



Rane Brake Linings Limited



40th ANNUAL REPORT 2005

Rane Brake Linings Limited

Board of Directors

L LAKSHMAN

Chairman & Managing Director

L GANESH

Vice Chairman

KUNIHIO TODA

(Nominee of Nisshinbo Industries Inc., Japan)

S A MURALI PRASAD

S NANDAGOPAL

Dr R NATARAJAN

V RAMACHANDRAN

D VIJAY MOHAN

ANIL KUMAR V EPUR

Audit Committee

S NANDAGOPAL

Chairman

D VIJAY MOHAN

S A MURALI PRASAD

L GANESH

Investors Service Committee

L GANESH

Chairman

S NANDAGOPAL

L LAKSHMAN

President

P S RAO

Vice President - Finance & Secretary

V KRISHNAN

Auditors

D RANGASWAMY & CO

Chartered Accountants

Chennai

Listing of Shares with

The Madras Stock Exchange Limited, Chennai

The Stock Exchange, Mumbai

National Stock Exchange of India Limited, Mumbai

Bankers

HDFC Bank Limited

State Bank of India

ICICI Bank Limited

Indian Overseas Bank

Registered Office

"MAITHRI", 132, Cathedral Road,
Chennai 600 086

Phone : 28112472

Fax : 28112449

Email : investorservices@rane.co.in

Factories

- 1) Plot No. 30, Industrial Estate
Ambattur, Chennai 600 058.
Tamil Nadu
- 2) Pregnapur Village, Gajwel Mandal
Siddipet Highway, Medak District 502 311
Andhra Pradesh
- 3) RS No. 48, 49 & 50, Sanyasikuppam Village
Mannadipet Commune, Thirubhuvanai Post
Pondicherry 605 107

Rane Brake Linings Limited

40th Annual Report 2005

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REPORT OF THE DIRECTORS

Your Directors have pleasure in presenting their fortieth annual report together with the accounts for the year ended March 31, 2005. The financial highlights of the year under review are as follows:-

A. FINANCIAL PERFORMANCE : (Rs. Million)

	2004-2005	2003-2004
Sales and Operating Revenues	1,396.06	1,386.19
Other Income	122.13	29.69
Profit before tax	226.90	207.69
Provision for tax	36.07	51.60
Profit after tax	190.83	156.09
Surplus brought forward	33.00	33.00
Debenture Redemption Reserve withdrawn	10.00	7.50
Investment Allowance Reserve withdrawn	—	1.20
Amount available for appropriation	233.83	197.79

Despite impressive growth by the automotive OE industry, reflecting in our OE sales, sales and operating revenues for the year grew only marginally on account of lower off take by the Indian Railways and pricing pressures resulting from new entrants in this market segment. Further, operating margins were adversely impacted by steep escalations in costs of inputs, such as phenolic resins, on the back of historic highs in crude oil prices in the international markets. In spite of our implementing several cost improvement measures the net result has been a sharp decline in operating margins.

Other income grew substantially mainly on account of sale of the shares in Rane (Madras) Limited by your Company, as part of the overall exercise of restructuring shareholding across group companies.

B. APPROPRIATION

Profit available for appropriation is Rs. 233.83 million. The Directors have declared and paid an interim dividend of 40%, on the equity capital for the year ended March 31, 2005 and are pleased to recommend a further 30% as final dividend,

making for a total dividend for the year of 70%. The amount on this account inclusive of tax on distributed profits and surcharge thereon, works out to Rs.57.31 million leaving the Company with retained profits of Rs.176.51 million. Out of this, Rs.143.51 million is being transferred to the General Reserve and Rs.33.00 million is being retained as surplus in the Profit and Loss Account.

C. INDUSTRY SCENARIO

Growth in the manufacturing sector, especially the OEMs in the automotive sector, continues to surpass industry expectations. Whilst macro economic indicators are generally favourable, relentless increases in prices of commodities such as steel and crude oil are worrisome issues that could affect both the domestic as well as the global economy.

D. INVESTMENTS

With the restructuring of investments in the group being successfully completed, your Company no longer holds any shares in Rane (Madras) Limited, thereby eliminating cross holdings with that company. The profit arising out of sale of these shares amounting to Rs.88.89 million is reflected in increased other income.

During the year your Company purchased 276,000 shares in Rane Engine Valves Limited (REVL) from the promoter family in accordance with the share purchase agreement entered into with them. The open offer made by Rane (Madras) Limited along with your Company and Rane Investments Limited elicited overwhelming response from the shareholders of REVL. Your Company acquired 50,000 shares of REVL in the open offer. Together with shares already on hand this has resulted in your Company holding around 10.60% of the shares in REVL.

