



Rane (Madras) Limited



1st ANNUAL REPORT 2005

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

President

S. PARTHASARATHY

Vice President - Finance

T S SANKAR

Secretary

K SRIVATSAN

Auditors

D RANGASWAMY & CO.
 Chartered Accountants
 Chennai - 600 034

Listing of shares applied with

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

Bankers

Canara Bank,
 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, Velacherry 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. 9A, IDC Mehrauli Road
 Near Sector 14
 Gurgaon - 122 001.

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Rane (Madras) Limited

REPORT OF THE DIRECTORS

Your Directors have pleasure in presenting their First annual report together with the accounts for the period from March 31, 2004 to March 31, 2005.

A. Incorporation and Scheme of Arrangement

Your Company was incorporated on 31st March, 2004 in the name of Rane Holdings Limited. The name of the company was subsequently changed to Rane (Madras) Manufacturing Limited with effect from February 22, 2005.

Based on the approval of the shareholders and the scheme sanctioned by the Hon'ble High Court of Madras on April 25, 2005, the erstwhile Rane (Madras) Limited demerged and transferred the manufacturing undertaking into your Company with effect from July 01, 2004. In terms of the Scheme, the demerged company having been renamed as Rane Holdings Limited, the name of your Company was changed from Rane (Madras) Manufacturing Limited to Rane (Madras) Limited, with effect from May 19, 2005.

B. Financial Performance:

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

(Rs. Million)

	2004-05
Sales and Operating Revenues	1,984.76
Other Income	16.94
Profit before tax	82.59
Provision for tax	40.28
Profit after tax	42.31
Transfer to Capital Redemption Reserve	11.25
Amount available for appropriation	31.06

This being the first year of operation of your Company, no previous year figures are being reported. Also, the operations effectively relate to only nine months since the manufacturing undertaking was transferred with effect from July 01, 2004. However on an annualized basis, sales and other operating income have grown by around 45% over that of the manufacturing division of the erstwhile Rane (Madras) Limited

in the previous year. Exports have grown nearly three fold during this period and would be the main growth driver in the current year as well.

C. Appropriation

Profit available for appropriation is Rs. 31.06 million. The directors declared and paid a dividend of 13.5% on the Cumulative Preference Shares of Rs. 45 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. 6.60 million. The Directors are pleased to recommend a dividend of 10 % on the equity capital. The amount on this account inclusive of tax on distributed profits and surcharge thereon, works out to Rs.11.59 million leaving the company with retained profits of Rs. 12.87 million. Out of this, Rs.2.20 million is being transferred to the General Reserve, leaving a surplus of Rs. 10.67 million in the Profit and Loss Account.

D. 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.

E. Restructuring

With the restructuring of investments in the group being successfully completed and the demerger of the manufacturing undertaking into your company, no investments are held directly by your company. Post the demerger Rane Holdings Limited holds 20% of the capital in your company.

F. Allotment and Listing of Shares

In accordance with the scheme sanctioned by the High Court of Madras, your Company has allotted 8,131,316 equity shares of Rs. 10/- each fully paid-up in the ratio of 1:1 to all the shareholders of the demerged company as on May 18, 2005,

REPORT OF THE DIRECTORS (contd.)

the record date fixed by the demerged company for this purpose. Necessary applications have been submitted to the National Stock Exchange of India Limited, The Stock Exchange, Mumbai and the Madras Stock Exchange Limited for listing of the shares of your Company and the approvals for listing from these stock exchanges are awaited. The despatch of the share certificates to the shareholders holding shares in physical mode and the credit of the shares to the beneficiary accounts of the shareholders holding shares in demat mode are subject to necessary approvals from the stock exchanges.

G. Deposits

Consequent upon the demerger, all the fixed deposits have been transferred to your company. Deposits outstanding as on March 31, 2005 amounted to Rs. 35 million. All deposits that matured during the year were repaid / renewed except for a sum of Rs.25,000 for which claims have not been lodged with the Company.

