

MUNJAL AUTO

20th Annual Report & Accounts 2004-05

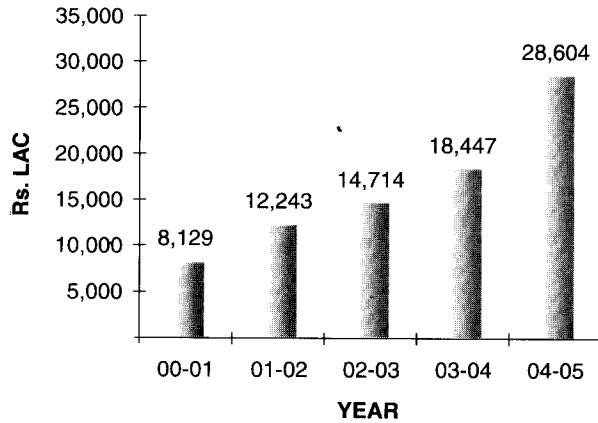
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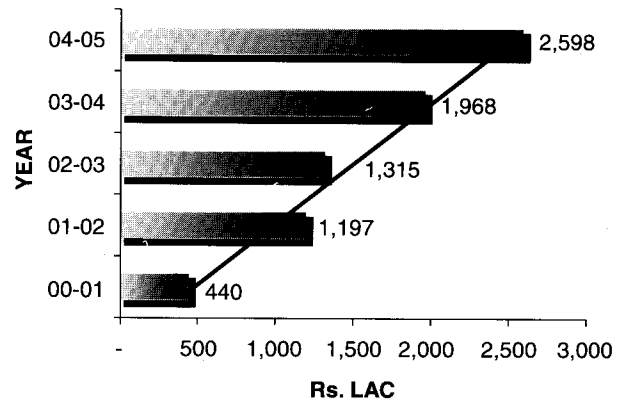
Munjel Auto Industries Limited

