



Rane Brake Linings Limited

37th ANNUAL REPORT 2002

Rane Brake Linings Limited

Directors

L LAKSHMAN

(Chairman & Managing Director)

L GANESH

(Vice Chairman)

K S KRISHNASWAMY

S NANDAGOPAL

Dr. R NATARAJAN

R RAJA RAJA VARMA

K TODA (Nominee of Nisshinbo Industries Inc., Japan)

D VIJAY MOHAN

Bankers

ICICI Bank Limited

Standard Chartered Grindlays Bank Limited

Indian Overseas Bank

Auditors

D RANGASWAMY & Co.

Chartered Accountants, Chennai

Registered Office

"MAITHRI", 132, Cathedral Road

Chennai 600 086

Phone : 8112472

Fax : 8112449

Email : rcc@ranegroup.com

Plant I

Plot No. 30
Industrial Estate
Ambattur
Chennai 600 058
Tamil Nadu

Plant II

Pregnapur Village
Gajwel Mandal
Siddipet Highway
Medak District 502 311
Andhra Pradesh

Plant III

RS No. 48, 49 & 50
Sanyasikuppam Village
Mannadipet Commune
Thirubhuvanai Post
Pondicherry 605 107

Rane Brake Linings Limited

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Rane Brake Linings Limited**REPORT OF THE DIRECTORS**

Your Directors are pleased to present their thirty-seventh annual report together with the accounts for the year ended March 31, 2002.

A. MANAGEMENT DISCUSSION AND ANALYSIS REPORT**FINANCIAL PERFORMANCE :**

	2001- 2002 Rs.in million	2000-2001 Rs.in million
Sales and Operating Revenues	1245.02	1101.71
Profit before tax	246.23	88.86
Provision for tax	39.38	27.20
Profit after tax	206.85	61.66
Surplus brought forward	18.00	18.00
Amount available for appropriation	224.85	79.66

Your Company sustained operational performance despite soft markets and cost pressures. This has been possible due to cost reduction and productivity improvement measures such as development of alternate procurement sources, optimised utilisation of power and control of process rejections.

APPROPRIATION

From the profits available for appropriation, an amount of Rs.8.75 million has been transferred to Debenture Redemption Reserve. This would leave the Company with a balance of Rs.216.10 million. Your Directors are pleased to recommend dividend of 100%, on the equity capital, subject to deduction of tax at source, for the year ended March 31, 2002. This is inclusive of a special distribution of 55% on account of the profits arising out of the divestment of shares in Rane LuK Clutch Limited. The amount on this account works out to Rs.36.07 million. This leaves the Company with retained profits of Rs.180.03 million of which Rs.163.03 million is being transferred to the General Reserve leaving a surplus of Rs.17.00 million in the Profit and Loss Account.

INDUSTRY STRUCTURE AND DEVELOPMENTS

The performance of the economy has been much in line with expectations, making the year 2001-02 a lackluster one. The continued decline in the growth of the manufacturing sector is a clear pointer to the need for radical policy changes – changes that would increase disposable income particularly in the rural parts of India. Massive infrastructure projects, shift in agriculture policy and greater efficiency in the economy seem to be the only way out of the trap, India finds itself in. Only such measures would stimulate sustainable demand for the automotive industry.

Rane Brake Linings Limited**Report of the Directors (Contd.)**

The Table below highlights the performance of the Indian automotive industry.

	GROWTH	
	2001-2002	2000-2001
Passenger Cars	1%	-8%
Utility Vehicles	-1%	1%
Light Commercial Vehicles	-20%	4%
Heavy Commercial Vehicles	4%	-21%
Farm Tractors	-17%	-12%
Two Wheelers	15%	22%

The only heartening performance was turned out by the two-wheeler industry. Commercial Vehicle and the Farm Tractor Industry continue to suffer from excess capacity and the Passenger Car industry has performed well below expectations.

OUTLOOK FOR THE CURRENT YEAR

In this background business from the OEMs continues to be well below the Company's capacity. The replacement market has also suffered as a consequence of poor economic performance as also due to substantial de-stocking by the trade.

Given that fundamental policy shifts may prove elusive for some time to come the automotive industry will have to set its expectations for organic domestic growth opportunities at a modest level of 3 to 5 percent. Profitable growth will therefore have to stem from other initiatives.

OPPORTUNITIES AND THREATS & RISKS

The main threats to your Company arise out of :

1. The presence of spurious products in the replacement market.
2. The fragmented nature of the emergent vehicle industry, which could render volumes in individual platforms uneconomic.