Returns from our investments during the year have been encouraging with net income from dividends increasing to Rs.27.14 million against Rs.24.80 million in the previous year.

E. DEPOSITS

Deposits outstanding as on March 31, 2005 amounted to Rs.33.86 million. All deposits that matured during the year were repaid / renewed.

Rane Brake Linings Limited

Report of the Directors (Contd.)

F. BOARD OF DIRECTORS

Mr L Ganesh and Dr R Natarajan retire by rotation and being eligible, offer themselves for re-election.

Mr Anil Kumar V Epur was co-opted to the Board as an additional director during the year to hold office upto the Annual General Meeting.

The Company has received notice from a shareholder signifying her intention to propose the appointment of Mr Anil Kumar V Epur

G. CONSERVATION OF ENERGY

By sustaining high power factor, your Company has reduced energy consumption and maximum demand charges. Recommendations arising out of an energy audit are being implemented to further bring down consumption of energy.

H. RESEARCH & DEVELOPMENT ACTIVITIES

The details are furnished in Form B.

I. FOREIGN EXCHANGE EARNINGS AND OUTGO

Foreign exchange earned during 2004-2005 is Rs.67.20 million and foreign exchange outgo is Rs.172.24 million.

J. EMPLOYEES

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

K. AUDITORS

M/s D Rangaswamy & Co., Chartered Accountants, Chennai, the auditors of the company retire at the

ensuing Annual General Meeting and are eligible for re-appointment. The declaration under Section 224(1B) of the Companies Act, 1956 has been received from them.

L. 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 profit 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.

M. Management Discussion & Analysis and Corporate Governance Reports

Detailed report on Management Discussion and Analysis and Corporate Governance are attached.

For and on behalf of the Board

L LAKSHMAN

Chairman & Managing Director

L GANESH

Vice Chairman

Chennai
May 26, 2005

Rane Brake Linings Limited**Annexure to Report of the Directors****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, 2005.

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. `000)
	2004-05
Capital	3,349
Recurring	16,891
Total	20,240
Total R&D expenditure as a percentage of total turnover	1.45%

TECHNOLOGY ABSORPTION, ADAPTATION AND INNOVATION

With the assistance of the technical collaborator, M/s Nisshinbo Industries Inc., Japan, the Company had developed and commercialised many new formulations for both domestic and export market.

For and on behalf of the Board

L LAKSHMAN
Chairman & Managing Director

Chennai
May 26, 2005

L GANESH
Vice Chairman

Rane Brake Linings Limited

Annexure to Report of the Directors (Contd.)

Statement under Section 217 (2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975, annexed to and forming part of the Directors' Report for the year ended March 31, 2005.

A. Employed throughout the year under review and were in receipt of remuneration for the year in the aggregate not less than Rs.2,400,000/- per annum

Sl. No.	Name	Age	Designation / Nature of Duties	Remuneration Rs.	Qualification	Experience (Years)	Date of Commencement of Employment	Particulars of Last Employment
1.	Lakshman L	59	Chairman & Managing Director	5,797,241	B.E.	35	01.04.2000	Chairman & Managing Director Rane (Madras) Limited

B. Employed for a part of the year under review and were in receipt of remuneration in the aggregate not less than Rs.200,000/- per month

1.	Sundar Ram S	48	President	3,691,362	B.Tech., M.B.A.	25	19.03.1997	Chief Executive Marketing Road Masters Cycles Limited
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Notes : 1. Remuneration as shown above includes salary, allowances, perquisites, contribution to provident and other funds.

2. Mr L Lakshman is related to Mr L Ganesh, Vice Chairman.

3. Nature of employment and terms of service : The service of Mr L Lakshman, Chairman & Managing Director is governed by the terms and conditions approved by the shareholders. The services of both Mr L Lakshman and Mr S Sundar Ram are contractual.

For and on behalf of the Board

L LAKSHMAN
Chairman & Managing Director

Chennai
May 26, 2005

L GANESH
Vice Chairman

Annexure to Report of the Directors (Contd.)

MANAGEMENT DISCUSSION AND ANALYSIS REPORT

1. FINANCIAL AND OPERATIONAL PERFORMANCE

Pricing pressures and lower off take by Railways coupled with increases in input costs resulted in a decline in margin that could not be fully offset by various cost management measures. Consequently, despite higher production levels, the value of sales improved only by a marginal 2% and operating profits declined as compared to the previous year.

2. INDUSTRY STRUCTURE AND DEVELOPMENTS

The year under review has seen continued buoyancy in the OEM markets. Sustained spending on infrastructure, low rates of interest, increasing availability of consumer credit together with the expectation of strong growth resuming in the agricultural sector are beneficial factors that would support growth in the current year. There are however, signs of difficulty in reigning in inflation spurred by rising commodity prices. If these persist and interest rates go up, decline in growth rates may be unavoidable. A brief corrective phase is very likely before growth resumes.

