

MUNJAL AUTO

17th Annual Report & Accounts 2001-02

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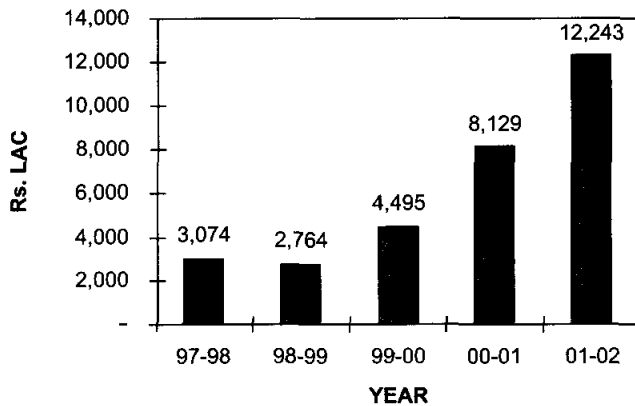


Munjal Auto Industries Limited

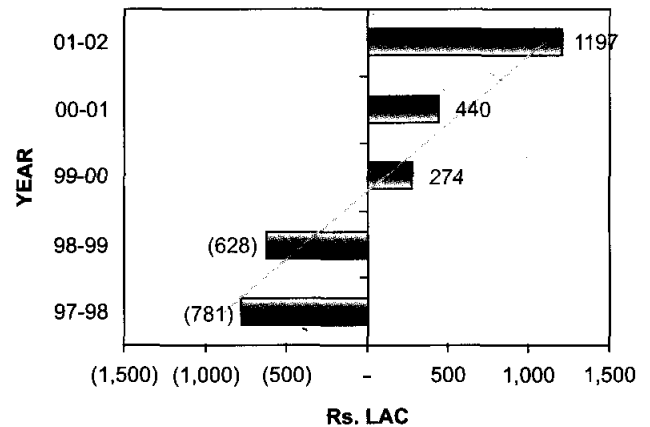
(Formerly Gujarat Cycles Limited)

