

MUNJAL AUTO

 23rd Annual Report & Accounts 2007-08



Munjel Auto Industries Limited

BOARD OF DIRECTORS**CHAIRMAN**

Satyanand Munjal

MANAGING DIRECTOR

Sudhir Munjal

WHOLE TIME DIRECTORS

Anju Munjal

DIRECTORS

Brijmohan Lall Munjal

Om Prakash Munjal

Vijay Munjal

Vikram Shah

Naresh Chawla

Mahendra Sanghvi

FINANCE TEAM

S. K. Sharma, GM - Finance

Sambit Dash, Company Secretary

AUDITORS

Vakil, Jain & Hindocha

Chartered Accountants

38, Gautam Nagar, Race Course,

Vadodara - 390 007

PRINCIPAL BANKERS

State Bank of India

IDBI Limited

HDFC Bank Limited

ABN AMRO Bank N.V.

REGISTERED OFFICE & PLANT

187, GIDC Industrial Estate,

Waghodia - 391 760

Dist.: Vadodara (Gujarat)

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DIRECTORS' REPORT

To the Members,

Your Directors have pleasure in presenting the 23rd Annual Report along with the Balance Sheet and Profit and Loss Accounts for the year ended March 31, 2008.

FINANCIAL RESULTS

(Amounts in Rs. Lac)

Year ended March 31,	2008	2007
Sales & Other Income	26,085.04	29,226.71
Profit before Depreciation and Interest	2,103.58	3,253.15
Depreciation	502.18	428.05
Interest	65.93	95.93
Profit before Taxation	1,535.47	2,729.17
Provision for Taxation (Deferred & Current)	498.92	877.88
Profit after Taxation	1,036.75	1,851.29
Prior Period Expenditure	21.14	(27.23)
Profit available for appropriations	1,015.61	1,878.52
Appropriations		
Proposed Dividend on Equity Shares	150.00	500.00
Tax on Dividend	25.49	84.98
Transfer to General Reserve	50.78	187.85
Profit after Appropriation	789.34	1105.69

DIVIDEND

Directors are pleased to recommend a dividend of 15 % on equity shares of the Company for the fiscal 2008. The dividend, if approved by the Members in the ensuing Annual General Meeting, would absorb Rs. 175.49 lac (inclusive of corporate dividend tax of Rs. 25.49 lac) out of the profits available for the year.

The Register of Members and Share Transfer Books will remain closed from September 23, 2008 to September 26, 2008 (both days inclusive).

PERFORMANCE

The Year 2007-08 was sluggish for the Automobile Industry in India in general and the Motorcycles Industry in particular. According to the figure released by the Society of Indian Automobile Manufacturers (SIAM) motorcycle sales in India during 2007-08 were down by 11.90 percent at 5.77 million units, against 6.55 million units in the previous year. High interest cost & squeeze on the financing of motorcycles by banks/NBFCs across the country were major contributory factors to the decline of sales in motorcycles during the year 2007-08. To add to the woes, last year's trend of hardening of the commodities and intermediate goods continued this year as well and almost entire chunk of the increases in input and processing costs were absorbed in the cost of production resulting in severe squeeze of the Gross Margins of almost all automotive sector companies across the sectors/segments.

A shifting trend in the motorcycles to have mag-wheels in preference over the steel-wheels was greatly evident and prevalent in the year 2007-08 and that resulted in a compression of demand for the rims - one of the major items of manufacture and sale of your company. This too impacted sales and profit margins of the company.

Company's turnover during the year has declined to Rs.260.85 crore from RS.292.27 crore in the previous year. Profit before tax of Rs. 15.35 crore and after tax of Rs. 10.36 crore during the year as against Rs. 27.29 crore and 18.51 crore respectively in the previous year have shown a steep declining trend in the aftermath of the factors referred above.

DIRECTORS

As per the Articles of Association, Mr. Vijay Munjal, Mr. Naresh Chawla and Mr. Mahendra Sanghvi retire by rotation in the forthcoming Annual General Meeting. All of them, being eligible, offer themselves for reappointment.

QUALITY

Continued emphasis on quality and adoption of a systematic approach of manufacturing management have been helping the company, over the years, remain in the forefront on qualitative aspects of its products and customer satisfaction. Accreditations like ISO TS 16949 and ISO 14001 have continued to be available to the company during the year. At micro level, individual employees participation and involvement with attention to details is improving on an ongoing basis with more knowledge, better habits imparting with tools like KAIZEN's, Five '5', Cause and Effect Matrix (C&E) etc.

