



Shivam
Autotech Ltd.

1st Annual Report & Accounts 2005-06

A Hero Group Company

BOARD OF DIRECTORS**CHAIRMAN**

Sunil Kant Munjal

DIRECTORS

Satyanand Munjal

Brijmohan Lall Munjal

Om Prakash Munjal

Vijay Munjal

Neeraj Munjal

Bhagwan Dass Narang

Surrinder Lal Kapur

Vinayshil Gautam

FINANCE TEAM

Sanjay Gupta, GM – Finance & Accounts

Varika Rastogi, Company Secretary

AUDITORS

S. S. Kothari Mehta & Co.

Chartered Accountants

146-149, Tribhuvan Complex

Ishwar Nagar, Mathura Road

New Delhi – 110065

BANKERS

State Bank of India

HSBC Limited

IDBI Limited

ICICI Bank Limited

Citi Bank N.A.

REGISTERED OFFICE

2A/3, Asaf Ali Road

New Delhi – 110 002

PLANT58th Km. Stone

Delhi – Jaipur Highway

Village: Binola – 122 413

Dist.: Gurgaon (Haryana)

SHARE TRANSFER AGENTS

MCS Limited

Shri Venkatesh Bhawan, W-40

Okhla Industrial Area, Phase II,

New Delhi -110 020

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NOTICE

Notice is hereby given that the 1st Annual General Meeting of the Members of **SHIVAM AUTOTECH LIMITED** will be held on Wednesday, the 20th day of September, 2006 at 11:30 A.M. at Essex Farms, 4, Aurobindo Marg, New Delhi-110016 to transact the following business:

[A] ORDINARY BUSINESS

1. To receive, consider and adopt the Audited Balance Sheet as at 31st March, 2006 and Profit & Loss Account for the period ended on that date along with the Directors and the Auditors Report.
2. To declare dividend to the equity shareholders for the period ended March 31, 2006.
3. To appoint a Director in place of Mr. Satyanand Munjal, being first Director, who retires and being eligible, offers himself for re-appointment.
4. To appoint a Director in place of Mr. Brijmohan Lal Munjal, being first Director, who retires and being eligible, offers himself for re-appointment.
5. To appoint a Director in place of Mr. Om Prakash Munjal, being first Director, who retires and being eligible, offers himself for re-appointment.
6. To appoint a Director in place of Mr. Vijay Munjal, being first Director, who retires and being eligible, offers himself for re-appointment.
7. To appoint a Director in place of Mr. Neeraj Munjal, being first Director, who retires and being eligible, offers himself for re-appointment.
8. To appoint M/s. S. S. Kothari Mehta & Co. Auditors to hold office from the conclusion of this meeting, till the conclusion of the next Annual General Meeting of the Company and to authorise the Board of Directors to fix their remuneration.

[B] SPECIAL BUSINESS

9. To consider and if thought fit, to pass, with or without modification(s), the following resolution as an ORDINARY RESOLUTION:

"RESOLVED THAT Mr. Sunil Kant Munjal, who was appointed by the Board of Directors as an Additional Director with effect from 14th February, 2006 under Article 82 of the Articles of Association of the Company and who by virtue of the provisions of Section 260 of the Companies Act, 1956, holds office till the date of this Annual General Meeting and in respect of whom the Company has received a notice in writing under Section 257 of the Companies Act, 1956 together with a deposit of Rs. 500/-, be and is hereby appointed as a Director of the Company, liable to retire by rotation."

10. To consider and if thought fit, to pass, with or without modification(s), the following resolution as an ORDINARY RESOLUTION:

"RESOLVED THAT Mr. Bhagwan Dass Narang, who was appointed by the Board of Directors as an Additional

Director with effect from 14th February, 2006 under Article 82 of the Articles of Association of the Company and who by virtue of the provisions of Section 260 of the Companies Act, 1956, holds office till the date of this Annual General Meeting and in respect of whom the Company has received a notice in writing under Section 257 of the Companies Act, 1956 together with a deposit of Rs. 500/-, be and is hereby appointed as a Director of the Company, liable to retire by rotation."