PERFORMANCE AT A GLANCE

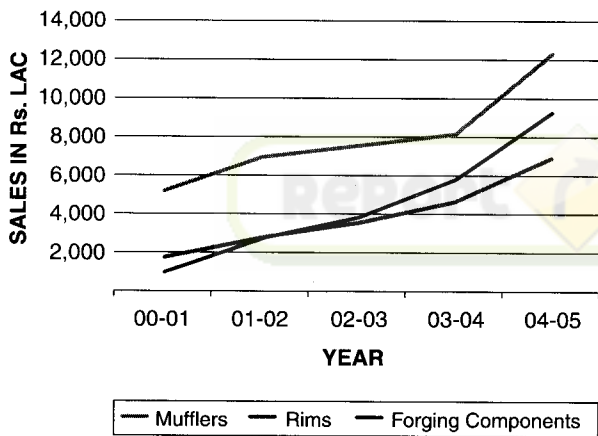
TURNOVER



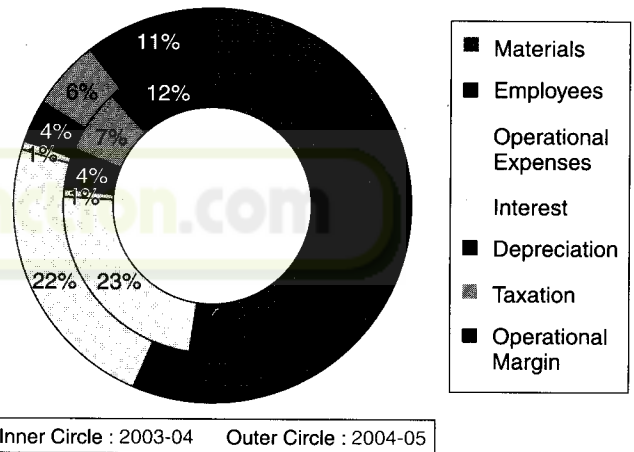
PROFIT AFTER TAX



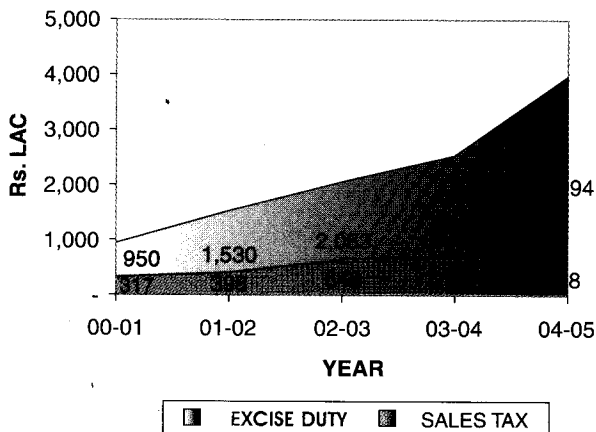
PRODUCT MIX



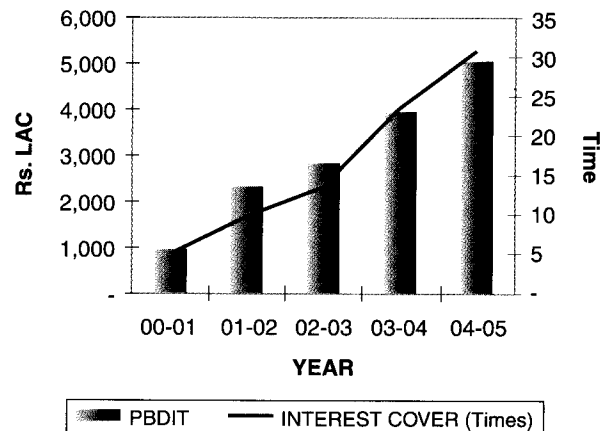
ALLOCATION OF INCOME



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

Mayank Dholakiya

FINANCE TEAM

Ravi Sharma, *GM - Finance*

Alok Nidhi Gupta, *Company Secretary*

AUDITORS

Vakil Jain & Hindocha

Chartered Accountants

38, Gautam Nagar, Race Course,

Vadodara - 390 007

PRINCIPAL BANKERS

State Bank of India

Punjab National Bank

IDBI Limited

HDFC Bank Limited

ABN AMRO Bank N.V.

Citibank N.A.

REGISTERED OFFICE

187, GIDC Estate

Waghodia - 391 760

Dist. : Vadodara (Gujarat)

PLANTS

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 pleasure in presenting herewith their Twentieth Annual Report on the business and operations of your Company together with its Audited Accounts for the year ended 31st March, 2005.

Financial Results

	(Amounts in Rs. Lac)	
	2004-05	2003-04
Sales & Other Income	28,695.17	18,501.34
Profit before Depreciation and Interest	5,053.38	3,915.17
Depreciation	868.76	694.56
Interest	164.09	166.43
Profit before Taxation	4,020.53	3,054.18
Provision for Taxation (Deferred & Current)	1,422.66	1,086.51
Profit after Taxation	2,597.87	1,967.67
Prior Period Expenditure	(3.61)	(6.27)
Profit available for appropriations	2,601.48	1,973.94

Appropriations

Proposed Dividend	800.00	600.00
Tax on Dividend	112.20	76.88
Transfer to General Reserve	260.15	197.39
Profit after Appropriation	1,429.13	1099.67

Dividend

Directors are pleased to recommend a dividend of 40% on equity shares of the Company for the year 2004-05. The dividend, if approved by the Members at the Annual General Meeting, would absorb Rs. 912.20 lac (inclusive of corporate dividend tax of Rs. 112.20 lac) out of the profits available for the year.

Performance

The financial year 2004-05 was a challenging year for Indian Industry and automobile industry in particular, as it had to bear a major brunt of spiralling costs triggered by huge increase in commodity prices during the year. In this backdrop, your Directors have immense pleasure in announcing a 56% increase in sales of the Company to Rs. 286.04 crores against Rs. 184.46 crores achieved in the previous year. Operating profit (PBDIT) of the Company for the year under review increased impressively by 29% to Rs. 50.53 crore as against Rs. 39.15 crore for the previous financial year. Profit before tax (PBT) and Profit after tax (PAT) increased even more impressively by 32% from Rs. 30.54 crore and Rs. 19.68 crore in the previous year to Rs. 40.20 crore and Rs. 25.98 crore respectively. Impressive growth in volumes, rigorous cost containment measures and improved operational efficiency have enabled the Company to maintain a healthy growth in profitability and stave off major adverse impact emanating from steep increases in major input costs like steel, nickel, etc.