PERFORMANCE AT A GLANCE

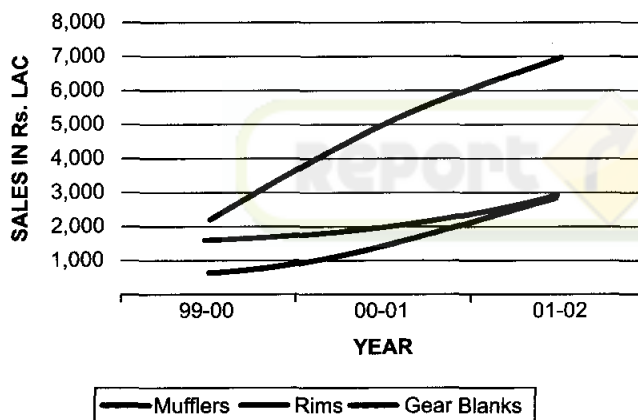
TOPLINE GROWTH



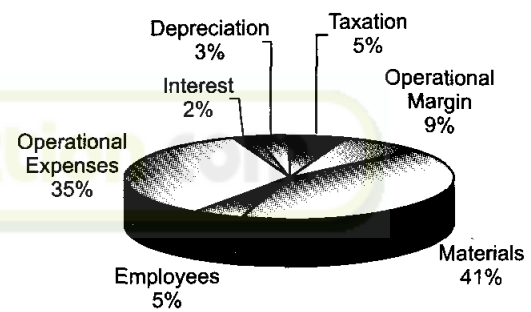
PAT GROWTH



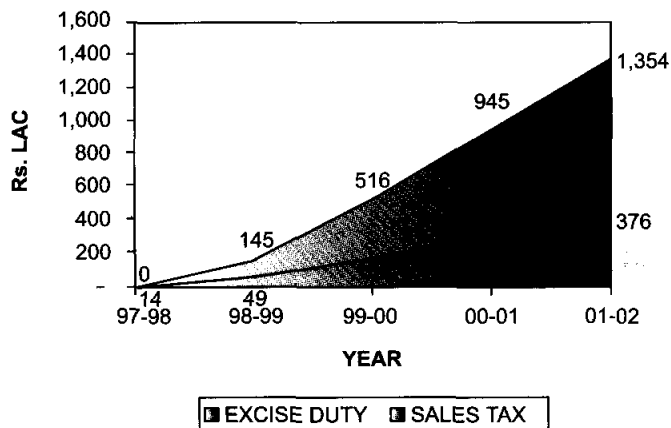
PRODUCT MIX



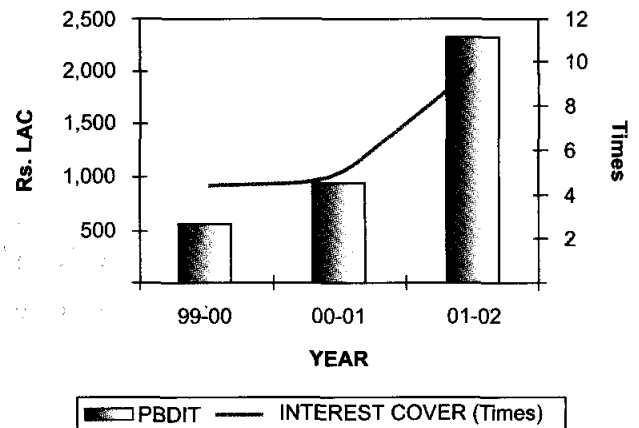
SPLIT UP OF INCOME 2001-02



CONTRIBUTION TO EXCHEQUER



PBDIT & INTEREST COVER



MUNJAL AUTO**BOARD OF DIRECTORS****CHAIRMAN**

Satyanand Munjal

MANAGING DIRECTOR

Sudhir Munjal

WHOLE-TIME DIRECTORS

Anju Munjal

Neeraj Munjal

DIRECTORS

Brijmohan Lall Munjal

Om Prakash Munjal

Vijay Munjal

Vikram Shah

Naresh Chawla

Mahendra Sanghvi

S. N. Mathur, *BIFR Appointee***FINANCE TEAM**Ravi Sharma, *AGM - Finance*Sameer Kumar, *Sr. Manager - Finance***COMPANY SECRETARY**

Alok Nidhi Gupta

AUDITORS

Vakil Jain & Hindocha

Chartered Accountants

Vadodara

BANKERS

State Bank of India

Punjab National Bank

REGISTERED OFFICE

187, GIDC Estate

Waghodia - 391 760

Dist : Vadodara (Gujarat)

WORKS**Waghodia Unit**

187, GIDC Estate

Waghodia - 391 760

Dist : Vadodara (Gujarat)

Binola Unit

Munjal Auto Components

58 KM Stone

Delhi-Jaipur Highway

Village : Binola - 122 413

Dist : Gurgaon (Haryana)

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DIRECTORS' REPORT

Your Directors have great pleasure in presenting the Seventeenth Annual Report on the business and operations of your company together with the Audited Accounts for the year ended March 31, 2002.

Financial Results	2001-02 Rs. Lac	2000-01 Rs. Lac
Sales and Other Income	12397.50	8147.26
Profit before Depreciation, Interest and Misc. Expenditure written off	2518.01	928.11
Depreciation	421.63	256.90
Interest	238.92	174.73
Profit before Tax Provisions/Write-offs	1857.46	496.48
Provision for Deferred Taxation	644.69	-
Provision for Wealth Tax	0.86	-
Miscellaneous Expenditure Written-off	14.76	14.11
Net Profit for the year	1197.15	482.37
Prior Period Expenditure (Net)	3.42	42.37
Net Profit available for appropriation	1193.73	440.00

Dividend

Directors regret their inability to recommend dividend on equity shares due to the past-accumulated losses and to conserve the resources for future business of the company. However, Directors have paid an interim dividend during the current year to preference shareholders aggregating to Rs. 308.08 lac (including Rs. 256.73 lac being arrears of the earlier financial years 1996-97 to 2000-01). This payment of interim dividend @13.5 %, being contractual rate of dividend on the preference shares issued by the company, is a sequel of the contractual obligation and the availability of distributable profits to the company in the year 2001-02 as per the provisions of Section 205 of the Companies Act, 1956.

Performance

Your company's performance has stolen a march over that of its previous year with impressive growth in all operational parameters. Total turnover has increased to Rs. 123.98 crore registering a growth of 52 %; Profit before tax and write-offs has shown even more impressive gain at Rs. 18.57 crore over previous year's Rs. 4.96 crore showing an increase of 274%. These impressive operational number gains during the year are — reflection of ongoing, successful consolidation of business of motorcycle components manufacturing by the company, benefits emanating from upgradation of manufacturing facilities at Waghodia Unit and first full year of operations at Binola post-commissioning of its full-fledged manufacturing facilities; continuing robust growth in volume of motorcycle industry in India - the primary driving force of demand for company's auto components - and a persistent emphasis on productivity and efficiency of operations at both the Waghodia and Binola units of the company.

