

MUNJAL AUTO

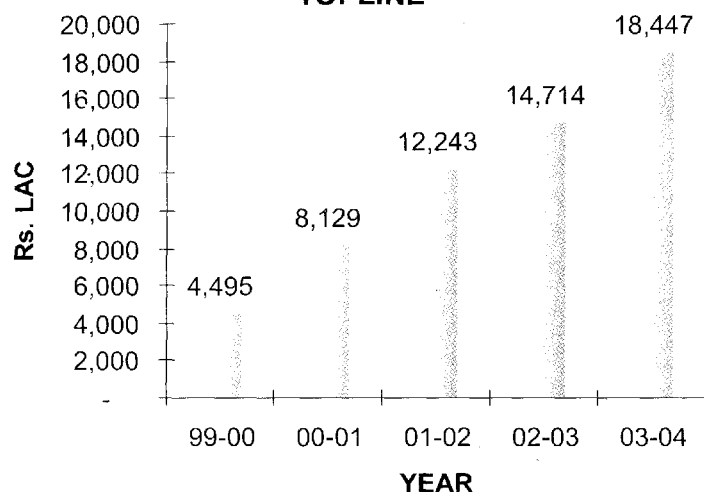
19th Annual Report & Accounts 2003-04



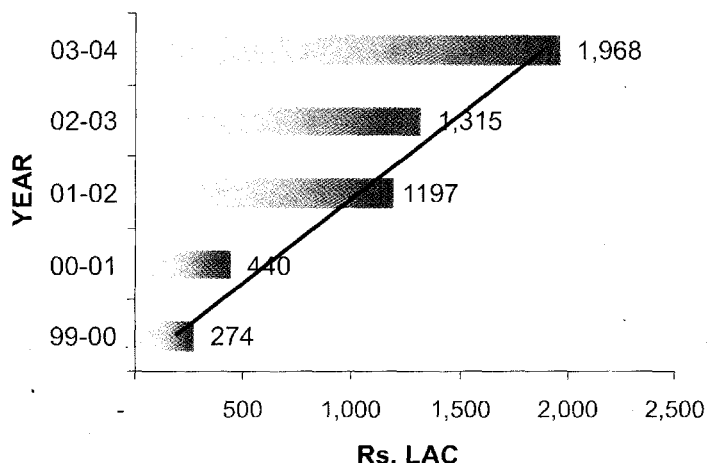
Munjal Auto Industries Limited

PERFORMANCE AT A GLANCE

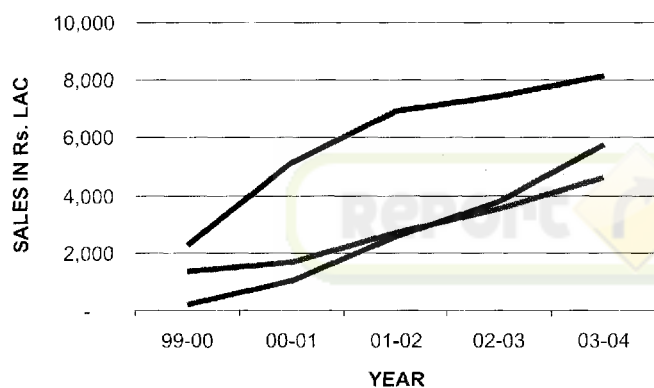
TOPLINE



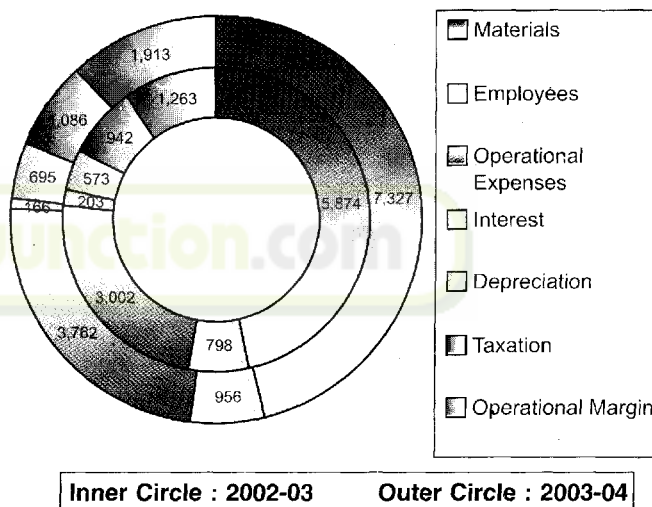
PROFIT AFTER TAX



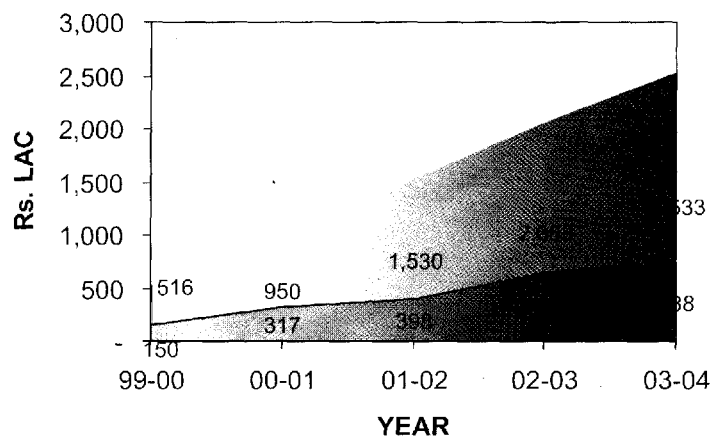
PRODUCT MIX



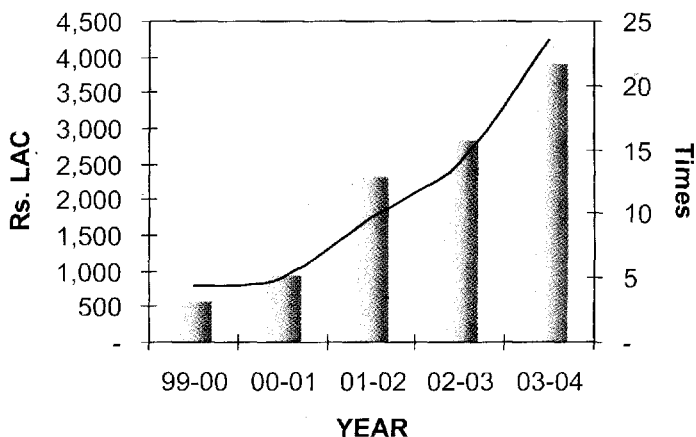
ALLOCATION OF INCOME



CONTRIBUTION TO EXCHEQUER



PBDIT & INTEREST COVER



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

Mayank Dholakiya (w.e.f. March 17, 2004)

FINANCE TEAM

Ravi Sharma, DGM - Finance

Sameer Kumar, AGM - Finance

COMPANY SECRETARY

Alok Nidhi Gupta

AUDITORS

Vakil Jain & Hindocha

Chartered Accountants

Vadodara

BANKERS

State Bank of India

Punjab National Bank

IDBI Bank Limited

HDFC Bank Limited

ABN AMRO Bank N.V.

REGISTERED OFFICE

187, GIDC Estate

Waghodia - 391760

Dist. : Vadodara (Gujarat)

WORKS**Waghodia Unit**

187, GIDC Estate

Waghodia - 391760

Dist. : Vadodara (Gujarat)

Binola Unit

Munjhal Auto Components

58 KM Stone

Delhi-Jaipur Highway

Village : Binola - 122413

Dist. : Gurgaon (Haryana)

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DIRECTORS' REPORT

Your Directors are pleased to present the Nineteenth Annual Report on the business and operations of your Company together with its Audited Accounts for the year ended 31st March, 2004.

