



Rane (Madras) Limited



2nd ANNUAL REPORT 2006

Rane (Madras) Limited**Board of Directors**

L LAKSHMAN - Chairman
 L GANESH - Vice Chairman
 P S KUMAR
 V NARAYANAN
 HARISH LAKSHMAN
 SHARAD SARIN

Audit Committee

V NARAYANAN - Chairman
 P S KUMAR
 SHARAD SARIN
 L LAKSHMAN

Investors' Service Committee

L LAKSHMAN - Chairman
 HARISH LAKSHMAN
 P S KUMAR

Remuneration Committee

P S KUMAR - Chairman
 V NARAYANAN
 SHARAD SARIN

President

S PARTHASARATHY

Vice President - Finance

T S SANKAR

Secretary

K SRIVATSAN

Auditors

PRICE WATERHOUSE & CO.,
 Chartered Accountants
 Chennai-600 006.

Listing of shares with

Madras Stock Exchange Ltd., Chennai
 Bombay Stock Exchange Ltd., Mumbai
 National Stock Exchange of India Ltd., Mumbai

Bankers

Canara Bank, Chennai-600 002.
 State Bank of India, Chennai - 600 001.

Registered Office

" MAITHRI "
 132, Cathedral Road, Chennai-600 086.
 Phone : 28112472 Fax : 044-28112449
 Email : investorservices@rane.co.in

Plants

1. "GANAPATHY BUILDINGS"
154, Velachery Road, Chennai - 600 042.
2. 79/84, Hootagally Industrial Area
Mysore - 570 018.
3. 77, Thirubuvanai Main Road
Thirubuvanai Village, Pondicherry - 605 107.
4. No. 30, Sector 18, Maruti Industrial Area,
Gurgaon, Haryana - 122 015.

Registrar & Transfer Agents

Integrated Enterprises (India) Ltd.,
 II Floor, 'Kences Towers'
 No.1, Ramakrishna Street, North Usman Road,
 T. Nagar, Chennai - 600 017.

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Rane (Madras) Limited

NOTICE TO SHAREHOLDERS

NOTICE is hereby given that the **Second Annual General Meeting** of the Equity Shareholders of the Company will be held at **10.15 a.m. on Friday, the July 21, 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 31 March 2006, the Profit and Loss Account for the year ended 31 March 2006 together with the Reports 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 final 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.1.50 per equity share of Rs.10 each on 10,164,145 equity shares be and are hereby declared out of the profits of the Company for the year ended March 31, 2006, absorbing a total amount of Rs.17,384,500 (including dividend distribution tax) and that the dividend be paid to those shareholders, whose names appear on the Company's Register of Members as on July 21, 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. L Ganesh, who retires by rotation under Article 113 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. L Ganesh, 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. Harish Lakshman, who retires by rotation under Article 113 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. Harish Lakshman, 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 of the Company and to determine their remuneration. The retiring auditors M/s. Price Waterhouse & Co, Chartered Accountants, are eligible for re-appointment. The declaration under Section 224(1B) of the Companies Act, 1956 has been received.

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

"Resolved that M/s. Price Waterhouse & Co., Chartered Accountants, be and are hereby re-appointed as the 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."

(By Order of the Board)
For Rane (Madras) Limited

Chennai
May 22, 2006.

K Srivatsan
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 Register of Members of the Company will remain closed from **Saturday, July 15, 2006 to Friday, July 21, 2006** (both days inclusive).
3. Pursuant to the provisions of Section 205A of the Companies Act, 1956, dividend for the financial year ended March 31, 2005 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.
4. Members holding shares in physical form are requested to notify any change of address to the following address:
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 demat form are requested to update the change of address with their respective Depository Participants. (DPs).
5. Members who are holding shares in identical order of names in more than one account are requested to intimate to the Company, the ledger folio of such accounts together with the share certificate(s) to enable the Company to consolidate all the holdings into one account. The share certificate(s) will be returned to the members after necessary endorsements.
6. Members/Proxies should bring the attendance slip duly filled in for attending the meeting.

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)
31.03.05	20.07.2005	24.08.2012	22.09.2012
31.03.06**	25.01.2006	30.04.2013	29.05.2013

**Interim dividend

(By Order of the Board)
For Rane (Madras) Limited

Chennai
May 22, 2006.

K Srivatsan
Secretary

Rane (Madras) Limited

Information about directors seeking appointment/ re-appointment in this annual general meeting in respect of item no. 3 & 4 above (in accordance with Clause 49 IV of the Listing Agreement)

Re-appointment :

Item No. 3

Name of the director :	Mr. L Ganesh
Father's Name :	Mr. L L Narayan
Date of birth :	March 18, 1954
Date of appointment :	March 31, 2004
Educational Qualifications:	
1.	Associate Member of Institute of Chartered Accountants of India (ACA)
2.	Master of Business Administration (MBA)

Other Directorships

1. Kar Mobiles Ltd. - Chairman
2. Rane Engine Valves Ltd.-Vice Chairman & MD
3. Rane Brake Linings Ltd. - Vice Chairman
4. Rane Holdings Limited - Vice Chairman
5. Rane TRW Steering Systems Ltd.
6. Rane NSK Steering Systems Ltd.
7. Rane Investments Ltd.
8. Techcons Ltd.
9. JMA Rane Marketing Ltd.
10. EIH Associated Hotels Ltd.
11. Rane Diecast Ltd.