11. To consider and if thought fit, to pass, with or without modification(s), the following resolution as an ORDINARY RESOLUTION:

"RESOLVED THAT Mr. Surrinder Lal Kapur, who was appointed by the Board of Directors as an Additional Director with effect from 14th February, 2006 under Article 82 of the Articles of Association of the Company and who by virtue of the provisions of Section 260 of the Companies Act, 1956, holds office till the date of this Annual General Meeting and in respect of whom the Company has received a notice in writing under Section 257 of the Companies Act, 1956 together with a deposit of Rs. 500/-, be and is hereby appointed as a Director of the Company, liable to retire by rotation."

12. To consider and if thought fit, to pass, with or without modification(s), the following resolution as an ORDINARY RESOLUTION:

"RESOLVED THAT Dr. Vinayshil Gautam, who was appointed by the Board of Directors as an Additional Director with effect from 14th February, 2006 under Article 82 of the Articles of Association of the Company and who by virtue of the provisions of Section 260 of the Companies Act, 1956, holds office till the date of this Annual General Meeting and in respect of whom the Company has received a notice in writing under Section 257 of the Companies Act, 1956 together with a deposit of Rs. 500/-, be and is hereby appointed as a Director of the Company, liable to retire by rotation."

13. To consider and if thought fit, to pass, with or without modification(s), the following resolution as a SPECIAL RESOLUTION:

"RESOLVED THAT pursuant to the provisions of Section 198, 269, 309, 310, 311 read with Schedule XIII and other applicable provisions, if any, of the Companies Act, 1956 (and/or any statutory modification or re-enactment thereof from time to time), approval of the members be and is hereby accorded to the appointment of Mr. Neeraj Munjal as Managing Director of the Company for a period of 5 (five) years commencing from 1st April, 2006 on terms and conditions as set out in Draft Agreement proposed to be entered into between the Company and Mr. Neeraj Munjal, submitted to this meeting and for identification initialed by the Chairman, with liberty to the Board of Directors to amend, alter or otherwise vary the terms and conditions of the appointment of the Managing Director from time to time, including remuneration, provided that such remuneration shall not exceed the maximum limits for payment of managerial remuneration as prescribed in

Schedule XIII to the Companies Act, 1956, or any amendment or any statutory modifications thereto and conditions, if any, as may be stipulated by the Central Government.

RESOLVED FURTHER THAT if in any Financial Year, the Company has no profits or its profits are inadequate, the minimum remuneration payable to Managing Director shall be same substantive salary and perquisites as above mentioned, subject to the ceilings set out under the provisions of Schedule XIII of the Companies Act, 1956.

RESOLVED FURTHER THAT the Board of Directors of the Company be and is hereby authorized to do all such acts, deeds, matters and things as may be considered necessary to give effect to this resolution."

14. To consider and if thought fit, to pass, with or without modification(s), the following resolution as a SPECIAL RESOLUTION:

"RESOLVED THAT pursuant to section 293(1)(d) and other applicable provisions if any, of the Companies Act, 1956, the consent of the Company be and is hereby accorded to the Board of Directors of the Company, to borrow such sum or sums of moneys in any manner from time to time as may be required for the purpose of business of the Company with or without security and upon such terms and conditions as they may think fit, notwithstanding that moneys to be borrowed together with moneys already borrowed by the Company (apart from the temporary loans obtained from the Company's bankers in the ordinary course of business) may exceed 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 for the Company and outstanding at any time shall not exceed the sum of Rs. 100,00,00,000/- (Rupees One Hundred Crores only)."

15. To consider and if thought fit, to pass, with or without modification(s), the following resolution as a SPECIAL RESOLUTION:

"RESOLVED THAT pursuant to section 293(1)(e) and other applicable provisions if any, of the Companies Act, 1956, the consent of the Company be and is hereby accorded to the Board of Directors of the Company, to contribute to charitable and other funds not directly relating to the business of the Company or the welfare of its employees, as it may think fit, notwithstanding that moneys to be contributed during a financial year may exceed Rupees Fifty Thousand, provided that the total amount so contributed by the Board of Directors on behalf of the Company during a financial year shall not exceed the sum of Rs. 25,00,000/- (Rupees Twenty Five Lacs only)."

