



Rane (Madras) Limited



3rd ANNUAL REPORT 2007

Rane (Madras) Limited

Board of Directors

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

Audit Committee

V NARAYANAN - Chairman
P S KUMAR
SHARAD SARIN
L LAKSHMAN

Investors' Service Committee

L LAKSHMAN - Chairman
HARISH LAKSHMAN
P S KUMAR

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.
HDFC Bank Limited, Chennai-600 002.

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, Puducherry - 605 107.
4. Ambakkam, Varanavasi Village
Varanavasi Post, Kancheepuram - 631 604.
5. Plot No.27, Sector 11, Integral Industrial Estate
Pant Nagar, Utrakand - 263 153.

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 **Third Annual General Meeting** of the Equity Shareholders of the Company will be held at **10.15 a.m.** on **Monday, the July 23, 2007**, 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, 2007 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 2007, the Profit and Loss Account for the year ended 31 March 2007 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 approve dividend on equity shares.

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

"Resolved that the first interim dividend of 20% declared by the board of directors of the company on January 23, 2007 on 10,164,145 equity shares of Rs.10/- each fully paid and the second interim dividend of 20% declared by the board of directors of the company on March 20, 2007 on 10,164,145 equity shares of Rs. 10/- each fully paid, absorbing a sum of Rs. 40,656,580 (excluding dividend tax and cess thereon) paid to the shareholders on February 05, 2007 and March 29, 2007 respectively, for the year ended March 31, 2007, be and are hereby approved as final dividend for the year ended March 31, 2007".

3. To appoint a director in the place of Mr. V Narayanan, 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. V Narayanan, 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. P S Kumar, 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. P S Kumar, 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".

SPECIAL BUSINESS:

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

"Resolved that Dr. R Natarajan, who holds office as an additional director of the Company up to the date of this Annual General Meeting, be and is hereby appointed as Director of the Company, whose period of office shall be subject to retirement by rotation".

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

“Resolved that in supersession of the resolution passed at the Extra-Ordinary General Meeting held on 21st December, 2004 and pursuant to Section 293(1)(d) and other applicable provisions, if any, of the Companies Act, 1956, consent of the company be and is hereby accorded to the Board of Directors of the Company for borrowing from time to time, any sum or sums of money which, together with monies already borrowed by the Company (apart from temporary loans obtained from the Company’s bankers in the ordinary course of business) exceeding the aggregate of the paid-up capital of the Company and its free reserves, that is to say reserves not set apart for any specific purpose provided that the total amount so borrowed by the board of directors and outstanding at any one time shall not exceed Rs.1,000 million”.

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

Chennai
May 28, 2007

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 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 21, 2007 to Monday, July 23, 2007** (both days inclusive).
4. 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.

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)
31.03.2005	20.07.2005	24.08.2012	22.09.2012
31.03.2006*	25.01.2006	28.02.2013	29.03.2013
31.03.2006	21.07.2006	22.08.2013	20.09.2013
31.03.2007*	23.01.2007	27.02.2014	28.03.2014
31.03.2007*	20.03.2007	25.04.2014	24.05.2014

*Interim dividend

5. 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).

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

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

Chennai
May 28, 2007.

K Srivatsan
Secretary

Rane (Madras) Limited

Explanatory Statement pursuant to Section 173(2) of the Companies Act, 1956

Resolution No. 6

The Board of Directors of your company co-opted Dr. R Natarajan as an additional director on July 21, 2006.

Dr. R Natarajan, son of Mr. Kolar Seshappa Ramamurthy, is a technocrat. He holds Doctor of Philosophy degree from University of Waterloo, Canada and also holds Master's degree in Engineering and Science. He has served as Director of Indian Institute of Technology Madras and Chairman of All India Council for Technical Education. He was born on January 9, 1941. He has over 35 years of experience in the field of science and technology.

Other Directorships : I P Rings Limited
Tata Elxsi Limited

Committee Memberships : Audit Committee

I P Rings Limited
Tata Elxsi Limited

Dr. R Natarajan does not hold any shares in the company.

The term of additional directors, as per Section 260 of the Companies Act, 1956 is only upto the succeeding Annual General Meeting and therefore Dr. R Natarajan seeks appointment at this Annual General Meeting.

A notice in writing under Section 257 of the Companies Act, 1956, along with a deposit of Rs. 500/- has been received from a member signifying her intention to propose the candidature of Dr. R Natarajan for the office of director of the company.

Dr. R Natarajan is interested in the resolution. No other director is concerned or interested in the resolution.

Your directors commend the resolution for adoption.

Resolution No. 7

In order to meet the capital expenditure on account of expansion plans and other long-term requirements, the Company is required to borrow funds from time to time. The funds requirements of the Company are expected to go up from the present limit, in view of the growth opportunities available.

