

MUNJAL AUTO

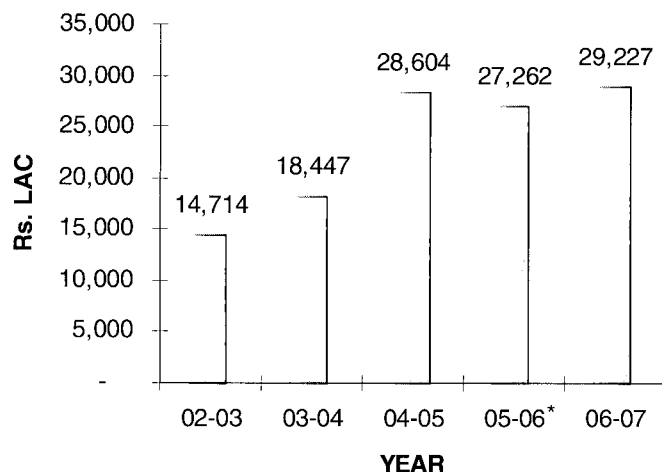
22nd Annual Report & Accounts 2006-07



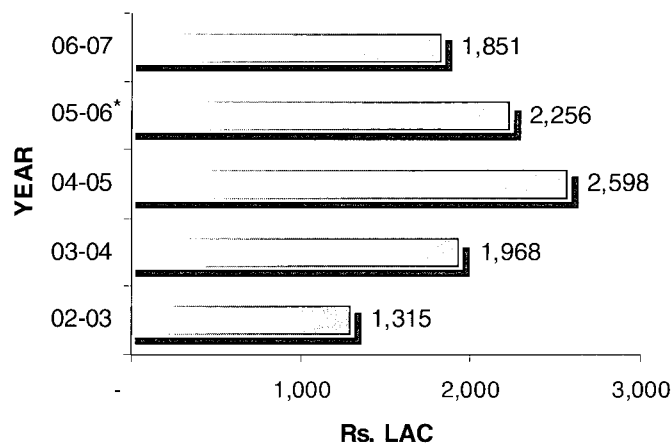
Munjial Auto Industries Limited

PERFORMANCE AT A GLANCE

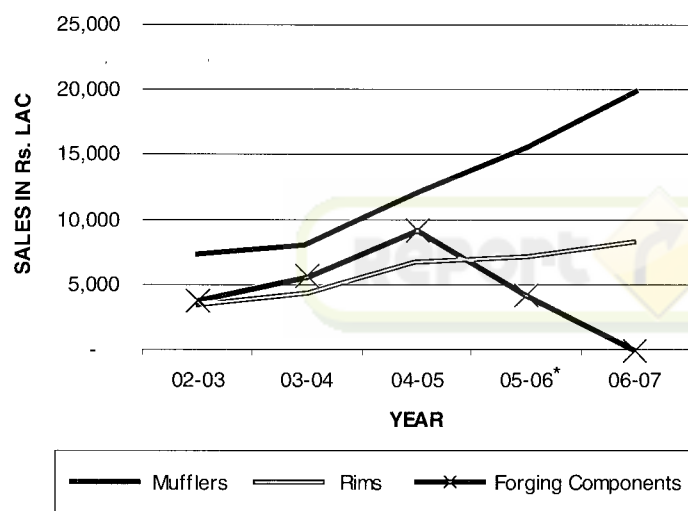
TURNOVER



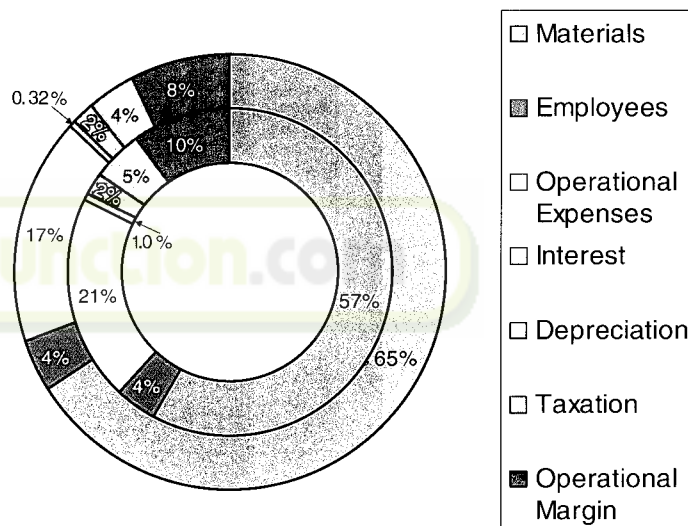
PROFIT AFTER TAX



PRODUCT MIX



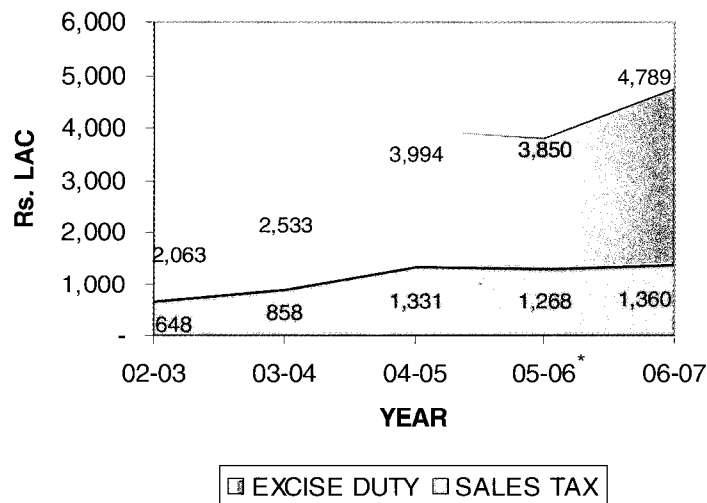
ALLOCATION OF INCOME



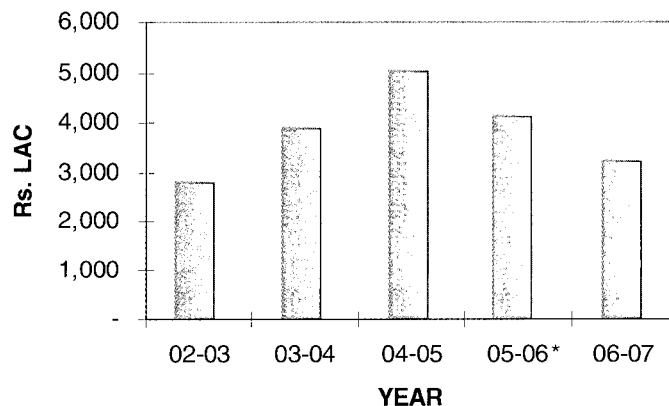
Inner Circle : 2005-06*

Outer Circle : 2006-07

CONTRIBUTION TO EXCHEQUER



PBDIT & INTEREST COVER



* Includes figures of Binola unit upto 31st July, 2005 which has been demerged w.e.f. August 1, 2005.

BOARD OF DIRECTORS**CHAIRMAN**

Satyanand Munjal

MANAGING DIRECTOR

Sudhir Munjal

WHOLE TIME DIRECTOR

Anju Munjal

DIRECTORS

Brijmohan Lall Munjal

Om Prakash Munjal

Vijay Munjal

Vikram Shah

Naresh Chawla

Mahendra Sanghvi

FINANCE TEAM

S. K. Sharma, GM - Finance

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 & PLANT

187, GIDC Industrial Estate,

Waghodia - 391 760

Dist.: Vadodara (Gujarat)

CONTENTS

| | |
|---|----|
| Directors' Report | 2 |
| Annexure 'I' to Directors' Report | 4 |
| Annexure 'II' to Directors' Report | 5 |
| Annexure 'III' to Directors' Report | 6 |
| Auditors' Report | 7 |
| Balance Sheet | 10 |
| Profit & Loss Account | 11 |
| Cash Flow Statement | 12 |
| Schedules to Balance Sheet | 14 |
| Schedules to Profit & Loss Account | 17 |