Financial Results

(Amounts in Rs. Lac)

	2003-04	2002-03
Sales & Other Income	18,446.73	14,765.08
Profit before Depreciation and Interest	3,915.17	3,032.73
Depreciation	694.56	572.83
Interest	166.43	203.41
Profit before Taxation	3,054.18	2,256.49
Provision for Taxation	1,086.51	941.87
Profit after Taxation	1,967.67	1,314.62
Prior Period Expenditure	(6.27)	(8.77)
Profit after Prior Period Expenditure	1,973.94	1,323.39
Transfer from Capital Reserve	-	25.50
Profit available for appropriations	1,973.94	1,348.89

Appropriations

Transfer to Capital Redemption Reserve	-	380.35
Proposed Dividend on Equity Shares	600.00	400.00
Tax on Dividend	76.88	51.25
Transfer to General Reserve	197.39	99.25
Profit after Appropriation	1099.67	418.04

Dividend

Directors are pleased to recommend a dividend of 30% on equity shares of the Company for the year 2003-04. The dividend, if approved by the Members at the Annual General Meeting, would absorb Rs. 676.88 lac (inclusive of dividend distribution tax of Rs. 76.88 lac) out of the profits available for the year.

Performance

Your Company has performed impressively during the year under review in all operational areas. Sales increased during the year by 25% from Rs. 147.14 crore in 2002-03 to Rs. 184.46 crore in the current year. Profit Before Tax (PBT) has grown even more impressively by 35% from Rs. 22.56 crore in the previous year to Rs. 30.54 crore in the current year. Profit After Tax (PAT) has also witnessed an increase of 50% from Rs. 13.15 crore in the previous year to Rs. 19.68 crore in the current year. Continuing ascendancy in operational performance of your Company is reflective of a healthy growth of motorcycle segment of two-wheeler industry in the country - the mainstay of Company's business. Besides factors such as ongoing emphasis on cost containment and productivity enhancement, better utilization of resources at both the plants at Waghodia and Binola have

helped the Company keep improving its performance and achieve significant growth Year-on-Year basis. Binola unit has further improved capacity utilization and the results of significant investments made to shore up the facilities and ramp up operations have yielded positive results and contributing handsomely in operating margins.

Redemption / Conversion of Optionally Convertible Debentures

During the year under review, the Company redeemed 11.34 lac nos. of Optionally Convertible Debentures (OCDs) of Rs. 100/- each and converted the balance 6.66 lac nos. of OCDs into equity shares of Rs. 10/- at par aggregating to Rs. 6.66 crore in accordance with the option exercised by the OCD holder in terms of their issue.

Board of Directors

Mr. Mayank Dholakiya was appointed as Additional Director on the Board of your Company with effect from March 17, 2004.

Mr. Mahendra Sanghvi, Mr. Brijmohan Lall Munjal and Mr. Satyanand Munjal, retire by rotation at this Annual General Meeting and being eligible, offer themselves for reappointment, which your Directors recommend.

The present term of Ms. Anju Munjal as a Whole-time Director of the Company is expiring on September 29, 2004. She has contributed significantly to improve and strengthen the internal systems across the departments in Waghodia unit. She is a driving force in streamlining organizational structure, policies and also improvements by introducing *kaizens*, *TPM*, *5'S*, etc. Directors feel her continuance as a Whole-time Director of the Company is desirable and hence, commend her reappointment for a further term of five years. An appropriate resolution to that end is set out at item no. 7 of the accompanying Notice of the Annual General Meeting.

Quality Accreditations

Both Waghodia & Binola units of the Company continue to be accredited with QMS / EMS certifications. Further, during the year Waghodia unit of the Company has received certifications of ISO/TS 16949 : 2002 as well as ISO 14001 : 1996, which are standards of quality and environmental management systems respectively. Binola unit is also in the process of obtaining such further accreditations, thus underlying affirmation of the Company for an ongoing accent in the qualitative aspects of all its operations and the environment, in which it operates. Internally, Company is relentlessly and aggressively pursuing with full-fledged involvement of all its employees at all the levels to achieve Total Productive Maintenance and improvements. Some of the measures in this direction are - inculcation of the concepts and disciplined work culture / practices like *kaizens*, *5'S*, interactive sessions amongst cross functional teams for detailing of minute operations, improvement in ways and methods of performing smallest of

operations, attention to details, etc. These proactive measures are not only improving the overall efficiency and process improvement, but also help in saving costs in bits and pieces, paving the way for overall cost containment as evident from the results, despite input cost escalation.