At the Extra-Ordinary General meeting held on 21st December 2004, the members had approved borrowings upto Rs.750 million. The board now recommends for borrowing upto Rs.1,000 million (Rupees one thousand million only) to meet the Company's increased long term funding requirements.

Since this would be in excess of the limits of borrowing powers prescribed under Section 293 (1)(d) of the Companies Act, 1956, approval of the shareholders is sought by way of an ordinary resolution.

None of the Directors is concerned or interested in the resolution.

Your directors commend the resolution for adoption.

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

Chennai
May 28, 2007

K Srivatsan
Secretary

Rane (Madras) Limited

Information about directors seeking 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. V Narayanan
Father's Name : Late G V Ayyar
Date of birth : January 29, 1938
Date of appointment : May 16, 2005
Educational Qualifications: M.Sc.,

Other Directorships

1. Ponds Exports Limited
2. MM Forgings Limited
3. Hindustan Lever Limited
4. Glaxo SmithKline Pharmaceuticals Limited
5. Bata India Limited
6. UCAL Fuel Systems Limited
7. Sundram Fasteners Limited
8. Rane Holdings Limited
9. Samcor Glass Limited
10. Lafarge India Pvt. Limited
11. Samtel Color Limited
12. Tamilnadu Newsprint & Papers Limited

Committee Memberships

1. MM Forgings Limited–Audit*
2. Bata India Limited–Audit*
3. Rane (Madras) Limited–Audit*
4. Tamilnadu Newsprint & Papers Limited–Audit*
5. Glaxo SmithKline Pharmaceuticals Limited–Audit
6. Sundram Fasteners Limited–Audit
7. UCAL Fuel Systems Limited–Audit*
8. Rane Holdings Limited–Audit
9. Glaxo SmithKline Pharmaceuticals Limited–Remuneration
10. Bata India Limited–Remuneration
11. Hindustan Lever Limited–Remuneration

*- Chairman of the Committee

Item No. 4

Name of the director : Mr. P S Kumar
Father's Name : Late Parvathaneni Brahmayya
Date of birth : July 4, 1944
Date of appointment : May 16, 2005
Educational Qualifications : FCA

Other Directorships

1. Elnet Technologies Limited
2. Elnet Software City Limited
3. ETL Infrastructure Services Limited
4. Brahmayya Consultants Private Limited

Committee Memberships

1. Elnet Technologies Limited–Audit*
2. Elnet Technologies Limited–Investors Grievance*
3. Rane (Madras) Limited–Audit
4. ETL Infrastructure Services Limited- Audit*

*- Chairman of the Committee

Mr. V Narayanan and Mr. P S Kumar 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 28, 2007

K Srivatsan
Secretary

REPORT OF THE DIRECTORS

Your Directors have pleasure in presenting their Third annual report together with the accounts for the year ended March 31, 2007.

A. Financial Performance

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

	(Rs.Million)	
	2006-07	2005-06
Sales and Operating Revenues	3,304.68	2,796.24
Other Income	25.13	8.90
Profit before tax	183.88	157.75
Provision for tax	47.72	71.35
Profit after tax	136.16	86.40
Surplus brought forward	37.50	10.67
Amount available for appropriation	173.66	97.07

The operating revenues have grown by 18.2% and the profit before tax improved by 17%. Exports during the year recorded an impressive growth of 18.6%.

B. Appropriation

Profit available for appropriation is Rs. 173.66 million. The directors declared and paid a dividend of 13.5% on the Cumulative Preference Shares of Rs. 22.50 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. 3.20 million. An amount of Rs.11.25 million transferred to Capital Redemption Reserve.

The directors have declared and paid two interim dividends of 20% each, on the equity capital for the year ended March 31, 2007. The amount on this account inclusive of tax on distributed profits and surcharge thereon, works out to Rs. 46.34 million leaving the company with retained profits of Rs. 112.87 million. Out of this, Rs. 51.87 million is being transferred to the General Reserve and Rs. 61.00 million being retained as surplus 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 Profits, despite continued pricing pressures.

2. Industry Structure and Developments

The year under review has seen continued buoyancy in the OEM markets.

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

	2006-07	2005-06
Passenger Cars	19%	9%
Utility Vehicles	13%	7%
Light Commercial Vehicles	7%	23%
SCV (One T & Below)	146%	--
Medium and Heavy Commercial Vehicles	34%	4%
Farm Tractors	15%	15%
Three Wheelers	28%	17%
Two Wheelers	11%	18%

Source : Society of Indian Automobile Manufacturers and Tractor Manufacturers Association.

3. Outlook

Sustained spending on infrastructure, and the continuing general economic growth, are beneficial factors that should aid business growth in the medium and long term.

