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Rane Brake Linings Limited

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41st ANNUAL REPORT 2006

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Rane Brake Linings Limited

Board of Directors

L LAKSHMAN
Chairman & Managing Director
L GANESH
Vice Chairman
KUNIHIRO TODA
(Nominee of Nisshinbo Industries Inc., Japan)
S A MURALI PRASAD
S NANDAGOPAL
Dr R NATARAJAN (upto 26-05-2006)
V RAMACHANDRAN
D VIJAY MOHAN
ANIL KUMAR V EPUR
S SANDILYA (w.e.f. 26-05-2006)

Audit Committee

S NANDAGOPAL
Chairman
D VIJAY MOHAN
S A MURALI PRASAD
L GANESH

Investors' Service Committee

L GANESH
Chairman
S NANDAGOPAL
L LAKSHMAN

Remuneration Committee

S A MURALI PRASAD
Chairman
S NANDAGOPAL
D VIJAY MOHAN

President

P S RAO

Vice President - Finance & Secretary

V KRISHNAN

Auditors

D RANGASWAMY & CO
Chartered Accountants
Chennai - 600 006.

Listing of Shares with

The Madras Stock Exchange Limited, Chennai
Bombay Stock Exchange Limited, 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

Registrar and Share Transfer Agents

Integrated Enterprises (India) Limited
II Floor, "Kences Towers", No 1 Ramakrishna Street
North Usman Road, T Nagar, Chennai 600 017.
Ph: 28140801-03

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NOTICE TO SHAREHOLDERS

NOTICE is hereby given that the **Forty First Annual General Meeting** of the Equity Shareholders of the Company will be held at **10.15 a.m.** on **Wednesday**, the **July 26, 2006**, at **Narada Gana Sabha ('Main Hall')**, 314, TTK Road, Chennai 600 018, to transact the following:-

ORDINARY BUSINESS:

1. To receive, consider and adopt the Directors' Report, the audited accounts of the Company for the year ended March 31, 2006 and the Auditors' report thereon.

   *To consider adoption of the following resolution, as an **ordinary resolution:***

   "Resolved that the Audited Balance Sheet as at 31st March 2006, the Profit and Loss Account for the year ended 31st March 2006 together with the Report of the Directors and the Auditors of the Company thereon, as presented to the meeting be and the same are hereby approved and adopted".

2. To declare dividend on equity shares.

   *To consider adoption of the following resolution, with or without modification, as an **ordinary resolution:***

   "Resolved that a final dividend of Rs.3/- per equity share of Rs.10/- each on 7,214,980 equity shares be and is hereby declared out of the profits of the Company for the year ended March 31, 2006, absorbing a total amount of Rs.24,680,643 (including tax on distributed profits) and that the dividend be paid to those shareholders, whose names appear on the Company's Register of Members as on July 26, 2006 and in respect of shares in electronic form to those beneficial owners of the shares as at the end of business hours on July 14, 2006 as per the details furnished by the Depositories for this purpose".

3. To appoint a director in the place of Mr. V Ramachandran, who retires by rotation under Article 106 of the Articles of Association of the Company and being eligible, offers himself for re-election.

   *To consider adoption of the following resolution, with or without modification, as an **ordinary resolution:***

   "Resolved that Mr V Ramachandran, who retires by rotation and being eligible for re-appointment, be and is hereby re-appointed as a Director of the Company".

4. To appoint a director in the place of Mr S A Murali Prasad, who retires by rotation under Article 106 of the Articles of Association of the Company and being eligible, offers himself for re-election.

   *To consider adoption of the following resolution, with or without modification, as an **ordinary resolution:***

   "Resolved that Mr S A Murali Prasad, who retires by rotation and being eligible for re-appointment, be and is hereby re-appointed as a Director of the Company".