H. Board of Directors

Mr. L. Lakshman, Mr. L. Ganesh and Mr. Harish Lakshman, the first directors of the company appointed under the Articles of Association of the company, would be seeking appointment at the ensuing annual general meeting.

Mr. V. Narayanan, Mr. P. S. Kumar and Prof. Sharad Sarin were co-opted to the board during the year and they hold office till the date of the Annual General Meeting. Notices have been received from shareholders signifying their intention to propose the appointments of Mr. V. Narayanan, Mr. P.S. Kumar and Prof. Sharad Sarin.

I. 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.

J. Research & Development Activities

The details are furnished in Annexure B.

K. Foreign Exchange earnings and outgo

Foreign exchange earned during 2004-05 is Rs. 260 million and foreign exchange outgo is Rs. 82 million.

L. 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.

M. Auditors

M/s. Harsha, Anantu & Sankar, Chartered Accountants, Chennai, the first auditors of the Company, due to their other audit commitments, resigned as auditors of the Company with effect from February 09, 2005.

M/s. D Rangaswamy & Co., Chartered Accountants, Chennai were appointed as auditors of the Company in the vacancy caused by their resignation, at the extraordinary general meeting held on February 25, 2005 to hold office till the conclusion of the ensuing Annual General Meeting.

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. Your directors wish to place on record their appreciation of the services rendered by them during the last year.

Special notices have been received from members signifying their intention to propose the appointment of M/s Pricewaterhouse & Co., Chartered Accountants, as auditors in the place of the retiring auditors. Your directors recommend the appointment of M/s Pricewaterhouse & Co., as auditors of the Company to hold office from the conclusion of this annual general meeting till the

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

conclusion of the next annual general meeting. Necessary declaration under Section 224 (1B) of the Companies Act, 1956 has been obtained from them.

N. 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.

O. Management Discussion & Analysis and Corporate Governance Reports

A detailed report on Management Discussion and Analysis and Corporate Governance are attached.

For and on behalf of the Board

L LAKSHMAN
Chairman

L GANESH
Vice Chairman

Chennai
June 06, 2005

Report Junction.com

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 period ended March 31, 2005.

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	751
Recurring	6,380
Total	7,131
Total R&D expenditure as a percentage of total turnover	0.37 %

TECHNOLOGY ABSORPTION, ADAPTATION AND INTRODUCTION OF NEW FORMULATIONS

Technology absorption through collaboration is complete.

For and on behalf of the Board

L LAKSHMAN
Chairman

L GANESH
Vice Chairman

Chennai
June 06, 2005

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 31st March, 2005

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

S.No.	Name	Age	Designation/ Nature of Duties	Remuneration (Rs.)	Qualification	Experience (Years)	Commencement of employment	Particulars of last employment
1	Parthasarathy S	46	President	1,892,997	B.E., M.B.A. (AUBS)	23	05.04.2000	G.M. Marketing Rane TRW Steering Systems Ltd.

Notes:

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

For and on behalf of the Board

L LAKSHMAN
Chairman

L GANESH
Vice Chairman

Chennai
June 06, 2005

Rane (Madras) Limited

Annexure to Report of the Directors (Contd.)

MANAGEMENT DISCUSSION AND ANALYSIS REPORT

1. Financial and Operational Performance

Increase in input costs, mainly of steel, coupled with the inability to pass on entire cost increases to customers, continues to exert pressures on operating margins. Your company recognizes that high operating margins are no longer sustainable in the industry and substantial growth in profits could come through only large volumes.

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 reining 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

	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 Tractors Manufacturers Association.

3. Outlook

In this background we expect growth in the domestic automotive industry to be below 10%. Export, particularly of ball joints, continues to be the focus areas and your company would look at enhancing capacities to meet growing demand from especially the export customers.

4. Opportunities, Threats and Risks

The continued attraction of the Indian auto component industry as an outsourcing

destination presents immense opportunities for growth. Main threats arise out of:

- The presence of spurious products in this market.
- The fragmented nature of the emergent vehicle industry, which could render volumes in individual platforms uneconomic.
- Volatility in steel prices.
- The strengthening rupee.