Committee Memberships

1. Rane Engine Valves Ltd. Investors Service Committee
2. Rane Holdings Ltd.- Audit Committee
3. Rane Holdings Ltd. Investors Service Committee*
4. Rane Brake Linings Ltd. - Audit Committee
5. Rane Brake Linings Ltd. Investors Service Committee.*
6. Rane NSK Steering Systems Ltd Audit Committee
7. Rane TRW Steering Systems Ltd. Audit Committee
8. EIH Associated Hotels Ltd. - Audit Committee*
9. Kar Mobiles Ltd. Share Transfer/Investors Service Committee*
10. Kar Mobiles Ltd - Audit Committee.

No. of shares held in the Company

379,256 equity shares of Rs.10 each fully paid-up.

Experience

25 years of experience in Management of Auto Component Companies

*- Chairman of the Committee

Item No. 4

Name of the director :	Mr. Harish Lakshman
Father's Name :	Mr. L Lakshman
Date of birth :	February 12, 1974
Date of appointment :	March 31, 2004
Educational Qualifications :	
1.	B.E. in Mechanical Engineering
2.	Master's Degree (MSM) from Purdue University, USA

Other Directorships

1. Rane Investments Ltd.
2. Rane NSK Steering Systems Ltd.
3. JMA Rane Marketing Ltd.
4. Rane Holdings Ltd.
5. Rane Diecast Ltd.

Committee Memberships

1. Rane (Madras) Ltd. - Investors Service Committee
2. Rane Holdings Ltd. - Investors Service Committee

No. of shares held in the Company

22,105 equity shares of Rs.10 each fully paid-up

Experience

5 years of experience in Management of Auto Component Companies

Mr. L Lakshman, Mr. L Ganesh and Mr. Harish Lakshman are deemed to be interested in the resolutions. None of the other directors is concerned or interested in the resolutions.

Your directors commend the resolution for adoption.

(By Order of the Board)
For Rane (Madras) Limited

Chennai
May 22, 2006

K Srivatsan
Secretary

Rane (Madras) Limited**REPORT OF THE DIRECTORS**

Your Directors have pleasure in presenting their Second annual report together with the accounts for the year ended March 31, 2006.

A. Financial Performance

The financial highlights of the second financial year under review are as follows:-

(Rs.Million)

	2005-06	2004-05
Sales and Operating Revenues	2,796.24	1,976.90
Other Income	4.47	9.56
Profit before tax	157.75	82.59
Provision for tax	71.35	40.28
Profit after tax	86.40	42.31
Surplus brought forward	10.67	--
Amount available for appropriation	97.07	42.31

Since the manufacturing undertaking was transferred to the Company with effect from July 1, 2004, operations during the previous year relate to only nine months. Hence current year figures are not directly comparable with those of the previous year. However on an annualized basis, the operating revenues have grown by 9.5%. Exports during the year recorded substantial growth at 32.8%.

B. Appropriation

Profit available for appropriation is Rs.97.07 million. The directors declared and paid a dividend of 13.5% on the Cumulative Preference Shares of Rs.33.75 million including an amount of Rs.11.25 million redeemed during the year. The outflow on this account inclusive of tax and cess amounts to Rs.4.91 million. An amount of Rs.11.25 million transferred to Capital Redemption Reserve. The directors have declared and paid an interim dividend of 15% on the equity capital for the year ended March 31, 2006 and are pleased to recommend a further 15% as final dividend, making for a total dividend of 30% for the year. The amount on this account inclusive of tax on distributed profits and surcharge thereon works out to Rs 34.77 million

leaving the company with retained profits of Rs.46.14 million. Out of this, Rs 8.64 million is being transferred to the General Reserve, leaving a surplus of Rs 37.50 million in the Profit and Loss Account.

C. Management Discussion and 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. Larger volumes, in the coming years should result in growth of margins and profits.

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.

	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 Manufacturers Association.

Rane (Madras) Limited

REPORT OF THE DIRECTORS (contd.)

3. Outlook

With GDP growth being projected at 8% p.a., we expect commensurate growth in the automotive industry. Exports, particularly of ball joints continues to be the focus area and your company would look at enhancing capacities to meet growing demand from overseas customers.

4. Opportunities, Threats and Risk

The continued attraction of the Indian Auto Component Industry as an outsourcing hub presents opportunities for growth.

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
- Currency fluctuations

Our continued emphasis on the practice of TQM has resulted in continuous productivity gains and enables your company to exploit new opportunities despite these adverse factors.