By Order of the Board of Directors
For Shivam Autotech Limited

New Delhi
August 03, 2006

Varika Rastogi
Company Secretary

Registered Office:
2A/3, Asaf Ali Road,
New Delhi - 110 002

NOTES

1. A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote (on a poll only) instead of himself / herself and the proxy need not be a member of the Company. Under the Companies Act, 1956, voting is by a show of hands unless a poll is demanded by a member or members present in person, or by proxy, holding at least 1/10th of the total shares entitled to vote on the resolution or by those holding Paid-up Capital of at least Rs. 50,000/-. The proxy in order to be effective must be deposited at the Registered Office of the Company not less than 48 hours before the commencement of the meeting.
2. Members / proxies should bring duly filled Attendance Slips sent herewith to attend the meeting.
3. Explanatory statement pursuant to Section 173 (2) of the Companies Act, 1956, which sets out details relating to Special Business, is annexed hereto.
4. The Share Transfer Books and Register of Members of the Company will remain closed from Saturday, 16th September, 2006 to Tuesday, 19th September, 2006 (both days inclusive).
5. Members are requested to notify immediately the change of address and change in saving Bank Accounts details, if any, to their Depository Participants in respect of their electronic shareholding(s), and to the Registrar and Share Transfer Agent of the Company in respect of their physical share holding(s) at the following address:

MCS Limited
Sri Venkatesh Bhawan
W - 40, Okhla Industrial Area - II
New Delhi - 110 020
Tel: +91 011 41609386, 41406149
Fax No: 91 011 47709881
E-mail: admin@mcsdel.com
6. The dividend as recommended by the Board of Directors, if approved by the members at the 1st Annual General Meeting, shall be paid after 20th September, 2006 to those members whose names appear on the Register of Members of the Company on 19th September, 2006.
7. Members, who desire to seek any information pertaining to Accounts and operations of the Company are requested to address their questions / queries to the Secretary of the Company so as to reach at least seven days before the date of the Annual General Meeting to enable the Company make the information sought available to the best extent possible.
8. The Register of Directors' shareholding maintained under Section 307 of the Companies Act, 1956 will be available for inspection by the members at the AGM.
9. The Register of Contracts maintained under Section 301 of the Companies Act, 1956 will be available for inspection by the members at the works situated at 58th Km Stone, Delhi-Jaipur Highway, Village Binola, Gurgaon - 122 413.

10. The Draft Agreement proposed to be entered into by the Company with Mr. Neeraj Munjal setting out the detailed terms and conditions of his appointment as Managing Director will be available for inspection by the members at the works situated at 58th Km Stone, Delhi – Jaipur Highway, Village Binola, Gurgaon – 122 413.

EXPLANATORY STATEMENT AS REQUIRED UNDER SECTION 173(2) OF THE COMPANIES ACT, 1956, SETTING OUT THE MATERIAL FACTS RELATING TO THE SPECIAL BUSINESS REFERRED TO IN THE ACCOMPANYING NOTICE DATED AUGUST 3, 2006.

Item Nos. 9 to 12

Mr. Sunil Kant Munjal, Mr. Bhagwan Dass Narang, Mr. Surrinder Lal Kapur and Dr. Vinayshil Gautam were appointed as Additional Directors at the meeting of the Board of Directors held on 14th February, 2006, to hold office upto the date of the ensuing Annual General Meeting of the Company. The Company has received Notices in writing as required under Section 257 of the companies Act, 1956 along with deposits of Rs. 500/- in each case.

None of the Directors, other than Mr. Sunil Kant Munjal, Mr. Bhagwan Dass Narang, Mr. Surrinder Lal Kapur and Dr. Vinayshil Gautam in their respective capacities and Mr. Brijmohan Lall Munjal, being relative of Mr. Sunil Kant Munjal, may be considered to be interested or concerned in the above.

The Board of Directors of your Company recommends the passing of the Ordinary Resolutions mentioned at Item Nos. 9 to 12.

