and a Carbon foot-printing exercise was undertaken to inventorize GHG emissions from all business operations, as per

internationally accepted standards. This will enable us to baseline data on Company's emissions and undertake initiatives towards improving performance in this area. This will be reported in the 3rd Sustainability Report, which will be released shortly.

In keeping with the Mahindra philosophy of 'ALTERNATIVE THINKING' your Company has been actively seeking and implementing alternative solutions that are inclusive and responsible.

Directors

Mr. Mohit Burman, Mr. Harald Korte, Mr. Oliver Scholz and Mr. V. K. Chanana, retire by rotation and, being eligible, offer themselves, for re-appointment as Directors.

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, 2010 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.

Subsidiary Companies

The Statement pursuant to Section 212 of the Companies Act, 1956 containing details of Company's subsidiaries is attached.

The Consolidated Financial Statements of the Company and its subsidiaries prepared in accordance with Accounting Standard AS 21 forms a part of the Annual Report.

The Company has made an application to the Ministry of Corporate Affairs seeking exemption from attaching the copy of Balance Sheet, Profit and Loss Account, Reports of the Board of Directors and Auditors of the subsidiaries with the Balance Sheet of the Company. If, in terms of approval granted by the Ministry of Corporate Affairs under Section 212(8) of the Companies Act, 1956, the copy of the Balance Sheet, etc. of the subsidiaries are not required to be attached with the Balance Sheet of the Company, the Company Secretary will make these documents available upon receipt of request from any member of the