Finance & Accounts and Capital Expenditure

Interest costs both on long term funds and working capital have remained under control, partly because of the softening trend of interest rates in the country and further due to the effective utilization of resources as well as comfortable levels of internal accruals. Capital expenditure incurred during the year 2003-04 aggregated to Rs. 20 crore.

Managerment Discussion and Analysis

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.

Corporate Governance

A report outlining the compliance status of your Company with respect to disclosures mandated by the Listing Agreement with Stock Exchanges, along with a certificate of compliance from the Auditors forms part of this Report given separately.

Enlisting / Delisting

During the year, the Company has got listed its equity shares with National Stock Exchnage, which has got nationwide trading terminals. This would enhance the liquidity of Company's equity shares on the bourses.

Since obtaining the approval of the shareholders in the last AGM, Company has got its equity shares delisted from Ahmedabad, Delhi and Ludhiana Stock Exchanges during the year and the approval for delisting from Vadodara and Calcutta Stock Exchanges to whom the applications for delisting have already been made, are awaited.

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 judgment/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 for preventing and detecting fraud and other irregularities.
- iv) accounts have been prepared on a going concern basis.

Auditors

M/S Vakil Jain & Hindocha, Auditors of the Company retire at the ensuing Annual General Meeting and being eligible, offer themselves for reappointment.

Environmental Compliance

The Company has obtained ISO 14001 certification for Waghodia unit during the year, which is a reaffirmation of its commitment and adherence to the compliances for the Environment Management Systems. Company's environment policies are aligned and integrated in the manner that ensures efficiency and provision of improved environment by taking such enabling measures that are environment friendly in all areas of operations.

Apart from receiving necessary environmental consents / approvals for air, water and hazardous waste discharge from the respective Pollution Control Boards for its Waghodia and Binola units, the Company is conscious of its responsibilities to maintain cleaner environment in and around the areas of its operations. Accordingly, its effluents and waste are treated properly and monitored on an ongoing basis before safely disposing them off in conformity with the environmental regulations prescribed by the statutory authorities. A few instances of the major initiatives / measures taken by the Company during the year under review are enumerated below:

Waghodia Unit

- Recycling of water through various simple and effective measures.
- Incinerator has been installed for proper disposal of paint sludge resulting in reduced quantities of solid waste.

Binola Unit

- Fume extraction system has been installed in the warm forging presses. By this system, fumes generated during forging are washed through a packed column resulting in clean air being released into the atmosphere. All the impurities are absorbed in the packed column.
- Rainwater harvesting unit has been installed to meet requirement of water in plant resulting conservation of water.
- Effluent generation in phosphating plant is monitored regularly and treated efficaciously in the effluent treatment plant before the effluents are discharged safely.
- As there is no municipal sewage system running near the plant, a Sewage Treatment Plant has been installed, the output of which meets with discharge criteria and is used for the gardening needs.



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'* which 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'*.

Industrial Relations

Harmonious industrial relations continued to prevail at both

Waghodia and Binola units of the Company. It has continued its focus on training and development of the personnel through internal and external management development programs.

Acknowledgements

The Directors wish to extend the thanks and appreciation to all the employees of the Company across the levels, customers, suppliers, bankers and other stakeholders for their commitment and respective contributions to the Company's operations during the year under review.

By Order of the Board of Directors

Ludhiana
May 10, 2004

Satyanand Munjal
Chairman

ANNEXURE 'I' TO DIRECTORS' REPORT

Management Discussion and Analysis Report

Indian Economy has rebounded impressively in the year 2003-04, smarting as it was the effects of slowdown in the previous four years. Buoyed by a good monsoon that helped agriculture to notch up an impressive growth of 9% over the previous year, the overall economy has grown by nearly 8%. Industry and service sectors of the economy have also grown at 7% and 8% respectively. Auto Components Industry of India has established a strong hold in world market. Domestic market of automobiles (both two wheelers & four wheelers) has achieved new milestones during the year 2003-04. This is significant as India is now among the top ten automobile markets in the world. Automobile market in India and auto component industry of India have both captured attention and admiration of the world. Two wheeler automobile market of India is one of the largest in the world, continuing to grow at a healthy rate.