Board of Directors

Mr. Vikram Shah, Mr. Om Prakash Munjal and Mr. Vijay Munjal, retire by rotation at this Annual General Meeting and being eligible, offer themselves for re-appointment, which your Directors recommend.

The Board of Directors of your Company in its meeting held on January 29, 2005, subject to approval of Members of the Company, approved the re-appointment of Mr. Neeraj Munjal as a Whole-time Director of the Company for a further period of five years commencing from February 1, 2005. Mr. Neeraj Munjal is managing the affairs of Binola unit of the Company, which is contributing significantly in the overall performance of the Company. Directors feel his continuance as a Whole-time Director of the Company is desirable and hence commend his re-appointment 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

Reliance on growth with quality is the way of life in Munjal Auto and has become an ingrained philosophy at all levels in the Company. Continuing efforts in bringing out improvement in qualitative aspects of all operational areas in the Company by adopting tools like *Kaizen* - for Continuous Improvement, *Total Productive Maintenance (TPM)* - for improving overall equipment effectiveness, 5 "S" - for work place management and *Gemba Kaizen* - a systematic approach by cross functional teams for improvements in plants. Your Company is in process of adopting *DMAIC* [Define, Measure, Analyse, Improve & Control] approach of Six Sigma that would help further reducing the manufacturing process variation.

During the year, both the units of your Company continued to be accredited with QMS / EMS certifications. During the year, Binola Unit has also received certification of ISO/TS 16949:2002. These systems help Company to monitor effectively the existing operational systems and to improve further, wherever required, in company's pursuit to improve the productivity and efficiency, to improvise the quality systems, to optimise costs and to strengthen the safety norms.

Finance

Your Company was able to raise the short term as well as long term funds at the most competitive rates despite hardening of the interest rates being witnessed throughout the year under review. Judicious use of available financial resources has helped Company to control finance costs.

During the year under review, your Company spent an aggregate of Rs. 24 crore in expanding the capacities at its plants.

Management 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.

MUNJAL AUTO

Award and Recognition

Board places on record its deep appreciation for the distinguished civilian honour - *Padma Bhushan* - bestowed upon Dr. Brijmohan Lall Munjal, Hero Group Chairman and Member of the Board of your Company by the Government of India in recognition of his contribution to the Indian Industry and society at large. This honour is indeed a profound recognition to entire Hero Group family and would work as beacon illuminating the way forward to new challenges.

Corporate Governance

Your Company is committed in following the highest standards of Corporate Governance. In this pursuit, your Company has a structure of corporate governance in place that ensures compliance of the provisions of Clause 49 of the Listing Agreement.

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.

Rating

The rating agency ICRA has assigned an A1+ (A one plus) rating to your Company for an enhanced amount of Short Term Debt including Commercial Paper programme to the extent of Rs. 10 crore. This rating indicates highest safety with regards to capability of timely payment of debt / obligations.

Fixed Deposits

During the year under review, your Company has not accepted any deposit under Section 58A and Section 58AA of the Companies Act, 1956 read with Companies (Acceptance of Deposits) Rules, 1975.

Delisting

During the year, your Company had received approval of voluntary delisting of its equity shares from Vadodara and Calcutta Stock Exchanges.

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 re-appointment.

Environmental Compliance

Your Company is committed to maintain the highest standards of environment compliances and therefore, has adopted a systematic approach towards environment management. Company's all operational decisions are taken by considering their impact on environment, which help in maintaining and improving the overall environment in and around Company's plants.

During the year under review, Binola unit has also obtained ISO 14001 certification. Company is in process of upgrading its systems in accordance with amended ISO 14001 : 2004 standards for sustainable improvements in environment.

Your Company has complied with the applicable environmental regulations and its effluents & wastes are treated properly and monitored constantly before safely disposing them off in conformity with the environmental regulations prescribed by statutory authorities. During the year, Company has received necessary environmental consents / approvals for air, water and hazardous waste discharge from the respective Pollution Control Boards for its Waghodia and Binola units in line with the enhanced volume of the operations.