Future Outlook

Motorcycle industry in India is having an excellent rate of growth for the last couple of years and is expected to grow at a healthy rate in the coming years as well. But according to the available indications and the advent in recent years of more number of players in the motorcycle industry, its future continuing growth in volume will have to factor in competitive selling prices and thinner margins. Your company will have to reckon with this important development in the coming years while steering its business operations. Following its consistent orientation toward cost control measures and emphasis on efficiency improvement, your company stands in good stead to continue developing positive sales and other operational numbers. Your company has also taken appropriate measures in time — by adding one more rim mill at Waghodia unit last year and carrying out expansion of facilities at Binola Unit with an additional investment of around Rs. 17 crore that is under way — to capture the growing demand of auto components from Hero Honda Motors Limited (HHML) viz. rims, mufflers and gear blanks manufactured by the company.

Reserves and Provisions

After appropriation of Rs. 308.08 lac toward interim dividend on preference shares and an accretion by way of deferred tax asset of Rs. 1077.49 lac, a sum of Rs. 1963.13 lac is carried over to the Balance Sheet and reduced from the accumulated losses, of the company to that extent. Resultant accumulated losses of Rs. 1721.70 lac of the company as on March 31, 2002 are now less than the paid up capital and free reserves of the company as on that date of Rs. 2251.13 lac (as defined under Section 3 (ga) of Sick Industrial Companies (Special Provisions) Act, 1985) (SICA). Thus your company's net worth now exceeds its accumulated losses and therefore is no longer a sick company under the provisions of SICA. The company has already made a formal application to the Board for Industrial and Financial Reconstruction (BIFR) to this end and expects to be out of the purview of BIFR soon.

Change of Name

Pursuant to a special resolution passed by the company in the last Annual General Meeting held on August 30, 2001 and a subsequent statutory approval received by it, name of your company was changed from Gujarat Cycles Limited to Munjal Auto Industries Limited effective from September 11, 2001.

Quality Accreditations

As reported last year, the company's Waghodia plant continues to be accredited with ISO-9002 and QS-9000 certifications and during the year, Binola unit of the company has also been accredited QS-9000 certification. This is a reflection of your company's continuing commitment to deliver quality products

MUNJAL AUTO**DIRECTORS' REPORT (Continued)**

and improve in all areas of operations to achieve total customer satisfaction. As a part of its ongoing efforts to achieve and harness Total Productivity Management, vigorous efforts through education, training and program are pursued round the year with adoption and implementation of world-renowned concepts like *Jishu Hozen* and *Kaizen Teian*.

Information System

At Waghodia unit, company has implemented BaaN ERP system, first phase of which has become functional in the first quarter of the current year. This is expected to add value to the business in the near future. Binola unit of the company is also going to follow the suit in the later half of the current year.

Management Discussion and Analysis Report

In terms of Clause 49 of the Listing Agreements with the Stock Exchanges, Management Discussion and Analysis Report is appended as *Annexure 'I'* of this report.

Directors' Responsibility Statement

Statement under Sub-section (2AA) of Section 217 of Companies Act, 1956 in preparation of the Annual Accounts:

- i) applicable Accounting Standards have been followed and wherever required, proper explanations relating to material departures have been given.
- ii) directors have selected such Accounting Policies, applied them consistently and made judgements/estimates as are 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 its profit for that period.
- iii) proper and sufficient care has been taken for maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 to safeguard the assets of the company and prevent/detect fraud and other irregularities.
- iv) accounts have been prepared on a going concern basis.

Auditors' Report

Report of the Auditors is self-explanatory and does not call for any further comments.

Auditors

M/S Vakil Jain & Hindocha, auditors of the company retire at the ensuing Annual General Meeting and being eligible, offer themselves for re-appointment.

Industrial Relations

- The industrial relations in the company have remained cordial. During the year under review, your company has entered into a fresh wage settlement agreement with the Labour Union in respect of its Waghodia unit for three years beginning from April 1, 2001.