| Notes on Accounts | 19 |
| Balance Sheet Abstract & General Business Profile | 26 |
| Corporate Governance Report | 27 |



DIRECTORS' REPORT

To the members,

We are delighted to present our report on the business and operations of the Company for the year ended March 31, 2007.

Financial Results

| | (Amounts in Rs. Lac) | |
|---|----------------------|-----------|
| Year ended March 31, | 2007 | 2006 |
| Sales & Other Income | 29,226.71 | 27,262.01 |
| Profit before Depreciation and Interest | 3,253.15 | 4,160.45 |
| Depreciation | 428.05 | 575.69 |
| Interest | 95.93 | 144.44 |
| Profit before Taxation | 2,729.17 | 3,440.32 |
| Provision for Taxation (Deferred & Current) | 877.88 | 1,184.05 |
| Profit after Taxation | 1,851.29 | 2,256.27 |
| Prior Period Expenditure | (27.23) | (16.62) |
| Profit available for appropriations | 1,878.52 | 2,272.89 |
| Appropriations | | |
| Proposed Dividend on Equity Shares | 500.00 | 500.00 |
| Tax on Dividend | 84.98 | 70.13 |
| Transfer to General Reserve | 187.85 | 227.29 |
| Profit after Appropriation | 1105.69 | 1475.47 |

DIVIDEND

Directors are pleased to recommend a dividend of 50% on equity shares of the Company for the fiscal 2007. The dividend, if approved by the Members in the forthcoming Annual General Meeting, would absorb Rs.584.98 lac (inclusive of corporate dividend tax of Rs. 84.98 lac) out of the profits available for the year.