5. To appoint auditors in the place of retiring auditors and to determine their remuneration.

   *To consider adoption of the following resolution, with or without modification, as an **ordinary resolution:***

   "Resolved that, pursuant to Section 224 and other applicable provisions of the Companies Act, 1956, M/s Price Waterhouse & Co., Chartered Accountants be and are hereby appointed as auditors of the Company in the place of M/s D Rangaswamy & Co., Chartered Accountants, who have intimated to the company that they are not seeking re-appointment as Auditors of the Company, to hold office from the conclusion of this Annual General Meeting until the conclusion of the next Annual General Meeting of the Company on such remuneration as may be determined by the Board of Directors of the Company, in addition to reimbursement of travelling and other out-of-pocket expenses actually incurred by them in connection with the audit."

SPECIAL BUSINESS:

6. To consider adoption of the following resolution, with or without modification, as an **ordinary resolution**:

   Approval of mortgage on the company's property

   "Resolved that the consent of the company be and is hereby accorded in terms of Section 293(1)(a) and other applicable provisions, if any, of the Companies Act, 1956 in respect of mortgage and creation of charge on the company's share in the property situated at 132, Cathedral Road, Chennai 600 086 in favour of Cholamandalam DBS Finance Limited

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for the loan of Rs.100 million advanced by them to Rane Holdings Limited, together with interest at the respective agreed rates, additional interest, liquidated damages, premium on prepayment or on redemption, costs, charges, expenses and all other monies payable by the company to them, in terms of the loan agreement / letter of sanction / Memorandum recording past transactions of creation of mortgage by deposit of title deeds, entered into by the company, in respect of the said facilities."

(By Order of the Board)
For Rane Brake Linings Limited

Chennai
May 26, 2006.

V Krishnan
Vice President Finance & Secretary

NOTES:

1. **Any member entitled to attend and vote at the meeting may appoint a proxy to attend and vote instead of himself. The proxy need not be a member of the Company. The proxies should however be deposited at the registered office of the Company not less than 48 hours before the commencement of the meeting.**

2. The Explanatory Statement pursuant to Section 173(2) of the Companies Act, 1956 in respect of the Special Business as given in the notice is annexed.

3. The Register of Members of the Company will remain closed from **Saturday, July 15, 2006** to **Wednesday, July 26, 2006** (both days inclusive).

4. **Pursuant to the provisions of Section 205A of the Companies Act 1956, dividend for the financial year ended March 31, 1999 and thereafter which remains unclaimed for a period of seven years will be transferred to the Investor Education and Protection Fund (IEPF) of the Central Government. Members who have not encashed the dividend warrants for the said period are requested to make their claim to the Company.**

Information in respect of such unclaimed dividend when due for transfer to the said fund is given below:

Year	Date of declaration	Last date for claiming unpaid dividend	Due date for transfer to IEPF u/s 205A(5)
31.03.1999	29.07.1999	14.09.2006	13.10.2006
31.03.2000 *	30.03.2000	16.05.2007	14.06.2007
31.03.2001	26.07.2001	31.08.2008	29.09.2008
31.03.2002	25.07.2002	30.08.2009	28.09.2009
31.03.2003	25.07.2003	28.08.2010	26.09.2010
31.03.2004 *	31.01.2004	04.03.2011	02.04.2011
31.03.2005 *	27.01.2005	04.03.2012	02.04.2012
31.03.2005	22.07.2005	26.08.2012	25.09.2012
31.03.2006 *	23.01.2006	26.03.2013	27.03.2013

* Interim dividends

5. Members holding shares in physical form are requested to notify to the Company immediately any change in address to the following:

   M/s. Integrated Enterprises (India) Limited,
   II Floor, "Kences Towers", No. 1, Ramakrishna Street, North Usman Road, T. Nagar, Chennai 600 017.

   Members holding shares in Dematerialised form may inform the change in address to their Depository Participants.

6. Members / Proxies should bring the attendance slip duly filled in for attending the meeting

EXPLANATORY STATEMENT PURSUANT TO SECTION 173(2) OF THE COMPANIES ACT, 1956

Resolution No. 5

M/s D Rangaswamy & Co., Chartered Accountants, Chennai, the auditors of the company hold office until the conclusion of the Annual General Meeting. Vide their letter dated May 26, 2006, they have expressed that they are not seeking re-appointment as Auditors of the Company. It is therefore proposed to appoint M/s Price Waterhouse & Co., Chartered Accountants as the Auditors of the company in their place.