Concerns of inflation caused through supply side constraints and increases in prices of commodities continued. These have resulted in monetary measures, which have driven up the interest rates. It should be expected these would have a dampening effect on the growth sentiments.

REPORT OF THE DIRECTORS (contd.)

Exports, particularly of ball joints continue to be the focus area and your company will enhance capacities to meet growing demand from overseas customers. For this, your company has set up a new plant for manufacture of ball joints in Ambakkam, Varanavasi Village, Varanavasi Post, Kancheepuram primarily to cater to the export markets. The plant had commenced its production during the year 2006-07.

The company has also set up a manufacturing facility at Integral Industrial Estate, Pant Nagar, Uttrakand, for supply of Steering Gears exclusively to Tata Motors Limited.

4. Opportunities, Threats and Risk

The continued attractiveness of the Indian Auto Component Industry as an outsourcing hub presents opportunities for growth. Also, in the medium term the growth potential for the domestic industry will continue to be in double digits.

The main threats arise out of:-

- Volatility in Commodity prices - steel and other inputs
- Low priced products import from China
- Strengthening Rupee
- Apprehended temporary slow down of the economy

5. Internal Control Systems and Risk Management

Your Company engaged the services of an independent agency to carry out internal audit of all the Company locations across the country. 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. The process not only seeks to ensure the reliability of control systems and compliance with laws and regulations but also covers resources utilisation and system efficacy.

Inventory management is an area of considerable importance to your Company. The management and audit committee are specifically addressing the need to improve physical verification process as recommended by the auditors.

Risk Management is an integral part of the business process. With the help of experts, the company mapped the risks at the business processes and enterprise levels and evolved a risk management framework. Mitigative measures have been identified in respect of the latter. These would be periodically reviewed by the Board of Directors.

6. Human Resource Development and Industrial Relations

Your company attaches considerable importance to Human Resource Development (HRD) and harmonious industrial relations.

The management is continuously working on the development of human capital, vital in an ever changing business environment towards achieving the goals and realizing the Vision of the company. "Rane Institute for Employee Development" is a group resource that imparts training towards continuous enhancement of technical and managerial skills. On an average, 4 mandays of training per employee was imparted during the year across employee segments and divisions.

Total Employee Involvement is a key element of Total Quality Management (TQM) that enables continuous improvement to all business processes. The company conducts regular Employee Opinion Surveys, the outcome of which is deliberated and acted upon.

Rane (Madras) Limited

REPORT OF THE DIRECTORS (contd.)

As at the end of 31st March 2007, the total number of employees stood at 930.

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

Deposits outstanding as on March 31, 2007 amounted to Rs.28.30 million. All deposits that matured during the year were repaid / renewed.

E. Board of Directors

During the year, Mr. L Lakshman relinquished his position as Chairman of the company on attaining the age of 60 years. However, he continues to serve as director on the Board of the company. The Board records its deep sense of appreciation for the invaluable and outstanding contribution made by Mr. L Lakshman during his tenure as Chairman.

Mr. L Ganesh was elected as the Chairman of the company.

Mr. V Narayanan and Mr. P S Kumar retire by rotation, and being eligible, offer themselves for re-election.

Dr. R Natarajan was co-opted to the Board as an Additional Director with effect from July 21, 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 Dr. R Natarajan as a director of the Company, at the ensuing Annual General Meeting.

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.

H. Foreign Exchange earnings and outgo

Foreign exchange earned during 2006-07 is Rs. 547 million and foreign exchange outgo was Rs.111 million.

I. Consolidation and restructuring exercise undertaken by the Rane Group

The company has been constantly driving all its efforts in enhancing the value to the shareholders of being a part of the Rane Group. As a part of the restructuring exercise undertaken at the Rane Group, the individual promoters have transferred their shares in the company to Rane Holdings Limited. With this, the shareholding of Rane Holdings Limited in the company has increased from 20.00% to 51.28%, thus, making the company its subsidiary with effect from March 26, 2007.

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 B.

K. 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.

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;

REPORT OF THE DIRECTORS (contd.)

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 and Corporate Governance is attached in Annexure C.

For and on behalf of the Board

L GANESH
Chairman

Chennai
May 28, 2007

L LAKSHMAN
Director

Annexure A 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, 2007.

RESEARCH AND DEVELOPMENT (R & D)

Your Company is continuing to pursue development of hydrostatic steering gears and has initiated action to develop cylinders so that a total system can be offered to customers.

The Company is also developing complementary capabilities and technologies to improve and enhance the performance of manual steering systems.

EXPENDITURE ON R & D

	Rs. '000
Capital	10,298
Recurring	20,102
Total	30,400
Total R&D expenditure as a percentage of total turnover	0.93%

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 GANESH
Chairman

Chennai
May 28, 2007

L LAKSHMAN
Director