The Register of Members and Share Transfer Books will remain closed from September 19, 2007 to September 22, 2007, both days inclusive.

PERFORMANCE

The financial year 2006-07 has continued to be a challenging year for the Indian Industry and automobile industry in particular. Major inputs of the industries, particularly the commodities and intermediate goods showed a continuing firm trend. While some of the increases in input costs were recouped from the corresponding revision in selling prices, the rest were absorbed in the cost of production.

During the year, the company has notched up a turnover of Rs.292.27 crores against Rs.272.62 crores in the previous year, which was inclusive of Rs.42.00 crore turnover of the erstwhile Binola unit of four months, which has since then been hived off from the company. This represents a Year-on-Year basis increase of 26.67% in turnover.

Profit before tax of Rs.27.29 crore during the year as against

Rs.34.40 crore in the previous year shows a decline but excluding Rs.8.47 crore profit before tax of Binola unit last year for 4 months would mean a profit before tax of Rs.25.93 crore of the previous year and comparing that the increase of PBT is Rs.1.36 crore, representing an increase of 5.24%.

DIRECTORS

As per the Articles of Association, Mr. Satyanand Munjal, Mr. O. P. Munjal and Mr. Vikram Shah retire by rotation in the forthcoming Annual General Meeting. All of them, being eligible, offer themselves for reappointment.

QUALITY

Further to the accreditation of ISO TS 16949:2002 & ISO 14001:2004, your Company has been, over the years, adopting systematic approach for Continual Improvement in all aspects of the operations. This has been further sustained and improved through total participation of employees at all levels, and continually upgrading the knowledge level of employees by adopting latest improvement tools like, KAIZEN's, Five 'S', Cause and Effect Matrix (C&E) for detail understanding and improving processes at micro level.

FINANCE

Your Company was able to raise the short term funds at the most competitive rates despite hardening of the interest rates being witnessed throughout the year under review. Effective use of available financial resources has helped Company to contain the finance costs. The company has not raised any long term finance during the year.

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.

AWARD AND RECOGNITION

Board places on record its deep appreciation for the Certificate awarded by Hero Honda Motors Limited as "DIRECT ONLINE SUPPLIER" for the components supplied by the Company reposing confidence in the quality of products. Board also places its appreciation that the company has been issued a certificate of recognition for "GOOD HOUSEKEEPING" by five "S" committee of Baroda Productivity Council.

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.

For fiscal 2007, the compliance report is provided in the Corporate Governance Report section of this annual report. The auditor's certificate on compliance is annexed to this report.

FIXED DEPOSITS

The company has not accepted any fixed deposits and, as such,

MUNJAL AUTO

no amount of principal or interest was outstanding as of the balance sheet date.

DIRECTORS' RESPONSIBILITY STATEMENT

In accordance with the provisions of Section 217(2AA) of the Companies Act, 1956, with regard to the Directors' responsibility statement, the Board of Directors confirms that:

- a) in the preparation of the Annual Accounts, the applicable accounting standards have been followed and there has been no material departure;
- b) the selected accounting policies were applied consistently and the Directors made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company as at March 31, 2007 and the profit & loss account of the Company for the year ended on that date.
- c) proper and sufficient care has been taken for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities.
- d) the Annual Accounts have been prepared on a going concern basis.

AUDITORS

The auditors, M/s. VAKIL JAIN & HINDOCHA, Chartered Accountants, retire at the ensuing Annual General Meeting and have confirmed their eligibility and willingness to accept office, if reappointed.

ENVIRONMENT

Your Company is committed in maintaining 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.

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 Pollution Control Board in line with the enhanced volume of the discharge as a result of increase in the volume of operations.

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

As required under the provisions of section 217(2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975, as amended, the names and other particulars of employees are set out in the **ANNEXURE – III** included in this report.

INDUSTRIAL RELATIONS

Industrial relations have remained cordial throughout the year in the Company.