Industry Structure and Development

Two wheeler industry has shown compound annual rate of growth (CAGR) of over 25% in the last one decade. Structural transformation that has taken place in the last few years within two wheeler industry, whereby the dominant market has shifted in favour of motorcycles from that of wide-bodied scooters, has continued in the current year as well. Principal customer of the Company - Hero Honda Motors Limited (HHML) has retained its position as a dominant and formidable player in the motorcycles industry.

This continuing favourable developments in the automobile and two wheeler industry is the bedrock of - firstly, turnaround of your Company and now, its impressive operational performance. In the foreseeable future, auto industry in India is expected to remain buoyant.

Opportunities and Threats

Opportunities are aplenty in the motorcycles components business with its continuing healthy growth. As an ancillary to

industry leader HHML, the growth potential in business is immense and that continues to derive the volume of business for the Company. Good monsoon and smart economic recovery in the country will also accord more opportunities for business in the coming year. However, the exciting opportunities also bring in their wake challenges and difficulties. There would be competitive pressure in the motorcycle business and consequently, a great deal of pressure on the components manufacturers. While the increase in volumes will fetch more business opportunities, competitive pressure and prices will pose challenges to the operating margin. Also one has to reckon that the Company's business continues to be heavily dependent on its ability to remain aligned with the business of HHML. Company has embarked on its strategy to be a quality supplier for four wheeler industry in India that has grown considerably in size in recent years. Opportunities do exist for supply of components to four wheeler industry. Company is prepared to embrace the exciting opportunities as well as prepared to tackle the competitive pricing pressure with ongoing efforts and accent at both the units with firm plans of action on Total Productive Maintenance and cost controls.

Segment-wise Performance

During the year, the Company continued to manufacture sheet metal and forging components at its plants located at Waghodia and Binola respectively. A summary of major developments / operations of both the units in the year under reference is given below:

Sheet Metal Components

During the year, sales of Waghodia unit increased by 16% to Rs. 127 crore against Rs. 109 crores in the previous year. Its PBT also grew proportionately by 15% to Rs. 16 crore from Rs. 14 crore in the last year. Its well-equipped modern facilities are able to handle the demand of increased volume of business efficiently and develop new variants of sheet metal

ANNEXURE 'I' TO DIRECTORS' REPORT (Continued)

components in a short time. It is also geared up to develop in-house any kind of sheet metal components for the new business from four wheeler industry, which is likely to materialize in the coming year. In the coming year, further capital expenditure to increase the capacity is being lined up.

Forging Components / Gear Blanks

Operations of this unit have grown considerably - sales having increased to Rs. 57 crore from Rs. 38 crore of the previous year, showing an increase of 52%; PBT has moved up to Rs. 14 crore from Rs. 8 crore that represents a growth of 70%. Its major expansion in the capacity and adding further operational facilities to make and supply gear blanks in finished form are completed during the year. All round gains in the productivity and capacity utilization are visible from the excellent numbers referred above. To cater to the increasing volume of business, it has also lined up further capacity enhancement and facilities expansion at the same complex in the coming year at an estimate cost of Rs. 21 crore.

Outlook

The Company has built state-of-the-art manufacturing facilities at both the units in Waghodia and Binola with requisite infrastructure that is geared to provide utmost customer satisfaction and is poised to achieve further penetration within the target segments of automobile industry. The Company believes that its rigorous, result oriented approach to identify, qualify and develop business relationship will be the deriving force of its future growth prospects. The Company is poised to position itself prominently in the sheet metal / forging auto components due to its ongoing efforts on cost containment, productivity and efficiency improvements in all areas and relentless focus on the customer satisfaction. Barring unforeseen contingency, the Company is expected to tread on a roadmap of healthy growth in the years to come.