FINANCE

Your Company was able to raise the short-term funds needed for its working capital related requirements at fairly competitive rates although hardening of the interest rates was the prevalent trend in the Indian Financial System. Effective use of available financial resources has helped Company further contain the finance costs during the year. 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.

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 2008, 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.

MUNJAL AUTO

FIXED DEPOSITS

The company has not accepted any fixed deposits during the year and, as such, 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:

- in the preparation of the Annual Accounts, the applicable accounting standards have been followed and there has been no material departure.
- 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, 2008 and the profit & loss account of the Company for the year ended on that date.
- 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.
- 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 the Auditor's 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 continue to be taken keeping in mind their sensitivity to the surrounding environment, which help in maintaining and improving the overall environment in and around Company's plant.

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 Authority.

Inside the plant, eco ventilators have been affixed to facilitate greater flow of fresh air that has helped to reduce air temperature naturally in the plants.

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. It's company's belief that safe working practice leads to motivated workforce and higher productivity and to that end, all possible safety measures are put in place to eliminate accidents at the factory. Employees are encouraged to report the incidents. Even small Incidents are investigated and analysed to prevent reoccurrence and improve upon safety record. Safe working culture across the country is ensured by:

- Integrating safety and health in all 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

Company would like to thank its clients, vendors, investors and bankers for their continued support during the year. In particular, to its principal customer Hero Honda Motors Limited, the company is thankful for continuing to repose faith as a direct online supplier and including it as an integral part of the supply chain management.

We would like to place on record our appreciation of the contribution made by employees at all levels. Their diligent hard work, cooperation and support is a backbone of all endeavours of the company.

We also thank the Government of India, Customs and Excise Departments, the Income Tax Department, the Industrial & Labour Department, Government of Gujarat and other government agencies for the support company has been receiving over the years, and is looking forward to their continued support/guidance in times to come.

For and on behalf of the Board
Satyanand Munjal
Chairman

Waghodia
June 30, 2008



ANNEXURE 'I' TO DIRECTORS' REPORT

Management Discussion and Analysis Report

INDUSTRY STRUCTURE & DEVELOPMENT

Since 1999, the focus of your company's operations has been auto components business and what was a strategic shift to enable the company survive from a brinkmanship, has turned out to be a harbinger of its growth over the years.

Your company is in the auto components business for two-wheelers – motorcycles and therefore its fortune and the operations have a direct connect with the growth and developments that take place in the two-wheeler industry and motorcycles in particular. Two-wheeler industry in India had shown a compounded annual rate of growth of over 10 percent in the decade ended 2006-07. However, in the year 2007-08, it hit a roadblock with a negative growth of 8 percent. Within the two-wheeler industry, sales of motorcycles, which account for nearly 85 percent in volumes, has had a bigger dent and its volume shrank to 5.8 million from the high of 6.6 million units in the year 2006-07. The prime reason for a retreat in the two-wheeler market could be attributed to the slowdown in financing of two-wheelers ushered in by the banks and finance companies, particularly from the second half of the year and a considerable hardening of the interest rates in the vehicle financing segment.

OPPORTUNITIES AND THREATS

In the previous year's Management Discussion and Analysis Report, it was mentioned that some slowdown signs are emerging on the market scenario of two-wheeler industry in India, on the back of a spectacular run of growth, it showed for nearly a decade. Since the turn of year 2007, there have been some major global developments particularly in the finance sector triggered by the sub-prime and housing sector crisis in the USA. Another worrying factor that has emerged in the year 2008 is skyrocketing of the crude prices internationally by nearly 100 percent increase from the price levels in 2007. Its impact are felt like upheavals in almost all countries of the world and a threat of double-digit inflation has assumed a reality in India as well in the past few months – the biggest inflationary pressure in the last one decade. The tight monetary measures and hiking of the interest rates by RBI will make financing costlier in the coming year.

As a consequence, the auto components manufacturers like your company will have to reckon with this scenario in which things are going to be more challenging and competitive. Upward pressure on the inputs and now even the conversion costs led by increasing power and fuel cost by the day will necessitate belt-tightening and cost-cutting measures. Since your company is engaged as an OEM of auto components, presently catering to the requirements of its principal customer – Hero Honda Motors Ltd. (HHML), which is a market leader in the motorcycle segment of two-wheeler industry enjoying above 50 percent of the motorcycle market.

OUTLOOK

Long-term growth story of both India and the two-wheeler industry seems to be intact, with periodic hiccups and bumps strewn in its path. Penetration level of two-wheelers in India, at less than 50 per thousand population, is still low. What augurs well is that the principal customer HHML is a rock-solid performer. It continues to be a formidable player in the two-wheeler industry and consolidating its market share to reach over 50 percent currently.