HEALTH AND SAFETY

Safety is every employee's responsibility and concern. Your Company is committed for safety and health of its employees and other persons who may be affected by its operations. We believe that the safe working practice leads to motivated workforce and higher productivity. We strive to eliminate accidents at our factory. Employees are encouraged to report the incidents. Incidents are investigated and analysed to prevent reoccurrence and improve our performance. We have a safety culture in the organization by:

- Integrating safety and health in all our activities.
- Ensuring compliance with all applicable legislative requirements.
- Encouraging employees to ensure safety at their workplaces.
- Continuous improvements in safety performance through precautions besides participation & training of employees.

ACKNOWLEDGEMENTS

We thank our clients, vendors, investors and bankers for their continued support during the year. In particular, our principal customer Hero Honda Motors Limited, our company is thankful for continuing to support and including it as an integral part of the supply chain management.

We place on record our appreciation of the contribution made by employees at all levels. Our consistent growth was made possible by their hard work, cooperation and support.

We thank the Government of India, the Customs and Excise Departments, the Income Tax Department, the Industrial & Labour Department, the State Government and other government agencies for their support, and look forward to their continued support in the future.

Waghodia
June 25, 2007

For and on behalf of the Board
Satyanand Munjal
Chairman



ANNEXURE 'I' TO DIRECTORS' REPORT

Management Discussion and Analysis Report

Indian economy's juggernaut has continued to roll in the year 2006-07 like it has been doing now for the last few years. Its overall growth in GDP at 9.4 % is one of the best ever achieved and within its economy, Industry and service sector in particular have notched up much more impressive growth rates of 11% and 12% respectively.

Among the more obvious manifestations of such a sustained growth in the GDP of India are found to be in the higher disposable income of a large section of the Indian population and with that the rising aspiration levels of the people across the regions. Alongside almost all sectors of industry that have benefited from this phenomenon, automobile industry too has reaped the fruits as it continues to show a robust growth, a part of the continuing growth stories of the previous few years. Access to finance at affordable rates thus far, rise in the aspirational values of middle-class, slew of new models and variants launches offered by the two-wheeler industry, backed up by aggressive marketing through attractive promotions schemes have all contributed to the larger volumes of sales in the automobile industry.

Albeit some areas of concerns have emerged toward end of fiscal 2006-07 with overall growth of the two wheeler industry having slackened – largely due to steadily rising interest rates and constraint on credit growth due to actions taken by Reserve Bank of India, Banks and financial institutions to control non-food credit.

INDUSTRY STRUCTURE AND DEVELOPMENT

Automobile Industry has continued to be on growth mode especially two wheeler motorcycle segment which account more than 80 percentage of the total market share of vehicles by volume.

Motor cycles sales grew by 14 percent to 7.1 million in 2006-07. Principal customer of the Company i.e. Hero Honda Motors Limited has grown at higher than the market rate of growth and continues to be the industry leader with nearly 50 percent market share.

There are some signs of motor cycles growth slowing down since the last quarter of 2006-07 and will continue to be sluggish in the first half of 2007-08 at least.

OPPORTUNITIES AND THREATS

Major plank of your Company's business is derived from the two-wheeler industry and therefore it can expect to continue to grow at a healthy rate only if the two-wheeler industry shows potential for further penetration in the market. There is an overall optimism for the two-wheeler industry to notch a double-digit growth in the years to come because the household incomes - in urban as well as rural India - will continue to grow handsomely, like it has witnessed over the last decade, and with it the consumer spends –especially on non-food items and durables. Therefore the long-term story for two-wheelers will continue to be good.

Input costs and the volatility of metal pricing, especially those of steel and nickel and consumables continue to be a worrying aspect for automobile industry including components' manufacturers like

your Company. Volume increase and scaling up operations can nullify or absorb input cost increase to certain extent. Overall the margins will continue to be under pressure. Increase in International oil prices is another major concern, which threatens to bring in inflationary pressure in all economies of the world and in turn, can dampen the growth potential in future.

Another major threat looming on the horizon for your company is the substitution of rim wheels in the motorcycles by alloy mag-wheels, which has shown signs of a shrinking market for the rim based wheels and in turn the rims.

OUTLOOK

Company has further stepped up its investment 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 of operating margins remains.

While the Company continues to derive benefit from the impressive growth and performance of its principal customer HHML, the risk of any adverse development in HHML business may affect your Company's performance.

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 statement and reports and compliance with the Company policies and 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 of raw material prices to some extent and enable it to post a Profit Before Tax (PBT) from Rs. 34.40 crore in the previous year to Rs. 27.29 crore in the current year. Total turnover of the Company for the year under review increased from Rs. 272.62 crore in the previous year to Rs. 292.27 crore.