The table below highlights the segmental growth of the Indian automotive industry

GROWTH

	2004-05	2003-04
Passenger Cars	23%	34%
Utility Vehicles	24%	24%
Light Commercial Vehicles	28%	34%
Medium and Heavy Commercial Vehicles	27%	35%
Farm Tractors	30%	4%
Two Wheelers	17%	10%

Source: Society of Indian Automobile Manufacturers and Tractor Manufacturer's Association

3. OUTLOOK

In this background we expect growth in the automotive industry to be below 10%. Export and new product opportunities will continue to be the focus areas.

4. OPPORTUNITIES, THREATS AND RISKS

With the backing of the Deming award, export opportunities are looking bright in both the OEM and the after-markets. We believe the results would be forthcoming in the course of the next year or two and would be rewarding.

The main threats continue to arise out of:-

- The presence of spurious products in the replacement market.
- The fragmented nature of the emergent vehicle industry, which could render volumes in individual platforms uneconomic.
- New players entering the rail business
- The strengthening rupee

Besides these, there is also a possibility of greater constraints being introduced in India on the use of asbestos currently used in your Company's products. Whilst your Company already has a plant dedicated to the manufacture of non-asbestos brake linings, the replacement trade and some export markets find these substitutes expensive. Based on analysis of scientific data available, we believe asbestos is safe under regulated use. Should any new evidence prove the contrary, your Company would be ready to take steps to switch over completely to non-asbestos products very quickly.

5. INTERNAL CONTROL SYSTEMS

Your Company engaged the services of an independent agency to carry out internal audit in all the Company locations. The Audit Committee of the Board reviews the reports and counter measures proposed by the operating management through interaction with the management personnel as well as the Internal and Statutory Auditors. This process seeks not only to ensure the reliability of control systems and compliance with laws and regulations but also covers resources utilisation and system efficiency.

6. HUMAN RESOURCES

As at the end of March 2005, the total number of employees stood at 832. Your Company attaches considerable importance to its human resource base and through continuous training encourages all employees to embrace world-class business practices. Our goal is a lean, highly motivated and nimble, customer driven organisation and we see TQM as the launch pad for such a transformation.

7. DISCLAIMER

The information and opinion expressed in this Report may contain certain forward looking statements, which the management believes are true to the best of its knowledge at the time of its preparation. The management shall not be liable for any loss, which may arise as a result of any action taken on the basis of the information contained herein. Prior written permission of the Company should be obtained for furnishing this information to any person.

Rane Brake Linings Limited

Annexure to Report of the Directors (Contd.)

CORPORATE GOVERNANCE

1. Philosophy on Code of Governance

The cornerstone of the philosophy of Governance adopted by your Board has at all times been based on integrity, transparency and fairness in all its dealings. The Company will continue to seek enhancement to shareholder value within the framework of business ethics, regulatory compliances and contribution to society. The Rane Group has a clearly defined policy document titled "Ethical Standards of Behaviour" that defines obligations of each of its employees to the Company expectations of value driven behaviour.

2. Board of Directors

The composition of the Board is given below:

Promoter Group:

Mr L Lakshman,
Chairman & Managing Director
Mr L Ganesh Vice Chairman
(Non-Executive Director)

Independent Directors (Non-executive Directors):

Mr S Nandagopal
Dr R Natarajan
Mr D Vijay Mohan
Mr V Ramachandran
Mr S A Murali Prasad
Mr Anil Kumar V Epur

Non-independent Director (Non-Executive Director)

Mr K Toda

3. Details of Attendance at Board Meetings and last Annual General Meeting (AGM) and details of memberships in other Boards and Board Committees

The Board met seven times during the financial year on April 2, 2004, April 9, 2004, May 20, 2004, July 23, 2004, October 25, 2004, January 27, 2005 and March 25, 2005.

Name of the Director	No. of board meetings attended	Whether attended last AGM	Membership in other Boards #	Committee@	
				Membership	Chairmanship
Mr L Lakshman	7	Yes	10	9	5
Mr L Ganesh	6	Yes	10	10	4
Mr S Nandagopal	7	Yes	5	4	3
Dr R Natarajan	6	Yes	1	1	-
Mr D Vijay Mohan	6	Yes	7	4	-
Mr V Ramachandran	7	Yes	1	-	-
Mr S A Murali Prasad	7	Yes	1	2	1
Mr Kunihiro Toda	-	-	-	-	-
Mr Anil Kumar V Epur *	2	-	1	-	-

Excludes companies exempted under Section 278 of the Companies Act, 1956 and foreign companies.