Diversification into export markets and introduction of new products are areas of growth opportunities for your Company. Your Company has been at a forefront of converting the Indian Railways from the use of cast iron blocks to composition brake blocks. It is expected that within two years all cast iron blocks would have been replaced.

There is a compelling need for new initiatives in cost management and for enhancing employee productivity. Towards this end the Company has launched TQM as a major programme. Stated briefly, the principles of TQM ensure the process designs and executions are to high standards and therefore, eliminate wastes and non-value adding activities. The initial results are heartening and your Company will pursue these initiatives relentlessly.

Your Company uses asbestos in the manufacture of a number of its products. It is well established that some varieties of asbestos could have adverse health effects and therefore, use of these is banned. By contrast, the variety of asbestos used by your Company only requires prescribed safeguards and compliances with international standards of Environment Management at the place of work. It is the Company's policy to ensure safety standards beyond these requirements, thereby confining associated risks well within acceptable limits.

Rane Brake Linings Limited**Report of the Directors (Contd.)****INTERNAL CONTROL SYSTEMS**

Your Company has engaged the services of an independent agency, Ernst & Young Private Limited to carry out internal audit in all the Company locations. The Audit Committee of the Board reviews the reports and the counter measures proposed by the operating management. The internal audit seeks not only to ensure the fairness of financial statements and compliance with laws and regulations but covers the entire range of resource utilization and system efficiency.

HUMAN RESOURCES

The principles of TQM are founded on the concept of Total Employee Involvement. This takes various forms such as Quality Control Circles, Quality Improvement Teams, Cross Functional Teams and Task Forces. A key requirement is comprehensive training in use of several tools and techniques. The Company relies on visiting consultants from Union of Japanese Scientists and Engineers as also its own Rane Institute for Employee Development (RIED) to impart these training inputs. RIED also caters to a spectrum of other training requirements targeted at imparting appropriate skills and enhancing individual performance.

Your Company is conscious of the highly competitive environment it operates in and therefore pursues the concept of lean and efficient organization through attractive Voluntary Retirement Schemes. As at the end of March 2002, the total number of employees stood at 888.

B. SUBSIDIARY AND INVESTMENTS

During the year, Rane Investments Limited (RIL) (formerly Glendale Investments Limited) ceased to be a subsidiary of your Company, consequent to sale of shares in this company to Rane (Madras) Limited (RML) pursuant to a scheme of reorganising investments in Joint Venture (JV) companies held by your Company and RML.

As a result of this reorganisation RIL now holds 50% of the share capital in each of the three JV companies, namely Rane TRW Steering Systems Limited (RTSSL), TRW Rane Occupant Restraints Limited (TROR) and Rane Nastech Limited (RNL). As of March 31, 2002 RIL is a subsidiary of RML, which holds 62.70% of the capital, with the balance 37.30% being held by your Company.

During the year your Company also received the full consideration and completed the sale of investments in Rane LuK Clutch Limited in favour of LuK GmbH, Germany.

C. DEPOSITS

Deposits outstanding as on March 31, 2002 amounted to Rs.17,484,000. All deposits that matured during the year were repaid / renewed except for a sum of Rs.64,000 for which claims were not lodged with the Company. Of the above, a sum of Rs.15,000 has since been repaid / renewed.

D. DIRECTORATE

Mr D Vijay Mohan and Mr S Nandagopal retire by rotation and being eligible offer themselves for re-election. Mr K S Krishnaswamy who is retiring at the ensuing Annual General Meeting has advised the Company that he is not seeking re-election.

E. CONSERVATION OF ENERGY

Your Company has achieved considerable energy savings through implementation of alternate cost effective heating solutions, auto switch off systems and consolidation of batch quantities for production.

Rane Brake Linings Limited**Report of the Directors (Contd.)****F. RESEARCH & DEVELOPMENT ACTIVITIES**

Your Company has been at the forefront of developing applications for new vehicles introduced in the Indian market. The statement giving information as required under the Companies (Disclosure of Particulars in the Report of the Board of Directors) Rules, 1988, is enclosed to this report.

G. FOREIGN EXCHANGE EARNINGS AND OUTGO

Foreign exchange earned during 2001-02 is Rs.264.47 million and foreign exchange outgo is Rs.132.04 million.

H. EMPLOYEES

The particulars of employees as per Section 217 (2A) of the Companies Act 1956, read with the Companies (Particulars of Employees), 1975 are given in the annexed statement which forms part of this report.