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 utilization 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 861. 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 organization and we see TQM as the launch pad 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. Deposits

Consequent upon the de-merger all the fixed deposits have been transferred to your company. Deposits outstanding as on March 31, 2006 amounted to Rs.32.04 million. All deposits that matured during the year were repaid / renewed.

E. Board of Directors

Mr. L Ganesh and Mr. Harish Lakshman retire by rotation, and being eligible, offer themselves for re-election.

F. Conservation of energy

Your company has, by sustaining high power factor, reduced consumption. As an ongoing process recommendations arising out of energy audits are being implemented.

G. Research & Development Activities

The details of Disclosure of particulars with respect to Research & Development, technology absorption, adaptation and innovation, as required under the Companies Act (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 in Form B are furnished in Annexure A.

Rane (Madras) Limited**REPORT OF THE DIRECTORS (contd.)****H. Foreign Exchange earnings and outgo**

Foreign exchange earned during 2005-06 is Rs.461 million and foreign exchange outgo was Rs.133 million.

I. 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 B.

J. Auditors

M/s Price Waterhouse & 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.

K. 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.

L. Corporate Governance Report

A detailed report on and Corporate Governance is attached in Annexure C.

For and on behalf of the Board

L LAKSHMAN
Chairman

L GANESH
Vice Chairman

Chennai
May 22, 2006

Annexure A**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)

Your company has successfully developed a hydrostatic steering system (HSS) for use in farm tractors. Though presently tractors manufactured in the country for domestic use are equipped with only manual steering systems, we foresee increasing application of HSS, especially as the market shifts to larger tractors.

EXPENDITURE ON R & D

Rs. '000

Capital	3,149
Recurring	12,857
Total	16,006
Total R&D expenditure as a percentage of total turnover	0.58%

TECHNOLOGY ABSORPTION, ADAPTATION AND INTRODUCTION OF NEW FORMULATIONS

Technology development and assimilation is an ongoing process, but absorption of technology arising out of technology agreements in earlier years has been successfully completed.

For and on behalf of the Board

L LAKSHMAN
Chairman

L GANESH
Vice Chairman

Chennai
May 22, 2006

Rane (Madras) Limited

Annexure B

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 31 March, 2006

S.No.	Name	Age	Designation / Nature of Duties	Remuneration (Rs.)	Qualification	Experience (Years)	Date of commencement of employment	Particulars of last employment
1	Parthasarathy S	47	President	3,926,054	B.E., M.B.A. (AUBS)	24	05-04-2000	G.M. Marketing Rane TRW Steering Systems Ltd.

Notes:

1. Remuneration as shown above includes salary, allowances, contribution to provident and other funds.
2. Mr S Parthasarathy is not related to any director.
3. The service of Mr S Parthasarathy is contractual.

For and on behalf of the Board

L LAKSHMAN
Chairman

L GANESH
Vice Chairman

Chennai
May 22, 2006

Annexure C**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 (Non-executive director)

Mr. L Ganesh (Non-executive director)

Mr. Harish Lakshman (Non-executive director)

Independent and Non-executive directors:

Mr. V Narayanan

Mr. P S Kumar

Prof. Sharad Sarin

3. Details of Attendance at Board meetings and last AGM and details of memberships in other Boards and Board committees.

The Board met six times during the financial year on May 16, 2005, June 6, 2005, July 20, 2005, October 24, 2005, January 25, 2006 and March 20, 2006.

4. Audit committee

The scope of reference to the committee, inter alia, includes:

1. Review of scope of audit and discuss post-audit area of concern, if any, with Statutory Auditors and Internal Auditors.
2. Review of quarterly / annual financial statements with auditors and management before submission to the Board.
3. Review of internal control systems reported by Internal Auditors.
4. Reviewing the adequacy of internal audit function.
5. Review financial and risk management policies of the Company.
6. Management discussion and analysis of financial condition and results of operation.
7. Recommending to the Board, the appointment / re-appointment of statutory auditors and the fixation of audit fees.

The composition of audit committee is as follows:

Mr. V Narayanan, Chairman (Independent Director)

Mr. P S Kumar, Member (Independent Director)

Prof. Sharad Sarin, Member (Independent Director)

Mr. L Lakshman, Member (Non-Executive Director)

Mr. K Srivatsan, Company Secretary is the Secretary to the Committee.

Name of the Director	No. of board meetings attended	Whether attended last AGM	Membership in Other Boards \$	Committee @	
				Membership	Chairmanship
Mr. L Lakshman	6	Yes	10	9	5
Mr. L Ganesh	6	Yes	11	10	4
Mr. Harish Lakshman	6	Yes	5	2	-
Mr. V Narayanan *	5	Yes	14	9	5
Mr. P S Kumar *	5	Yes	4	3	3
Prof. Sharad Sarin *	4	Yes	4	2	-

\$ 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.

* Co-opted as additional directors of the company at the Board meeting held on May 16, 2005 and appointed as directors at the Annual General Meeting held on July 20, 2005.