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.

Industrial relations in the Company were cordial throughout the year.

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

The Management is perusing energy conservation with considerable focus and commitment. Effective 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

Company is having dedicated team for new developmental activities. Engineering department of the Company is 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:

- Capacity expansions at many manufacturing processes have been done viz-painting process, Ni Chrome plating process, etc.
- Spoke hole punching process automation in the motorcycle rim part has been implemented for quality / productivity improvement.
- New improved paints introduced which can withstand higher temperature resulting into better life of Mufflers.

3. Foreign Exchange Earnings and outgo

| | (Rs. In Lac) | |
|-------------------------------------|---------------------|----------------|
| | 2006-07 | 2005-06 |
| (a) Total Foreign Exchange Earnings | — | — |
| (b) Total Foreign Exchange Outgo | 1878.68 | 2738.90 |



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, and forming part of the Directors' Report for the year ended March 31, 2007.

| 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 | 1,14,95,874/- | 37 | 61 | 31.10.1993 | Majestic Auto Ltd. Executive Director |
| 2. | Mrs. Anju Munjal B.A. | Whole-time Director | 1,08,30,006/- | 21 | 57 | 01.01.1995 | Munjal Auto Industries Ltd. Chief Executive |

Notes:

1. Remuneration comprises basic salary, allowances and taxable value of perquisites.
2. All the above appointments are on contractual basis.
3. Mr. Sudhir Munjal, Managing Director & Mrs. Anju Munjal, Whole-time Director are related to each other and also to Mr. Satyanand Munjal, Chairman of the Company.



MUNJAL AUTO**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, 2007, 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 and 5 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, 2007, 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, 2007 from being appointed as a director, in terms of clause (g) of sub section (1) of Section 274 of the Companies Act, 1956.
- f) 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 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, 2007;
 - ii) in the case of the Profit and 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

Surendra Modiani
Partner

Membership No. 47966

Vadodara
June 25, 2007



ANNEXURE TO AUDITORS' REPORT

Annexure referred to in paragraph 3 of the Auditors' Report to the members of Munjal Auto Industries Limited for the year ended 31st March, 2007

- 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) The Company has not either granted or taken any loans to/from companies, firms or other parties covered in the register maintained under section 301 of the Act and therefore, the matters referred in paragraph 4 (iii) of the Companies (Auditors' Report) Order, 2003 are not applicable.
- 4) In our opinion and according to the information and explanations given to us, there is an adequate internal control procedure commensurate with the size of the Company and the nature of its business, for the purchase of inventory and fixed assets and for the sale of goods. During the course of our audit, we have not observed any continuing failure to correct major weaknesses in internal controls.
- 5) According to the information and explanations given to us,
 - (a) The particulars of contracts or arrangements referred to in Section 301 of the Act have been entered in the register required to be maintained under that section;
 - (b) In our opinion and according to the information and explanations given to us, the transactions, exceeding the value of five lac rupees in respect of any party during the year, made in pursuance of such contracts or arrangements during the year, have been made at prices which are reasonable having regard to the prevailing market prices at the relevant time.
- 6) The Company has not accepted deposits from the public.
- 7) In our opinion, the Company has an internal audit system commensurate with the size and nature of its business.
- 8) We have broadly reviewed the books of accounts and records maintained by the Company pursuant to the Rules made by the Central Government for the maintenance of cost records under section 209(1)(d) of the Companies Act, 1956 and we are of the opinion that prima facie, the prescribed accounts and records have been made and maintained;
- 9) According to the information and explanations given to us and as shown by our examination of the books of accounts:
 - (a) The Company is regular in depositing with the appropriate authorities, undisputed statutory dues including Provident Fund, Investor Education and Protection Fund, Employees' State Insurance, Income-tax, Sales-tax, Wealth Tax, Service tax, Customs Duty, Excise Duty, Cess and other statutory dues applicable to it and no undisputed amounts payable in respect thereof were in arrears, as on the last day of the financial year, for a period of more than six months from the date they became payable;
 - (b) The Company has not deposited disputed Sales Tax demand of Rs. 25.50 lacs pertaining to the financial year 2002-03. The company has preferred appeal against the order of the Assessing Officer and the matter is pending before the Joint Commissioner of Sales Tax (Appeals), Vadodara.

There are no dues of Income-Tax / Wealth-Tax / Service-Tax / Custom Duty / Excise Duty / Cess which have not been deposited on account of any dispute;
- 10) The company has no accumulated losses at the end