Item No. 13

At the meeting of the Board of Directors of the held on 3rd August, 2006, on the recommendation of the Remuneration Committee at its meeting held at 2nd August, 2006, Mr. Neeraj Munjal was appointed as Managing Director for a period of 5 (five) years commencing from 1st April, 2006, subject to the approval of the members in the ensuing Annual General Meeting of the Company, pursuant to the provisions of Sections 198, 269, 309 read with Schedule XIII and other applicable provisions, if any, of the Companies Act, 1956.

The terms and conditions of his appointment are as follows:

1. **Period of Appointment:** From 1st April, 2006 to 31st March, 2011.
2. **Details of Remuneration:**
 - a) **Basic Salary:** Rs. 95,000/- (Rupees Ninty Five Thousand Only) per month (with an increase of Rs. 6000/- per month on first day of each financial year)
 - b) **Commission:** Mr. Neeraj Munjal shall be allowed remuneration by way of commission subject to the condition that the amount of commission shall not exceed 1% of the Net Profit of the Company in a particular financial year as computed in the manner referred to in Section 198 of the Companies Act, 1956;
 - c) **Perquisites and Allowances:** Perquisites and Allowances as detailed in draft agreement proposed to entered into with Mr. Neeraj Munjal.
3. **Termination:** The Agreement may be terminated by either

party by giving 180 days notice, in writing, of such termination.

4. **Duties:** Mr. Neeraj Munjal shall perform the duties as mentioned in the Draft Agreement and also such duties which from time to time may be entrusted to him by the Board of Directors of the Company.

The above may be treated as an abstract of the Draft Agreement proposed to be entered into by the Company with Mr. Neeraj Munjal, as required under Section 302 of the Companies Act, 1956.

None of the directors, except Mr. Neeraj Munjal and Mr. Satyanand Munjal, being relative of Mr. Neeraj Munjal, may be deemed to be concerned / interested in this Resolution.

The Board of Directors of your Company recommends passing of the aforesaid Resolution at item no. 13.

Item No. 14

Now the Company is in growth phase due to the increased requirements of the customers of the Company. Therefore the company will need to substantially augment its production capacity to cater to the increased requirements of its customer(s). As on 31st March, 2006, the net worth of the Company is Rs. 43.26 Crores and total term loans availed is Rs. 35.98 Crores. For financing the capital expenditure, company needs to borrow term loans in excess of the net worth for which approval of shareholders is required in the General Meeting under Section 293 (1)(d) of the Companies Act, 1956.

None of the Directors of your Company may be deemed to be concerned / interested in the Resolution at item no. 14.

The Board of Directors of your Company recommends passing of the aforesaid Resolution at item no. 14.

Item No. 15

The Company has been receiving requests from various charitable trusts and non-government organizations for financial assistance to the various programmes of social welfare undertaken by them. The Company, being a responsible corporate citizen, will require to contribute to the society for community causes in the future. In order to enable the Company to make donations to fulfill its social responsibility in excess of Rs.50,000/-. Therefore the proposed limit of Rs. 25 Lacs requires the approval of the members of the Company in their General Meeting pursuant to Section 293(1)(e) of the Companies Act, 1956.

None of the Directors of your Company may be deemed to be concerned / interested in the Resolution at item no. 15.

The Board of Directors of your Company recommends passing of the aforesaid Resolution at item no. 15.

Additional information on Directors recommended for appointment or re-appointment at the Annual General Meeting

1. Mr. Satyanand Munjal

Mr. Satyanand Munjal is Co-Chairman cum Managing Director of Hero Cycles Limited, the flagship Group Company.

Currently, he is on the Board of the following Companies.