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

5. Internal Control Systems

Your Company has 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 utilization and system efficiency.

6. Human Resources

As at the end of March 2005, the total number of employees stood at 828. 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. 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.

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 (non-executive director)

Mr. L Ganesh (non-executive director)

Mr. Harish Lakshman (non-executive director)

Independent Directors (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 eight times during the financial year on April 22, 2004, September 30, 2004, October 20, 2004, December 21, 2004, January 6, 2005, January 7, 2005, February 25, 2005 and March 29, 2005.

4. Audit committee

The composition of the Audit Committee is:

Mr. V Narayanan

Mr. L. Lakshman

Mr P S Kumar

Prof. Sharad Sarin

The committee was constituted at the Board Meeting held on May 16, 2005.

The audit committee meeting was chaired by Mr. V Narayanan.

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

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 by Internal Auditors.
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.

Name of the Director	No. of board meetings attended	Whether attended last AGM #	Membership in Other Boards \$	Committee *	
				Membership	Chairmanship
Mr. L Lakshman*	7	NA	10	9	5
Mr. L Ganesh*	7	NA	10	10	4
Mr. Harish Lakshman*	6	NA	4	2	-
Mr. V Narayanan**	-	NA	13	8	5
Mr. P S Kumar**	-	NA	3	5	3
Prof. Sharad Sarin**	-	NA	3	2	-

The ensuing annual general meeting is the first annual general meeting of the company.

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

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

* Appointed as first directors of the company under the Articles of Association of the Company.

** Co-opted as additional directors of the company at the Board meeting held on May 16, 2005.

Rane (Madras) Limited

CORPORATE GOVERNANCE (Contd.)

5. Remuneration to Directors

The terms of remuneration of the Manager have been approved by the Remuneration Committee of the Board at their meeting held on June 06, 2005.

The composition of the Remuneration Committee is as follows:

Mr V Narayanan
Mr P S Kumar
Prof. Sharad Sarin

The employment of the managerial personnel is on a contractual basis. The company has not provided any Stock option scheme to the managerial personnel.

During the year the company did not pay any sitting fees to the non-executive directors. Sitting fee of Rs.20,000 to each director per meeting of the board/audit committee and Rs.2,500 for other committee meetings to the non-executive directors have been introduced by the Board at their meeting held on May 16, 2005, effective thereafter. No other remuneration was paid to the non-executive directors.

8. Secretarial Audit

The company would carry on its first Secretarial Audit for the quarter ending June 30, 2005

9. Disclosures

During the year 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 annual audited results are published in "The Hindu", "Business Line" and "Dinamani" (Tamil). The quarterly results, annual report and the shareholding pattern would be uploaded in the website of SEBI under EDIFAR menu and the website of the company viz. www.rane.co.in

The company did not make any presentation to the analysts/institutional investors.

11. General Shareholder Information

Particulars about the directors who are appointed are furnished in the Notice convening the Annual General Meeting/ the Explanatory Statement.

Annual General Meeting July 20, 2005 at 10.00 A.M.

Narada Gana Sabha,
314, TTK Road,
Chennai 600 018.

Financial Calendar (Tentative):

Board Meeting for approval of:

a)	Annual Accounts - 31.03.2005	June 06, 2005
b)	Unaudited results for the first quarter ending 30.06.2005	July 20, 2005
c)	Unaudited results for the second quarter ending 30.09.2005	October 24, 2005
d)	Unaudited results for the third quarter ending 31.12.2005	January 25, 2006
e)	Annual Accounts 31.03.2006	May, 2006

Book Closure Period

July 16, 2005 to
July 20, 2005
(both days inclusive)

6. Investors' Service Committee

The Board has constituted an Investors Service Committee on May 16, 2005 as follows:

Mr L Lakshman
Mr Harish Lakshman
Mr P.S. Kumar

The Investors Service Committee is authorised to redress the investor grievances.

The Company did not receive any complaints from SEBI or stock exchanges during the year.