Based on recommendations of Baroda Productivity Council, which conducted a detailed study of company's operations, a

productivity based group incentive scheme has been implemented, which is resulting in assured productivity and employee satisfaction simultaneously.

Environmental Compliance**Waghodia Unit**

- Effluent generation in the production process is monitored continuously and the effluents are treated on an ongoing basis before disposing them off safely in conformity with the norms prescribed by the Pollution Control Authority in Gujarat.
- Water harvesting is implemented in the factory complex with a simple but effective method of collecting rain water from factory buildings' roofs and charging the same into the ground in a guided manner to raise the level of water table of the factory and surrounding areas.
- Installation of proper filtration plant in the factory to ensure safe drinking water in the entire factory complex.

Binola Unit

- Effluent generation in phosphating plant is checked/monitored regularly and treated efficaciously in the effluent treatment plant before the effluents are discharged safely.
- A sewerage treatment plant is also installed to treat the discharged effluents and retrieve part of it for using in the gardening area of the factory. The effluent treatment process followed in the factory meets with the criteria under the Pollution Control Authority of Haryana.

Energy, Technology & Foreign Exchange

The particulars as prescribed 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 in the *Annexure 'II'* that forms part of this Report.

Particulars of Employees

The statement under Sub-Section (2A) of Section 217 of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975, as amended and forming part of this Directors' Report is given in *Annexure 'III'*.

Compliance Certificate from the Auditors in terms of clause 49 of the Listing Agreement

A certificate from the Auditors of the company regarding compliance of conditions of Corporate Governance in terms of Clause 49 is appended with the Report on Corporate Governance.

Acknowledgements

The Board acknowledges the support given by employees, shareholders, bankers and BIFR and looks forward to their continuing support.

On behalf of the Board
Satyanand Munjal
Chairman

Ludhiana
August 1, 2002



ANNEXURE 'I' TO DIRECTORS' REPORT

Management Discussion and Analysis Report

Industry Structure and Development

In the year 1999, your company changed the focus of its business from bicycle manufacturing to auto components manufacturing. Change is rarely painless, especially when the change involves refocusing on a new business line. It involves bringing about a fundamental reorientation in the mind-set of everyone in the company and that too without disrupting your operations. Consistent improvement in your company's performance in the last three years bears evidence that the company has braced the changes well as the transformation in the company that came in its wake has turned out to be fruitful.

Your company is in the auto components business for two-wheelers – motorcycles and hence its prospects are linked with the growth and developments in the two-wheeler industry and motorcycles in particular. Two-wheeler industry in India has shown a compound annual rate of growth of 11.7 % in the decade 1993-2002. Within the two-wheeler industry, the motorcycle market has performed even more impressively and has notched up a compound annual growth rate of 25% during the same decade. Motorcycles now account for 66% of the sales volume of all two-wheelers in India – a big surge from 20% a decade ago.

Opportunities and Threats

Unrelenting high growth in the motorcycle segment of two-wheeler industry in the last decade was a sequel of the shift in the preference of consumers from geared metal body scooters to motorcycles and also a steady growth in the demand for two-wheelers as a staple commuting / leisure vehicle of the large Indian middle class population. But there are signs/indications of a motorcycle market becoming very competitive while it continues to grow at a healthy rate. As a consequence, the auto components manufacturers like your company will have to reckon with this factor whilst they are poised to embrace greater opportunities for increasing volume of business in the coming years. Since your company is engaged as an OEM of auto components, presently catering to the requirements of its principal customer – Hero Honda Motors Ltd. (HHML), which is the market leader in the motorcycle segment of two-wheeler industry enjoying nearly 50 percent of the motorcycle market, it will also have to factor in, while charting the growth path in future, the likely entrance of new players as an OEM supplier, including from foreign sources for whom the new liberalized auto policy of the Government of India has cleared the decks and

opened a new vista. Your company looks forward to challenging, exciting times ahead as it prepares itself to respond and tune in to the changes in the market with alacrity.

Segment wise Performance

Sheet Metal Components

Bulk of the requirements of HHML for all kinds of rims and mufflers for its motorcycles are met with by this segment of company's business located at Waghodia near Vadodara.

The unit has a modern infrastructural set up to manufacture the sheet metal components having plating as well as painting facilities. During the year under review, the unit has contributed Rs. 9652 lac in the total turnover of the company as against Rs. 7122 lac achieved in the previous year witnessing an increase of 35.5%.