Name of the Company	Designation
Hero Cycles Limited	Co-Chairman cum Managing Director
Rockman Industries Ltd.	Chairman and Director
Munjal Auto Industries Ltd.	Chairman and Director
Hero Honda Motors Ltd.	Director
Satyam Auto Components Ltd.	Director
Hero Investments Pvt. Ltd.	Director
Thakurdevi Investments Pvt Ltd	Director
Bhagyoday Investments Pvt Ltd	Director
Dayanand Munjal Investment Pvt Ltd	Director
Munjal Bros. Pvt Ltd	Director

2. Mr. Brijmohan Lall Munjal

Mr Brijmohan Lall Munjal is Chairman of the Hero Group and one of the foremost and most respected industrialists of India. He is past president of CII, the premier institution of business & industry in India. He has also been conferred the distinguished civilian honour – *Padma Bhushan* by the Government of India in recognition of his contribution to the Indian Industry and society. He also received a Lifetime Achievement Award for excellence in Corporate Governance in 2005 from the Institute of Company Secretaries of India.

Currently, he is on the Board of the following Companies.

Name of the Company	Designation
Hero Honda Motors Ltd.	Chairman and Whole-time Director
Hero Honda Finlease Ltd.	Chairman and Director
Hero Cycles Ltd.	Chairman and Director
Munjal Showa Ltd.	Chairman and Director
Sunbeam Auto Ltd.	Chairman and Director
Munjal Auto Industries Ltd.	Director
Easy Bill Ltd.	Director
Hero Financial Services Ltd.	Director
Munjal Brothers Pvt. Ltd.	Director
BCM Energies Pvt. Ltd.	Director

3. Mr. Om Prakash Munjal

Mr. Om Prakash Munjal is a co-founder of Hero Group. He is Co-Chairman cum Managing Director (Marketing) of Hero Cycles Limited, the flagship Group Company. He carries enriched experience and due to his rare administrative and entrepreneurial skills, Hero Cycles has found its position in the Guinness Book of World Records. In the year 1990, he was awarded the Indira Gandhi National Unity Award by the President of India.

Currently, he is on the Board of the following Companies:

Name of the Company	Designation
Majestic Auto Limited	Chairman
Hero Financial Services Ltd.	Chairman
Hero Cycles Limited	Co-Chairman cum Managing Director
Easy Bills Ltd.	Director

Highway Industries Ltd.	Director
Hero Honda Finlease Ltd.	Director
Hero Honda Motors Ltd.	Director
Roma Cycle Mfg. Co. Pvt. Ltd.	Director
Hero Global Design Ltd.	Director
Hero Motors Ltd.,	Director
Munjal Bros. Pvt. Ltd.	Director
Sunbeam Auto Ltd.	Director

4. Mr. Vijay Munjal

Mr. Vijay Munjal is a Graduate and has put in more than 35 years in the bicycle & automobile industries. He is Managing Director (International Marketing) of Hero Cycles Limited.

Currently, he is on the Board of the following Companies and Committees thereof:

Name of the Company	Designation
Hero Honda Motors Ltd.	Director
Hero Cycles Ltd.	Managing Director
Munjal Auto Industries Ltd.	Director
Majestic Auto Ltd.	Director
Highway Industries Ltd.	Chairman & Director
Roma Cycle Mfg. Co. Pvt. Ltd.	Director
Hero Global Design Ltd.	Director
Hero Motors Ltd.	Director
Hero Honda Finlease Ltd.	Director
Sunbeam Auto Ltd.	Director
Easy Bill Ltd.	Director
Hero Financial Services Ltd.	Director

5. Mr. Neeraj Munjal

Mr. Neeraj Munjal has been involved from concept to the commissioning of the project which went on stream in the year 1999. Since then, he is spearheading the operations of the Binola unit. He successfully handled the operations that have brought the Company to this level. He brings with himself experience of 18 years in auto components sector.

Mr. Neeraj Munjal holds a Diploma in Business Management from Bradford & Ilkley Community College, England, besides a Bachelors Degree in Commerce. He has been a Whole-time Director of Munjal Auto Industries Ltd. since February, 2000. Before joining Munjal Auto, he worked with Hero Exports as its Chief Executive.

Currently, he is on the Board of the following Companies:

Name of the Company	Designation
Rockman Investments Ltd.	Director

6. Mr. Sunil Kant Munjal

Mr Sunil Kant Munjal is a Commerce Graduate and has trained as a Mechanical Engineer. He is the Managing

Director of Hero Cycles Ltd. (C.R.Division) and Hero Management Service Limited, and the Chairman of Hero Corporate Service Limited, the services business arm of the Hero Group. He was also **President of Confederation of Indian Industry (CII)**, during 2004-05. He is a visiting faculty at various business schools and lectures on Business Studies and Holistic Management Practices.