A special notice under Section 225 of the Companies Act, 1956 has been received by the company from a member of its intention to move the resolution appointing M/s Price Waterhouse & Co., Chartered Accountants, as the Auditors.

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M/s Price Waterhouse & Co., Chartered Accountants, have given a certificate of their eligibility and willingness to act as the Auditors of the company, if appointed by the members at the annual general meeting.

None of the directors is concerned or interested in the resolution. Your directors commend the resolution for adoption.

Resolution No. 6

The Company has provided security in the form of mortgage of company's share in the property located at 132, Cathedral Road, Chennai 600 086, housing the Rane Corporate Centre and owned by the Company jointly with Rane Engine Valves Limited and Rane Holdings Limited (RHL), in respect of the loan of Rs.100 million availed by RHL from Cholamandalam DBS Finance Ltd. The value of the security relates to one-third share of the property owned by the company.

RHL would pay to the Company, 1% commission on the proportionate loan amount.

Providing such security for the loan is within the limits of the powers of the Board of Directors prescribed under Section 372A of the Companies Act, 1956.

Mr L Ganesh, Vice-Chairman and Mr L Lakshman, Chairman & Managing Director are deemed to be concerned or interested in the resolution as they are directors common to all these companies. None of the other director is interested in the resolution.

Your directors recommend the resolution for approval.

(By Order of the Board)
For Rane Brake Linings Limited

Chennai
May 26, 2006.

V Krishnan
Vice President Finance & Secretary

INFORMATION ABOUT DIRECTORS SEEKING APPOINTMENT / RE-APPOINTMENT IN THIS ANNUAL GENERAL MEETING IN RESPECT OF RESOLUTION NO. 3 & 4 ABOVE

(in accordance with Clause 49 VI of the Listing Agreement)

Re-appointments:

Name of the Director	Mr V Ramachandran	Mr S A Murali Prasad
Father's Name	Mr Viswanath	Mr S A Venkatarama Iyer
Date of Birth	September 26, 1932	September 27, 1941
Educational Qualifications	B.A., B.L.	ACA, AICWAI, Post-graduate in Commerce
Date of Appointment	July 25, 2002	January 21, 2003
Other Directorships	Ponds Exports Limited	Sakthi Finance Limited Kovai Medical Center and Hospital Ltd Sam Consultancy Services Pvt. Ltd.
Committee Memberships	NIL	Rane Brake Linings Ltd – Audit Committee Kovai Medical Center and Hospital Ltd – Audit Committee Sakthi Finance Ltd – Audit Committee* Sakthi Finance Ltd – Remuneration Committee*

* Chairman

(By Order of the Board)
For Rane Brake Linings Limited

Chennai
May 26, 2006.

V Krishnan
Vice President Finance & Secretary

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REPORT OF THE DIRECTORS

Your Directors have pleasure in presenting their Forty First annual report together with the accounts for the year ended March 31, 2006. The financial highlights of the year under review are as follows:-

A. FINANCIAL PERFORMANCE : (Rs. Million)

	2005-2006	2004-2005
Sales and Operating Revenues	**1,577.81**	1,396.06
Other Income	**39.38**	122.13
Profit before tax	**190.52**	226.90
Provision for tax	**52.82**	36.07
Profit after tax	**137.70**	190.83
Surplus brought forward	**33.00**	33.00
Debenture Redemption Reserve withdrawn	**-**	10.00
Amount available for appropriation	**170.70**	233.83

The sales and operating revenues grew over 13% compared to previous year in line with the growth of the automotive industry. The operating profits witnessed an impressive growth of 44% mainly on account of cost improvement measures undertaken by the Company. The other income during 2004-05 was substantially higher due to the sale of shares consequent to restructuring at the Group level.