Forging Components

Company's this segment of business supplies gear blanks for the motorcycles of HHML. The modern manufacturing facilities established at Binola near Gurgaon in the year 2000 has had its first full-fledged year of operations in 2001-02, post-commissioning. During the year under review, the turnover of the unit has increased significantly to Rs. 2592 lac from Rs. 1007 lac achieved during the previous year.

Outlook

Company has undergone successfully a transformation phase in last three years and has established its foothold as an OEM supplier of auto components, thanks to the committed support of promoter Hero Group. Continuing growth of the motorcycle segment of two-wheeler industry expected in future as well, coupled with the management's attitude of continuous monitoring and addressing operational issues will help the company stay in good stead. Your company can expect to achieve a healthy growth rate in its business in coming years.

Risks and Concerns

Risks are inherent in every business, be it external or internal. Economic slowdown and erratic monsoon could impact most segments of the economy, including the two-wheeler industry.

The main concerns are:

- Continuing slowdown in the growth of Indian Economy;
- Demand squeeze for automobiles, particularly two-wheelers stemming from any variation in the environment, natural calamities, erratic monsoon causing to restrict disposable income of the rural populace and any unforeseen shift in the priority of the consumers; and

ANNEXURE 'I' TO DIRECTORS' REPORT (Continued)

Fierce competition in the motorcycle segment of two-wheeler industry cascading into squeezing margins for the OEM component suppliers.

In order to mitigate the risks, costs are closely monitored and wherever possible and prudent to cut down on costs, it was given effect to. Focus on financial discipline and effective management of net working capital has helped / will help to overcome these risks and concerns partially.

Internal Controls and Adequacy

Management of your company continuously reviews internal control systems and procedures to ensure orderly and efficient conduct of business. The review includes *inter alia* adherence to the management policies, safeguarding assets of the company and ensuring preparation of timely and accurate financial information. Emphasis on internal control is given across functions and processes, covering the entire gamut of activities including finance, secretarial, supply chain, sales and personnel.

- Implementation of BaaN ERP system will form the backbone for operational and financial controls and will also enable evolve
- a comprehensive MIS reporting system, documented processes and authority structure within and across the functional areas / divisions in the company. Policies and procedures on commercial, safety and environment matters are in place and regularly reviewed / updated.

Financial Performance

Financial performance, which has been highlighted in Directors' Report needs to be viewed in the above backdrop. Internal accruals of the company in the last three years have been used to reduce external liabilities and part-finance expansion needs. Judicious net working capital level has helped in reducing the interest cost.

Human Resources / Industrial Relations

Human Resource is the most important asset for a company. Therefore, all importance is given to systematic training and development for each employee of the company at all levels. In this regard, the employees are encouraged and supported in preparing a personal training and development plan, which is assessed and reviewed throughout the year. Systematic survey is conducted to identify the areas for improvement and action thereon for each employee.

An Appraisal Committee has been formed to appraise the performance of each employee of the company and to recommend the necessary reward/promotion/special increment based on the performance of the employee. Total number of employees in the company, as on March 31, 2002 was 590.

Cautionary Statement

Statements in this Management Discussion and Analysis describing the company's objectives, projections, estimates and expectations may be "forwarded looking statements" within the meaning of applicable laws and regulations. Actual results might differ materially from those either expressed or implied.

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ANNEXURE 'II' TO THE DIRECTORS' REPORT

Information as per 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.

1. Conservation of Energy

Conservation of energy continues to be one of the important objectives of the company, particularly, in operations.

A) Waghodia Unit

During the year, the unit had taken following measures in respect of energy conservation:

- Additional capacitor banks installed to improve the power factor from 0.92 to 0.99
- 'Conserve Air' intermediate controller (patented technology from U.S.A.) installed, resulting in reduction in power consumption for generation of compressed air by 8%

B) Binola Unit

The power requirement of Binola Plant is still met with generators of different capacities only. These generators are being run systematically on the basis of actual requirements of power at the unit, which may vary as per the power demand of production program. By applying the same, any loss or wastage of power is minimised. The impacts of steps taken as above cannot be measured.

2. Technology Absorption, Adaptation and innovation

The company does not have a separate Research & Development department. However, at both the plants, the company is having quality assurance departments equipped with sophisticated instruments and a close monitoring process to seek improvement is the thrust area of quality.