I. DIRECTORS' RESPONSIBILITY STATEMENT

Pursuant to Section 217(2AA) of the Companies Act 1956, the Directors hereby confirm that they have :

- i. Followed the applicable accounting standards in the preparation of the annual accounts ;
- ii. Selected such accounting policies and applied them consistently and made judgments and estimates that were 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 of the profits of the Company for the year under review ;
- iii. Taken proper and sufficient care 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 detecting fraud and other irregularities ;
- iv. Prepared the accounts for the financial year on a 'going concern' basis.

J. AUDITORS

Your Company's auditors Messrs D Rangaswamy & Co retire at the ensuing Annual General Meeting and are eligible for reappointment. The declaration under Section 224 (1) (B) of the Companies Act, 1956 has been received from them.

K. CORPORATE GOVERNANCE

A detailed report on Corporate Governance is separately attached.

For and on behalf of the Board

L LAKSHMAN
Chairman & Managing Director

Chennai
June 6, 2002

L GANESH
Vice Chairman

Rane Brake Linings Limited**FORM B**

Disclosure of particulars with respect to Research & Development absorption, as required under the Companies Act (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 and forming part of the Report of the Board of Directors for the year ended March 31, 2002.

RESEARCH AND DEVELOPMENT (R & D)

The Company's emphasis is on development of non-asbestos friction products both for automotive and railway applications, besides continuous efforts to enhance product quality and upgrade process technology.

EXPENDITURE ON R & D

	Rs.
Capital	19,576,163
Recurring	9,639,485
Total	29,215,648
Total R & D expenditure as a percentage of total turnover	2.35%

TECHNOLOGY ABSORPTION, ADAPTATION AND INNOVATION

The Company has added an additional Dynamometer to develop and test new range of products for Railway segment. With the assistance of the technical collaborator, M/s. Nisshinbo Industries Inc., Japan, the Company has successfully developed and commercialised many new formulations for the new range of vehicles.

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For and on behalf of the Board

L LAKSHMAN
Chairman & Managing Director

Chennai
June 6, 2002

L GANESH
Vice Chairman

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Mr S Nandagopal	/	Yes	8	7	4
Dr. R Natarajan	7	Yes	-	1	-
Mr R Raja Raja Varma	7	Yes	6	-	-
Mr D Vijay Mohan	6	Yes	10	5	1
Mr K Toda	Nil	No	6*	-	-

* overseas companies

9

ees) Rules, 1975,	an Rs.1,200,000/-	s of last yment	Managing Director s) Limited ive - Marketing s Cycles Limited	funds.	half of the Board	L LAKSHMAN Managing Director	L GANESH Vice Chairman
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Rane Brake Linings Limited

Corporate Governance (Contd.)

4. Audit Committee

The Audit Committee constituted under the provisions of Section 292A of the Companies Act, 1956, in June 2001 consisting of Mr L Lakshman, Mr L Ganesh and Mr S Nandagopal was reconstituted to be in line with the requirements under Clause 49 of the Listing Agreement with Stock Exchanges. The composition of this committee is :

Mr S Nandagopal	Chairman
Mr D Vijay Mohan	Member
Dr. R Natarajan	Member
Mr L Ganesh	Member

The Committee met on June 18, 2001, October 31, 2001 and March 27, 2002. All the members attended these meetings.

R Ravi, Secretary is the Secretary to the Committee.

The statutory auditors and the internal auditors attended all the meetings. The President and General Manager - Finance of the Company attended the meetings by invitation.

The scope of reference to the Committee includes :

1. Review of audit with Statutory Auditors and Internal Auditors.
2. Limited Review of half yearly accounts with Statutory Auditors.
3. Review of annual financial statements with auditors and management before submission to the Board.

5. Remuneration Committee

A Remuneration Committee under the provisions of the Schedule XIII to the Companies Act, 1956, has been constituted with Mr D Vijay Mohan as Chairman and Mr S Nandagopal and Dr. R Natarajan as members. The Committee at its meeting held on March 27, 2002, has approved the remuneration for the Managing Director of the Company, upon his reappointment with effect from April 1, 2002.

The elements of remuneration include Basic salary, Allowances, Perquisites, and Retirement benefit (all fixed) and Commission as a percentage of profits of the Company (variable).

The details of remuneration of Managing Director for the year 2001-02 are given below :

Fixed Components	Rs.
Salary / Allowances	1,463,800
Perquisites	733,517
Retirement benefit	307,800
Variable Component	
Commission	1,500,000
Total	4,005,117

The employment of the Managing Director is contractual. There is no severance fee payable to him.

There is no Stock Option scheme in the Company.

Rane Brake Linings Limited**FORM B**

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For and on behalf of the Board

L LAKSHMAN
Chairman & Managing Director

Chennai
June 6, 2002

L GANESH
Vice Chairman