Your company looks forward to challenging, exciting times ahead as it prepares itself to brace with new opportunities and challenges that abound and preparing itself to respond and tune in to the dictates of the environ. This would call for freshness of approach and concerted efforts on an ongoing basis to grapple with the changes that lie ahead.

Continuing growth of the motorcycle segment of two-wheeler industry is expected in future as well. The management's attitude of continuous monitoring and addressing operational issues will help the company stay in good stead. Though, due to hike in Petrol prices, there may be some pressure on all type of vehicles but at the same time there is a better scope of growth for fuel-efficient vehicles

RISKS AND CONCERNS

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

The main concerns are:

- A likely slowdown in the growth of Indian Economy in the wake of a rising fuel prices and a double-digit inflation in recent times after a high growth phase it achieved in a band of 4-year period concluded in 2007-08.
- Demand squeeze for automobiles, particularly two-wheelers stemming from any variation in the environment, natural calamities, erratic monsoon causing to restrict disposable income of the rural populace and any unforeseen shift in the priority of the consumers; and
- Slowdown in the market conditions – particularly the motorcycle segment of two-wheeler industry – due to high interest rates and reduction in availability of the finance for purchase of a motorcycle to a prospective buyer
- Continuing upward spiral of the commodities and other inputs/ conversion costs cascading into squeezing margins for the OEM component suppliers.

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

ANNEXURE 'I' TO DIRECTORS' REPORT (Continued)**INTERNAL CONTROLS AND ADEQUACY**

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

FINANCIAL PERFORMANCE

Financial performance, which has been highlighted in Directors' Report need to be viewed in the above backdrop. Judicious net working capital level has continued to keep the interest burden of the company at a minimal level.

HUMAN RESOURCES / INDUSTRIAL RELATIONS

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

CAUTIONARY STATEMENT

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

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)	
	2007-08	2006-07
(a) Total Foreign Exchange Earnings	—	—
(b) Total Foreign Exchange Outgo	748.04	1878.68



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, 2008

Sr. 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	85,44,187/-	38	62	31.10.1993	Majestic Auto Ltd. Executive Director
2.	Mrs. Anju Munjal B.A.	Whole-time Director	85,44,187/-	22	58	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.

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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, 2008 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 as amended by the companies (Auditor's Report) order, 2004, ("the order") 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 has been kept the Company so far as appears from our examination of those books.
 - c) The Balance sheet, Profit and 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, 2008, 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, 2008 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 significant accounting police, 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, 2008;
 - 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

Place: Vadodara
Date : June 30, 2008

Membership No. 47966



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, 2008

- 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 was not deposited disputed Sales Tax demand of Rs.25.50 pertaining to the Financial year 2002-03, the company has preformed appeal against 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;

ANNEXURE TO AUDITORS' REPORT (Continued)

- | | |
|---|--|
| <p>10) The company has no accumulated losses at the end of the financial year and in the immediately preceding financial year.</p> <p>11) The company has not defaulted in repayment of dues to a financial institution or bank or debentureholders. The details of claim made but not accepted by the company are as per notes on accounts;</p> <p>12) The Company has not granted any loans or advances on the basis of any security.</p> <p>13) In our opinion, the Company is not a chit fund or a nidhi / mutual benefit fund / society. Therefore, the provisions of clause 4(xiii) of the Companies (Auditor's Report) Order, 2003 are not applicable to the Company.</p> <p>14) In our opinion, the Company is not dealing in or trading in shares, securities, debentures and other investments. Accordingly, the provisions of clause 4(xiv) of the Companies (Auditor's Report) Order, 2003 are not applicable to the Company;</p> <p>15) The Company has not given any guarantee for loans taken by others.</p> <p>16) In our opinion, the term loans have been applied for the purpose for which they were raised.</p> | <p>17) According to the information and explanations given to us and on an overall examination of the Balance Sheet of the company, we report that no funds raised on short-term basis have been used for long term investment by the company;</p> <p>18) The Company has not made any preferential allotment of shares during the year.</p> <p>19) The Company had not issued any debentures in respect of which any security was required to be created.</p> <p>20) The Company did not raise any money by public issue during the year.</p> <p>21) According to the information and explanations given to us, no fraud on or by the Company has been noticed or reported during the year.</p> |
|---|--|

For Vakil Jain & Hindocha
Chartered Accountants

Surendra Modiani
Partner

Place: Vadodara
Date: June 30, 2008

Membership No. 47966