The following measures were adopted at Waghodia unit during the year under review:

- Capacity of rim electroplating plant was increased by 16% by way of change in the design of jigs and another 5% by reduction in cycle time
- In Paint shop, latest technology i.e. 'high volume low pressure' paint guns introduced for painting of mufflers which resulted into saving in paint consumption
- Manual operation of silver color painting on rims was replaced by introducing semi-automatic rim painting machines resulting into savings in the material consumption and improvement in productivity
- Shearing process parameters on strips used for manufacturing mufflers was improved at vendors' places at Company's instance by way of slanted end shearing, which resulted into substantial savings in the raw material consumption

The Binola plant has absorbed the cold and warm forging technique from Japan to produce near net shape components with least machining. This is the latest technique being used in all advance countries. After the import of the first lot of dies and tools, a separate tool room facility has been developed with all the modern equipments. This is totally dedicated to develop import substituted dies and tools required for in-house consumption. It will result in substantial savings as well as reduction in the cost of production.

3. Foreign Exchange Earnings and outgo

(Rs. in Lac)

	2001-02	2000-01
(a) Total Foreign Exchange Earnings	3.11	41.36
(b) Total Foreign Exchange Outgo	643.99	202.83

MUNJAL AUTO**ANNEXURE 'III' TO DIRECTORS' REPORT**

Information as per Section 217(2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975

Sl No	Name and Qualification	Designation	Remuneration (In Rs.)	Exp. (Years)	Age (Years)	Date of Commencement of Employment	Previous Employment & Designation
1.	Mr. Sudhir Munjal B.A.	Managing Director	6,090,000	32	56	31.10.1993	Majestic Auto Ltd. Executive Director
2.	Ms. Anju Munjal B.A.	Whole-time Director	2,873,735	16	52	01.01.1995	Munjal Auto Industries Ltd. Chief Executive
3	Mr. Neeraj Munjal B.Com, DIBM	Whole-time Director	2,897,295	12	35	01.02.2000	Hero Exports Chief Executive

Notes:

- Information has been furnished on the basis of employees employed throughout the financial year, who were in receipt of remuneration for the year which, in aggregate was not less than Rs.2,400,000/- (Rupees Twenty Four Lac).
- Remuneration includes salary, allowances and expenditure incurred on perquisites and company's contribution to provident fund.
- All the above appointments are on contractual basis.
- Mr. Sudhir Munjal and Ms. Anju Munjal are related to each other and Mr. Satyanand Munjal. Mr. Neeraj Munjal is related to Mr. Satyanand Munjal.





AUDITORS' REPORT

TO
THE MEMBERS OF
MUNJAL AUTO INDUSTRIES LIMITED

We have audited the attached Balance Sheet of MUNJAL AUTO INDUSTRIES LIMITED, as at 31st March, 2002 and also the Profit & Loss Account for the year ended on that date annexed thereto. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in India. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material mis-statement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As required by the Manufacturing and Other Companies (Auditor's Report) Order, 1988 issued by the Central Government of India in terms of Sub-section (4A) of Section 227 of the Companies Act, 1956, we enclose in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.

Further to our comments in the Annexure referred to above, we report that:

- (i) We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit;

- (ii) In our opinion, proper books of account as required by law have been kept by the company so far as appears from our examination of these books and proper returns adequate for the purposes of our audit have been received from the branches not visited by us.
- (iii) The Balance Sheet and Profit & Loss Account dealt with by this report are in agreement with the books of account;
- (iv) In our opinion, the Balance Sheet and Profit & Loss Account dealt with by this report comply with the accounting standards referred to in Sub-section (3C) of Section 211 of the Companies Act, 1956;
- (v) On the basis of written representations received from the directors, as on 31st March, 2002, and taken on record by the Board of Directors, we report that none of the directors is disqualified as on 31st March, 2002 from being appointed as a director in terms of Clause (g) of Sub-section(1) of Section 274 of the Companies Act, 1956;
- (vi) In our opinion and to the best of our information and according to the explanations given to us, the said accounts give the information required by the Companies Act, 1956, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India
 - (a) in the case of the Balance Sheet, of the state of affairs of the company as at 31st March, 2002; and
 - (b) in the case of the Profit & Loss Account, of the profit for the year ended on that date.

For Vakil Jain & Hindocha
Chartered Accountants

Vadodara
June 30, 2002

Narendra Hindocha
Partner