B. APPROPRIATION

Profit available for appropriation is Rs.170.70 million. The Directors have declared and paid an interim dividend of 40%, on the equity capital for the year ended March 31, 2006 and are pleased to recommend a further 30% as final dividend, making for a total dividend of 70% for the year. The amount on this account inclusive of tax on distributed profits and surcharge thereon, works out to Rs.57.59 million leaving the Company with retained profits of Rs.113.11 million. Out of this, Rs.80.11 million is being transferred to the General Reserve and Rs.33.00 million being retained as surplus in the Profit and Loss Account.

C. MANAGEMENT DISCUSSION & ANALYSIS

1. FINANCIAL AND OPERATIONAL PERFORMANCE

The sustained growth in the automotive industry coupled with the benefits of various cost management and new business initiatives, resulted in improved operating margins, despite continued pricing pressures.

2. INDUSTRY STRUCTURE AND DEVELOPMENTS

The year under review has seen continued growth rate, albeit at a slower pace. This was understandable, coming as it does after two successive years of steep growth. Sustained higher levels of crude prices together with hardening of interest rates were perhaps further dampeners. Sustained spending on infrastructure, growth in the agricultural sector, are beneficial factors that should aid business growth in the current year.

The table below highlights the segmental growth of the Indian Automotive Industry

GROWTH Percentage

	2005-06	2004-05
Passenger Cars	**9**	23
Utility Vehicles	**7**	24
Light Commercial Vehicles	**23**	28
Medium and Heavy Commercial Vehicles	**4**	27
Farm Tractors	**15**	30
Three Wheelers	**17**	5
Two Wheelers	**18**	17

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

3. OUTLOOK

With GDP growth being projected at 8% p.a., we expect commensurate growth in the automotive industry. Export and new product opportunities will continue to be focus areas.

4. OPPORTUNITIES, THREATS AND RISK

Pursuit of new export opportunities should bear fruit in the coming years, presenting your Company an opportunity to spur growth beyond organic levels.

The main threats continue to arise out of:-

- The presence of spurious products in the replacement market
- Volatility in commodity prices - steel and other inputs
- Dumping of low cost products from China and Taiwan
- Currency fluctuations

Beside these, there is also a possibility of greater constraints being introduced in India on the use of

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Report of the Directors (Contd.)

asbestos currently used in your Company's products. Whilst your Company already has a plant dedicated to the manufacture of asbestos free brake linings, the replacement trade find these substitutes expensive. Based on analysis of scientific data available, we believe asbestos is safe under regulated use. Should any evidence prove the contrary, your Company would be ready to take steps to switch over completely to asbestos free products rapidly.

5. INTERNAL CONTROL SYSTEMS AND RISK MANAGEMENT

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 approves the audit plan in the beginning of the financial year in consultation with the internal auditors, the statutory auditors and the operating management. The findings of the internal auditors are placed before the Audit Committee for review. The response of the operating management and counter measures proposed are discussed at the Audit Committee meetings. 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.

Risk management is an integral part of the business processes. The Company is in the process of appointing consultants to carryout a holistic review of the risks identification process and to evolve a risk management framework. This would be periodically reviewed by the Board of Directors.

6. HUMAN RESOURCES

As at the end of March 2006, the total number of employees stood at 862. 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 driver for such a transformation.

7. CAUTIONARY STATEMENT

The information and opinion expressed in this report may contain certain forward looking statements which the management believe are true to the best of its knowledge at the time of its preparation. Actual results may differ materially from those either expressed or implied in this Report.

D. INVESTMENTS & SUBSIDIARY COMPANY

During the year your Company invested Rs.58.49 million in Rane Diecast Limited (RDL) thereby acquiring 65% of the share capital of RDL and making it a subsidiary of the Company with effect from August 17, 2005. RDL has its manufacturing plant at Bollaram, Medak District near Hyderabad in Andhra Pradesh. RDL is engaged in the manufacture of Aluminium Pressure Diecast products mainly for auto component industry and has ambitious export plans that would drive growth in the future.