@ Membership in Audit Committee and Investor Service / Grievance Committee only are considered.

* Appointed as an additional director w.e.f. January 27, 2005.

4. Audit Committee

The composition of the Audit committee is as follows:

Mr S Nandagopal Chairman
Mr D Vijay Mohan Member
Mr L Ganesh Member
Mr S A Murali Prasad Member

The Committee met on May 20, 2004, July 23, 2004, October 25, 2004 and January 27, 2005. All the members of the committee attended all the meetings.

C Siva, Secretary was the Secretary to the Committee.

The Statutory Auditors and the Internal Auditors were present as invitees in all the meetings. The President and Vice President - 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 quarterly accounts with Statutory Auditors
3. Review of internal control systems.

Corporate Governance (Contd.)

4. Review of annual financial statements with auditors and management before submission to the Board.
5. Review financial and risk management policies of the Company.

5. Remuneration to Directors

The composition of the Remuneration Committee is as follows:

Mr S A Murali Prasad	Chairman
Mr S Nandagopal	Member
Mr D Vijay Mohan	Member

A meeting of the Remuneration Committee constituted under the provisions of the Schedule XIII to the Companies Act, 1956 was held during the year on March 25, 2005 to approve the terms of remuneration to Mr L Lakshman, the Managing Director (MD).

Mr L Lakshman was re-appointed as MD for a period of three years with effect from April 1, 2005 to March 31, 2008.

The elements of remuneration payable to MD include Basic salary, Allowances, perquisites and retirement benefit (all fixed) and commission as a percentage of profits of the company (variable). No sitting fee is paid to MD. The details of remuneration paid to MD for the year 2004-2005 are given in Note No. 19 of the notes to Accounts. The employment of the managerial personnel is contractual. There is no severance fee payable to him. There is no Stock option scheme in the Company. An abstract of the terms of appointment and remuneration payable to Mr L Lakshman was sent to the shareholders in April, 2005.

Sitting fees of Rs. 20,000/- per meeting was paid to the non-executive directors for each Meeting of the Board and Audit Committee apart from reimbursement of actual travel and out-of-pocket expenses incurred by them for attending the meetings. No other remuneration is paid to the Non-Executive Directors.

The details of sitting fees paid to the Directors is given below:

Name of the Director	Amount (Rs.)	Name of the Director	Amount (Rs.)
L Ganesh	232,500	S Nandagopal	247,500
D Vijay Mohan	202,500	R Natarajan	120,000
V Ramachandran	140,000	S A Murali Prasad	222,500
Kunihiro Toda	-	Anil Kumar V Epur	40,000

6. Share Transfer / Investors Service Committee

The Share Transfer / Investors Service Committee consist of Mr L Lakshman, Mr L Ganesh and Mr S Nandagopal with Mr L Ganesh as Chairman. This Committee is authorised to approve the transfers / transmissions once in a fortnight and look into grievances of shareholders.

Requests for dematerialisation are confirmed on a weekly basis by the Registrars and Transfer Agents. During the year, the Company had received 25 complaints and has redressed all of them to the satisfaction of the shareholders. The complaints pertain to non-receipt of bonus shares, dividend, share certificates upon transfer / transmission etc. During the year, no complaint was received from Stock Exchanges / SEBI / Department of Company Affairs.

7. General Body Meetings

The last three Annual General Meetings were held as under:

Date of AGM	Time	Venue
July 23, 2004	10.00 a.m.	Narada Gana Sabha
July 25, 2003	10.00 a.m.	314, TTK Road
July 25, 2002	10.00 a.m.	Chennai 600 018

During the year 2004-05, no resolution was passed through postal ballot.

8. Secretarial Audit

As required under Section 55A of SEBI (Depositories and Participants) Regulations, 1996, a secretarial audit was carried out by a qualified practicing company secretary to reconcile the total admitted capital with both the depositories and the total issued and listed capital. The total number of shares in physical form and the total number of dematerialised shares held with the depositories were in agreement with the total issued, paid-up and listed capital.

9. Disclosures

The transactions with the related parties are furnished under point 15 and 21 of the notes to accounts. The transactions do not have potential conflict with the interests of company at large.

There was no instance of non-compliance by the Company on any matters relating to the capital markets; nor was there any penalty / strictures imposed by the stock exchanges or SEBI or any other statutory authority on such matters.

10. Means of Communication

The quarterly results are published in "The Hindu", "Business Line" and "Dinamani" (Tamil).

The quarterly results and the shareholding pattern are uploaded in the website of SEBI under EDIFAR menu as well as in the website of the company viz. www.rane.co.in.

During the year, there was no presentation made to the analysts / institutional investors.