Risks and Concerns

Any economic slowdown and recession in any particular segment of industry or any such external variable can adversely impact demand-supply dynamics and profitability. Whilst Company is on a growth trajectory in the last few years with its changed focus of business, the growing competition in the motorcycle segment of two-wheeler industry on which it is heavily reliant can affect its future growth plans and may narrow operating margins in future.

Company will continue to be vigilant in tracking and monitoring any adverse externalities and continue with its initiatives to improve in all areas of its operations, maintain discipline so that it is in a prepared state to combat risks / concerns arising therefrom.

Internal Controls and Adequacy

The Company has an adequate system of internal controls commensurate with the size and nature of business of the

Company to ensure adequate protection of the Company's resources, provision of accurate and timely financial statements and reports and compliance with the company policies, procedures and legal obligations.

The Company has an Audit Committee comprising four non-executive directors with majority of independent directors, who meet periodically with the management, Internal Auditors and Statutory Auditors to review the Reports of Internal Audit and the internal control systems.

Both Waghodia and Binola units of the Company have implemented ERP system, which have brought improvement in business processes and efficiency levels. The information systems solutions are being continuously enhanced to 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

The total sales for the year ended March 31, 2004 increased to Rs. 184 crore as against Rs. 147 crore in the previous year registering a growth of 25%. The Profit Before Tax (PBT) for the year 2003-04 grew by 35% from Rs. 23 crore in the previous year to Rs. 31 crore. The Profit After Tax (PAT) witnessed an increase of 50% from Rs. 13 crore to Rs. 20 crore. Softening of interest rate on the borrowings and optimal utilization of financial resources helped by healthy internal accruals have enabled Company to further reduce interest costs as a percentage of sales from 1.38% in the previous year to 0.90% in the year under review.

Human Resources / Industrial Relations

Human Resource is the Company's very valuable asset and performance of the Company is largely dependent on the creativity, motivation and efforts of the individuals within its organisation. Continuing thrust on motivation, training and skills imparting are instrumental in the Company bringing about the concepts like Total Productive Maintenance, kaizens, etc. Employees are encouraged to bring-forth new ideas and become the part of the overall improvement process. Their needs and aspirations are understood and attended to as far as possible. During the year under review, as many as 5000 plus kaizens were received and implemented by all levels of employees.

As on March 31, 2004, the total number of persons employed in the Company was 1,020.

Cautionary Statement

Above averments are forward looking in nature, based on certain assumptions and expectations of the future events that are subject to risks / uncertainties and unanticipated travails. Therefore, the actual performance / results and trends may differ materially from the historical results.



ANNEXURE 'II' TO 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

Judicious use of energy, particularly in the hard core manufacturing processes of the Company continues to be an important ingredient of conservation of energy. Optimal utilization of various energy resources like power, fuel and oil is ensured by ongoing measures / steps that improve power factor and other consumption. Some of the specific measures / steps in this direction include:

A) Waghodia Unit

- Day light roof sheets installed all over the factory buildings have further improved the natural lighting during the day time, resulting in reduction of energy consumption for lighting.
- Improved methods and processes in the operations of machines / equipments have increased their capacity, thereby reducing the power consumption per unit of output.

B) Binola Unit

- With the installation of synchronization panel in the generator room, automatic equal distribution of load among the generators has become possible, so also smoothening of loads during the generators' starter. This has paved the way for further optimization of fuel requirements in the generators. Strict vigilance of the generators' performance and the preventive maintenance measures help detecting and avoiding wastages, breakdowns and leakages of power and fuel.
- Direct cooling chambers have been installed using the components' heat during forging operations for normalizing process. By such controlled cooling, the extra heat requirement for normalizing of components is eliminated.

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 in the thrust area of quality.

The following measures were adopted by the Company during the year under review:

A) Waghodia Unit

- Major improvement achieved in life of inside painting of mufflers through innovations in application method thereby significantly reducing prospective warranty claims.
- Avoided major investments by increasing output of existing machines / plant through innovations.
- Adapted to aluminum extrusion / anodizing and plastic injection moulding technologies enabling new four wheeler customer to achieve supply chain reduction.
- Fully absorbed IT user technology for implementation of ERP system.