Your Company considers its prime responsibility to improve environmental health and safety measures for its employees. There are constant efforts on the part of the management to continuously improve and design its occupational health and safety management systems that ensures healthy and safe environment inside the plants. In this endeavor, Company has already initiated its actions towards "Occupational Health and Safety Assessment Series" (OHSAS 18001:1999) implementation. During the year, Binola unit has received certification of OHSAS 18001 : 1999. Waghodia unit is also in process of obtaining such accreditations.

A few instances of the major initiatives / measures taken by the Company during the year under review are enumerated below:

Waghodia Unit

- Fume Extraction Systems were installed in de-waxing unit for releasing clean air in the atmosphere.
- Water re-circulation system installed in rim and muffler manufacturing operations, thereby reducing water consumption by 20%.

Binola Unit

- Modern features in the ETP/STP were installed for improving quality of effluents.
- Achieved 75% of the total discharge water in recycling for reuse and balance water being used for gardening in factory premises.



- Fume extraction systems were installed in Hobbing & Grinding Machines areas for releasing clean air in the atmosphere.
- Study is being conducted to minimize wastages of oil and to use eco-friendly oils to reduce contaminations.

Engery, 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'*.

Industrial Relations

Industrial relations have remained cordial at both Waghodia and Binola units of the Company.

Social Responsibility

The year under review witnessed an unprecedented catastrophe in the form of Tsunami waves that wrought the coastal part of southern & eastern India bringing in its wake mass destruction. Magnitude of the disaster was huge and all efforts and help from every corner of the society was required to rebuild lives of the tsunami-affected people. Your Company had also participated in the efforts to rebuild the lives of affected people and made contributions aggregating to Rs. 16.32 lac. In addition to this, employees of your Company also contributed their one-day salary towards this cause.

Acknowledgements

The Directors place on their record appreciation of the contribution of all 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

Place : Ludhiana
June 04, 2005

Satyanand Munjal
Chairman

ANNEXURE 'I' TO DIRECTORS' REPORT

Management Discussion and Analysis Report

Indian economy has continued to grow healthily in the last few years and in the year 2004-05 it has grown at 6.9% over the previous year. Industry and service sectors in particular have notched up impressive growth rates of 8% and 9% respectively.

Healthy GDP growth achieved by Indian economy in last few years has led to higher disposable incomes available to the strong and vibrant middle class segment of Indian population. While all sectors of industry have had a positive cascading effect of this phenomenon, automobile industry continues to show robust growth year-after-year. Access to finance at affordable rates, rise in the aspirational values of middle-class, slew of new models and variants launches as well as aggressive marketing through attractive promotions and discounts have contributed to the larger volumes in automobile industry and in particular the two-wheeler industry that is going on an overdrive.

Overall, auto industry clocked a 16% rise in volumes in 2004-05, coming on the back of a 14.3% growth last year. Good times in the automobile industry as far as volumes are concerned have been continuing and there are no signs of let up at least in the near future. This 'feel-good' factor pervading the automobile industry has prompted several automakers to line up fresh investments to ramp up their operational capacities.

Industry Structure and Development

Indian two-wheeler industry crossed a six million mark in the year 2004-05. Motorcycles continued to stride a colossus within the two-wheeler segment accounting for nearly 80% or 4.96 millions units during the year. It grew 19% in volumes

over the previous year. Principal customer of the Company i.e. Hero Honda Motors Limited (HHML) has grown at higher than the market rate of growth at 25% and continues to be the industry leader.

Healthy growth of two wheeler industry and in particular the continuing dominance of principal customer HHML is the backbone of your Company's impressive operational performance and the present indications continue to be favourable.

Opportunities and Threats

Your Company can reap benefits by availing plenteous opportunities that abound the auto components business. First and foremost, as an ancillary to the industry leader HHML, the growth potential in volume of business will be immense and closely aligned to that of HHML. Your Company is heavily dependent on the prospects of growth of two-wheeler industry and within that the business of HHML. It has started making efforts to broadbase its range of auto components supply, particularly exploring the possibilities of establishing its presence in the four-wheeler industry.