7. General Body Meetings

During the year two extra-ordinary general meetings (EGM) of the company were held as under:

Date of EGM	Time	Venue
December 21, 2004	11.30 a.m	Registered Office: "Maithri", 132, Cathedral Road, Chennai - 600 086
February 25, 2005	9.00 a.m	

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

Rane (Madras) Limited**CORPORATE GOVERNANCE (Contd.)**

The Company has made application to Madras Stock Exchange Limited (MSE), National Stock Exchange of India Limited (NSE) and The Stock Exchange, Mumbai (BSE) for listing its entire equity share capital. The company has received "in-principle" listing approval from MSE. The approvals from BSE and NSE are awaited. The despatch of share certificates and the credit of shares to the beneficiary accounts of the shareholders are subject to necessary approvals from the stock exchanges.

The Company has entered into tripartite agreement with National Securities Depository Limited (NSDL) and Integrated Enterprises (India) Limited, for dematerialisation of shares of the Company. Necessary applications have been made to NSDL and Central Depository Services (India) Limited (CDSL) in this regard.

Share Price Data

The Company's shares would be listed on MSE, NSE and BSE. The trading details of the shares of the company would be provided after the shares are listed on the exchanges.

The Company has appointed M/s. Integrated Enterprises (India) Limited as Registrar and Share Transfer Agents for providing electronic connectivity & handling physical share transfer work of the company.

The contact details of the agent is as follows :-

M/s Integrated Enterprises (India) Ltd.,

II Floor, 'Kences Towers'

No.1, Ramakrishna Street, North Usman Road,

T. Nagar, Chennai - 600 017.

Phone: 28140801 - 03, Fax: 28142479, 28143378.

E-mail: sureshbabu@iepindia.com

Name of the contact person: Mr. K Suresh Babu, Deputy General Manager-Operations.

Share Transfer system

The power to approve transfer of shares has been delegated by the Board to the share transfer Committee. Share transfer requests are processed within 30 days from the date of receipt by the Registrar and Transfer Agents.

Address for communication:**Mr. K Srvatsan**

Compliance Officer

Rane (Madras) Limited

Rane Corporate Centre,

"Maithri" 132, Cathedral Road

Chennai 600 086.

Ph.28112472 Fax: 28112449

E-mail: investorservices@rane.co.in

Distribution of shareholding as on May 23, 2005 (Date of allotment of shares to the equity shareholders under the Scheme of arrangement)

No. of shares Held	Folio		Shares	
	Number	%	Number	%
Upto 500	3,216	81.35	411,431	4.05
501 - 1000	273	6.90	211,167	2.08
1001 - 2000	172	4.35	250,017	2.46
2001 - 5000	133	3.36	416,062	4.09
5001 - 10000	64	1.62	455,892	4.49
10001 - 20000	29	0.73	411,639	4.05
20001 - 50000	41	1.04	1,353,654	13.32
50001 - 100000	10	0.25	690,392	6.79
100001 & above	15	0.38	5,963,891	58.67
Total	3,953	100.00	10,164,145	100.00

Pattern of shareholding as of May 23, 2005

Sl No	Category	No of Folios	No of shares	% to total capital
1	Promoters	30	5,474,053	53.85
2	Indian Financial Institutions	---	---	---
3	Nationalised Banks	4	68,608	0.67
4	Mutual Funds	6	855,346	8.42
5	Bodies Corporate	200	709,047	6.98
6	NRIs	34	443,898	4.37
7	Individuals & others	3,679	2,613,193	25.71
	Total	3,953	10,164,145	100.00

Dematerialisation of shares and liquidity

The company has made applications to both the depositories operating in India viz. NSDL and CDSL, for dematerialisation of the equity shares of the company. The shares of the company can be dematerialised through both the depositories after their approval is received.

Plant locations: Given in the First Page of the Annual Report.

Mr. Suresh Babu

Integrated Enterprises (India) Limited,

II Floor, 'Kences Towers'

No.1, Ramakrishna Street,

North Usman Road,

T. Nagar, Chennai - 600 017.

Phone:28140801-03, Fax:28142479 / 28143378.

E-mail: sureshbabu@iepindia.com