B) Binola Unit

- 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.
- Apart from absorbing the foreign technology, tool room facilities are also being used for developing new tools for the manufacture of new components by using same methods as has been used by the Japanese. This has resulted in substantial foreign exchange savings as well as cost effectiveness.

3. Foreign Exchange Earnings and outgo

(Amount in Rs. Lac)

	2003-04	2002-03
(a) Total Foreign Exchange Earnings	-	-
(b) Total Foreign Exchange Outgo	961.08	794.28

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

S. 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	6,616,560	34	58	31.10.1993	Majestic Auto Ltd. Executive Director
2.	Ms. Anju Munjal B.A.	Whole-time Director	5,273,184	18	54	01.01.1995	Munjal Auto Industries Ltd. Chief Executive
3.	Mr. Neeraj Munjal B.Com., DIBM	Whole-time Director	5,138,304	14	37	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, Managing Director and Ms. Anju Munjal, Whole-time Director are related to each other and Mr. Satyanand Munjal, Chairman of the Company. Mr. Neeraj Munjal, Whole-time Director is related to Mr. Satyanand Munjal.

AUDITORS' REPORT

TO
THE MEMBERS OF
MUNJAL AUTO INDUSTRIES LIMITED

1. We have audited the attached Balance Sheet of Munjal Auto Industries Limited as at 31st March, 2004, and also the Profit and Loss Account and the Cash Flow Statement 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.
2. 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 whether the financial statements are free of material misstatement. 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 the management as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. As required by the Companies (Auditor's Report) Order, 2003 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 the Paragraph 4 of the said Order.
4. Further to our comments in the Annexure referred to above, we report that:
 - a) 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.
 - b) 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 those books.

- c) The Balance sheet and Profit and Loss Account dealt with by this report are in agreement with the books of account.
- d) In our opinion, the Balance Sheet, Profit & Loss Account and Cash Flow Statement dealt with by this report comply with the accounting standards referred to in Sub-section (3C) of Section 211 of the Companies Act, 1956.
- e) On the basis of written representations received from the directors, as on 31st March, 2004, and taken on record by the Board of Directors, we report that none of the directors of the Company is disqualified as on 31st March, 2004 from being appointed as a director, in terms of Clause (g) of Sub-section (1) of Section 274 of the Companies Act, 1956.

In our opinion and to the best of our information and according to the explanations given to us, the said accounts read together with the notes there on, 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:

- i) in the case of the Balance Sheet, of the state of affairs of the Company as at 31st March, 2004;
- ii) in the case of the Profit & Loss Account, of the profit for the year ended on that date; and
- iii) in the case of the Cash Flow Statement, of the cash flows for the year ended on that date.

For Vakil Jain & Hindocha
Chartered Accountants

Narendra Hindocha
Partner

Vadodara
May 10, 2004

M. No. 31363

ANNEXURE TO AUDITORS' REPORT

Annexure to the Auditors' Report to the Members of Munjal Auto Industries Limited for the year ended 31st March, 2004
(Referred to in Paragraph 3 of our report of even date)

- 1) (a) The Company is maintaining proper records showing full particulars including quantitative details and situation of fixed assets;
- (b) These fixed assets have been physically verified by the management at reasonable intervals and no material discrepancies were noticed on such verification;
- (c) The Company has not disposed off substantial part of fixed assets.
- 2) (a) The inventory has been physically verified during the year by the management. In our opinion, the

frequency of verification is reasonable;

- (b) In our opinion and according to the information and explanations given to us, the procedures of physical verification of inventory followed by the management are reasonable and adequate in relation to the size of the Company and nature of its business;
- (c) The Company is maintaining proper records of inventory and no material discrepancies were noticed on physical verification.
- 3) (a) The Company has not granted any loans to companies, firms or other parties covered in the register maintained under Section 301 of the Companies Act, 1956. The Company has taken loans, including amount received by issue of debentures, from one such company covered in the register