Input costs, especially that of steel and nickel, are a major cause of concern for the entire automobile industry including components' manufacturers like your Company. Volume increase and scaling up operations can nullify or absorb input cost increase upto a point. But, if the input cost like that of steel and other materials continue to spiral like it has had in the last year, that could be a real challenge to combat the pressure on operating margins. Increase in International oil prices witnessed in the last couple of months is another major

ANNEXURE 'I' TO DIRECTORS' REPORT (Continued)

concern, which threatens to bring in inflationary pressure in all economies of the world and in turn, can dampen the growth potential in future.

Segment-wise Performance

During the year, the Company continued to manufacture sheet metal and forging / gear 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 Division (Waghodia Unit)

During the year under review, the sales of Waghodia unit witnessed a spurt of 52% to Rs. 193.55 crores against Rs. 127.08 crores in the previous year. Its PBT also grew impressively by 40% to Rs. 22.88 crore from Rs. 16.31 crores in the previous year. Improved methods and processes in the operations of machines / equipments have helped the unit to enhance its rim and muffler manufacturing capacities with small additional investment and therefore enabled the unit to cater to the increased requirements of HHML during the year under review. The unit has also lined up investment aggregating to Rs. 27 crore for expanding its existing capacities of rim and muffler manufacturing for HHML's future requirements. This expansion is scheduled to be completed by September'05.

Forging / Gear Components Division (Binola Unit)

The businesses of the Company within Forging / Gear Components Division recorded an impressive increase of 61% in sales to Rs. 92.49 crore during the financial year 04-05 against Rs. 57.38 crore in the previous year. Increased input costs have significantly impacted its margins resulted into growth in its PBT by 22% at Rs. 17.32 crore against Rs. 14.23 crore in the previous year.

During the year under review, the Unit has made capital investment of Rs. 22 crore that has resulted in increase of annual capacities of gear blank machining from 9.6 million nos. to 12 million nos. and gear finishing from 3.6 million nos. to 7.2 million nos. The internal improvements in the operations of machines / equipments have helped the unit to enhance its annual capacity of cold & warm forging components from 6.6 million nos. to 8 million nos.

During the year under review, the Unit has successfully developed gear primary driven components for HHML. These components are currently being imported by HHML. For manufacturing these components, higher capacity presses and turning machines are required. The unit has planned an aggregate investment of Rs. 23.50 crore for the above-mentioned new components and also for expanding the capacities of existing forging / gear components. These expansions are scheduled to be completed by September'05.

Outlook

Company has further stepped up its investment at both Waghodia and Binola Units to enhance the operational

capacities and to embrace the new and exciting opportunities for additional business within the focused segments of automobile industry. Ongoing efforts to improve in all areas of operations and greater focus on the core values of its business should augur well for the future of your Company. It would continue to grow, barring unforeseen contingencies, in the years that lie ahead.

Risks and Concerns

Though the Company is equipped with guidelines and controls in place for constant monitoring and timely action to mitigate the adverse impact, if any, a sudden downturn in business environment due to external factors like oil price shock and consequent inflationary pressure and / or uncontrolled spiral of input costs, the risk of squeeze in operating margins remains.

While the Company continues to derive benefit from the impressive growth and performance of its principal customer HHML, that also makes it more vulnerable to any adverse development or slow down in the growth of business of HHML.

Internal Controls and Adequacy

Your 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 speedy financial statements and reports and compliance with the Company policies, procedures and legal obligations.

Your Company has a balanced organization structure, well-defined authority levels and set guidelines and rules for conducting business transactions and to promote ethical conduct. The Company's Internal Auditors conduct audit to ensure adequacy of internal control systems, adherence to management instructions and policies and compliance with laws and regulations of the country. The Internal Audit Reports are circulated to the Management who initiates action where appropriate and the action taken reports of the management is considered and discussed by the Audit Committee.