Pursuant to section 212 of the Companies Act, 1956, a statement relating to subsidiary company viz. RDL is attached in Annexure A. A copy of accounts of RDL and, as required by the Accounting Standards on 'Consolidated Financial Statements' issued by the Institute of Chartered Accountants of India, the Audited Consolidated Financial Statements of the Company, its subsidiary and associate company are attached in the Annual Report.

In continuation of the restructuring exercise being carried out by the Rane Group, the Company tendered 67,138 shares held in Kar Mobiles Limited (KML) under the Open Offer made by Rane Engine Valves Limited (REVL) and in consideration thereof was alloted 22,379 shares in REVL.

E. DEPOSITS

Deposits outstanding as on March 31, 2006 amounted to Rs.32.23 million. All deposits that matured during the year were repaid / renewed as on date.

F. BOARD OF DIRECTORS

Mr V Ramachandran and Mr S A Murali Prasad retire by rotation and being eligible, offer themselves for re-election. Dr R Natarajan resigned from the Board of the Company with effect from May 26, 2006. The Board places on record its appreciation for the contribution made by Dr Natarajan during his association as Director.

Mr S Sandilya was co-opted to the Board as an Additional Director with effect from May 26, 2006, to hold office up to the ensuing Annual General Meeting. The Company has received a notice from a member under the Companies Act, 1956 signifying her intention to propose the appointment of Mr S Sandilya as a Director of the Company, at the ensuing Annual General Meeting.

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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 (Annexure B)

I. FOREIGN EXCHANGE EARNINGS AND OUTGO

Foreign exchange earned during 2005-06 is Rs.98.00 million and foreign exchange outgo is Rs.221.80 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 Annexure C, 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 have expressed a desire to relinquish the audit. The Board places on record its appreciation for the services rendered by them during the previous years.

A special notice has been received from a member signifying its intention to propose the appointment of M/s. Price Waterhouse & Co., Chartered Accountants, as auditors in the place of retiring auditors. Your Directors recommend the appointment of M/s. Price Waterhouse & Co., Chartered Accountants, as Auditors of the Company to hold office from the conclusion of this Annual General Meeting till the conclusion of the next Annual General Meeting. Necessary declaration under Section 224(1B) of the Companies Act, 1956 has been obtained 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 judgements 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. CORPORATE GOVERNANCE REPORT

A detailed report on Corporate Governance is attached in Annexure D.

For and on behalf of the Board

L LAKSHMAN
Chairman & Managing Director

L GANESH
Vice Chairman

Chennai
May 26, 2006

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Annexure A to Report of the Directors

Statement pursuant to Section 212 of the Companies Act, 1956, relating to Subsidiary Company for the financial year ended March 31, 2006

1. Name of the Company	Rane Diecast Limited
2. Holding Company's interest Equity Share Capital	2,860,000 equity shares of Rs. 10 each fully paid-up (65%)
3. Net aggregate amount of profits/(losses) since becoming the subsidiary, so far as it concerns the members of the holding company and not dealt with in the holding company's accounts :	
i) for the subsidiary's financial year ended March 31, 2006 (Rs.)	(1,027,230)
ii) for the previous financial years (Rs.)	Nil
4. Net aggregate amount of profits/(losses)since becoming the subsidiary, so far as it concerns the members of the holding company and dealt with in the holding company's accounts :	
i) for the subsidiary's financial year ended March 31, 2006 (Rs.)	Nil
ii) for the previous financial years (Rs.)	Nil

As per our report of even date attached
For D RANGASWAMY & CO
Chartered Accountants

B RAMANI
Partner

Chennai
May 26, 2006

For and on behalf of the Board

L LAKSHMAN
Chairman & Managing Director

V KRISHNAN
Vice President - Finance & Secretary

L GANESH
Vice Chairman

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Annexure B 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, 2006.

RESEARCH AND DEVELOPMENT (R & D)

The Company's emphasis is on development of asbestos free 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)
Capital	15,993
Recurring	17,310
Total	**33,303**
Total R&D expenditure as a percentage of total turnover	**2.11%**

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

L GANESH
Vice Chairman

Chennai
May 26, 2006

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