Financial Performance

Automobile industry is witnessing frequent and steep rises in the steel prices impacting the bottom-line of the companies. However, your Company's ongoing efforts on improvements in efficiencies, productivity and costs have helped it to off-set the impact of rising raw material prices to some extent and enabled it to post a 32% increase in Profit before tax (PBT) from Rs. 30.54 crore in the previous year to Rs. 40.20 crores in the current year. Profit after tax (PAT) has also witnessed a similar increase of 33% from Rs. 19.68 crores in the previous year to Rs. 26.18 crores in the current year. Total sales of the Company for the year under review increased from Rs. 184.46 crore in the previous year to Rs. 286.04 crore registering an impressive growth of 55%. During the year under review, interest cost as a percentage of sales has reduced to 0.57% from 0.90% in the previous year.



ANNEXURE 'I' TO DIRECTORS' REPORT (Continued)

Human Resources / Industrial Relations

During the year under review, Company continued with initiatives to develop its employees at professional and personal levels. A sizeable number of employees have undergone training that accord an opportunity to sharpen their skills, improve their performance and widen their perspective.

Specific training on various production process solutions continued to be imparted to relevant employees so that they can develop further their technical competence, a *sine-qua-non* to emerge stronger and seize emerging business opportunities.

Company has also put in place a system of performance appraisal to ensure a direct link between employees' performance and their variable pay as well as training needs. Company has a strong belief that to attract, retain and nurture the optimal talent, effective management of human capital is imperative and to that end, it consistently strives toward

improvement in the standards of environment, occupational health and safety of all its employees as well as at the work place. This not only improves productivity but also provides a safe and healthy environment and an atmosphere of congeniality.

During the year under review, wage agreement is reached with the employees at Waghodia Unit. At the end of the financial year 04-05, total number of employees on the rolls of the Company was 806.

Industrial relations at both Waghodia and Binola units are continuing to be cordial.

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

Energy conservation is being perused with considerable focus and commitment by the Management. 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.

2. Technology Absorption, Adaptation and innovation

Both the units of the Company are having separate earmarked section dedicated for the development activities. Engineering Departments of the respective units are continuously working on development of components for new models of automobile and also development of alternate processes to enhance quality and to reduce cost.

Following measures were adopted by the Company during the year under review:

Waghodia Unit

- Establishment of Paint Testing Laboratory with range of sophisticated instruments for improving quality of paint coating.

- Up-gradation of Paint Shop with advanced technology for outside painting of automotive components.

- Establishment of state-of-the-art Metrological Laboratory [Standard Room] with "3D Co-ordinate Measuring Machine-3D CMM" is in process.

Binola Unit

- Unit has absorbed the cold and warm forging technology from Japan to manufacture '*near net shape components*' with least machining. This is the latest technology being used in all advanced countries.
- Tool room of the unit is now well-equipped for developing new tools and dies for manufacturing new components by using same methods as is used in Japan. This has resulted in substantial foreign exchange savings as well as cost effectiveness.

3. Foreign Exchange Earnings and outgo

(Amount in Rs. Lac)

	2004-05	2003-04
(a) Total Foreign Exchange Earnings	—	—
(b) Total Foreign Exchange Outgo	2,101.98	961.08

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

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	7,044,000	35	59	31.10.1993	Majestic Auto Ltd. Executive Director
2.	Mrs. Anju Munjal B.A.	Whole-time Director	6,123,344	19	55	01.01.1995	Munjal Auto Industries Ltd. Chief Executive
3	Mr. Neeraj Munjal B.Com, DIBM	Whole-time Director	3,408,000	15	38	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 Company's contribution to provident fund.
- All the above appointments are on contractual basis.
- Mr. Sudhir Munjal, Managing Director and Mrs. Anju Munjal, Whole-time Director are related to each other and to 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, 2005, the Profit & 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, Profit & Loss Account and Cash Flow Statement 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, 2005, 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, 2005 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 explanations given to us, the said accounts, read together with the notes thereon, 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, 2005;
 - 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
M. No. 31363

Vadodara
June 07, 2005

ANNEXURE TO AUDITORS' REPORT

Annexure to the Auditors' Report to the Members of Munjal Auto Industries Limited for the year ended 31st March, 2005
(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 Act;
- (b) The Company has taken loans from a company