Currently, he is on the Board of the following Companies:

Name of the Company	Designation
Hero Cycles Ltd.	Managing Director
Hero Management Service Ltd.	Managing Director
Hero Corporate Service Ltd.	Chairman
Hero Motors Ltd.	Director
Satyam Auto Components Ltd.	Director
Thakurdevi Investments Pvt. Ltd.	Director
Bahadur Chand Investments Pvt. Ltd.	Director
Munjal Acme Packaging Systems Ltd.	Director
Easy Bill Ltd.	Director
DCM Shriram Consolidated Ltd.	Director
PNB Gilts Ltd.	Director
Forum I Aviation Pvt. Ltd.	Director
Thakurdevi Hydro Pvt. Ltd.	Director
Life Insurance Corporation of India	Member

7. Mr. Bhagwan Dass Narang

Mr. Bhagwan Dass Narang is a Post Graduate in Agricultural Economics and brings with him 32 years of banking experience. During this period, he also held the coveted position of the Chairman and Managing Director of Oriental Bank of Commerce. Besides Shivam Autotech Limited, he is not on the Board of any other Company.

8. Mr. Surrinder Lal Kapur

Mr. Surrinder Lal Kapur is a practicing Advocate with specialization in Company Law and Industrial Laws relating to Sick Industries, Industrial Finance, Acquisitions and Mergers. He brings with him enriched and wide

experience of 46 years. Presently he is working as an honorary adviser to the President, PHDCCI. In the past he has served as member of the Board for Industrial and Financial Reconstruction (BIFR) for a period of four years.

Currently, he is on the Board of the following Companies:

Name of the Company	Designation
Dhir & Dhir Asset Reconstruction & Securitisation Company Ltd.	Director
Yes Bank Ltd.	Director
Anika International Ltd.	Director
Sara Textiles Ltd.	Director
Uniproducs (India) Ltd.	Director
Grant Thornton (India) Ltd.	Director

9. Dr. Vinayshil Gautam

Dr. Vinayshil Gautam is a widely respected consultant and practitioner of Management in India and abroad. At present, he is attached with Indian Institute of Technology (IIT), Delhi as a Professor of Management.

Currently, he is on the Board of the following Companies:

Name of the Company	Designation
Export Import Bank of India	Director
KEC International Ltd.	Director
JK Industries Ltd.	Director

By Order of the Board of Directors
For Shivam Autotech Limited

New Delhi
August 03, 2006

Varika Rastogi
Company Secretary

Registered Office:

2A/3, Asaf Ali Road
New Delhi - 110 002

DIRECTORS' REPORT

To
The Members,

The Company was incorporated on 29th July, 2005. During the year, the Binola unit (also known as Munjal Auto Components), a divisional of Munjal Auto Industries Limited was hived off into your Company effective from August 01, 2005. Therefore the first operational results of the Company have been prepared for a period of 8 months from 1st August, 2005 to 31st March, 2006.

Your Directors have pleasure in presenting their First Report on the business and operations of your Company together with its Audited Accounts for the period ended March 31, 2006.

Financial Results	(Rs. In Lacs)
For the period of 8 months ended	March 31, 2006
Sales & Other Income	9702.64
Profit before Depreciation and Interest	2672.74
Depreciation	592.22
Interest	173.57
Profit before Taxation	1906.95
Provision for Taxation (Deferred & Current)	648.36
Profit after Taxation	1258.59
Prior Period Expenditure	0.00
Profit available for appropriations	1258.59
Appropriations	
Proposed Dividend on Equity Shares	250.00
Tax on Dividend	35.06
Profit after Appropriations	973.53

DEMERGER

During the period, the Binola unit of Munjal Auto Industries Limited was hived off/ demerged into the Company effective from August 01, 2005. The Hon'ble High Courts of Gujarat and Delhi had sanctioned the Scheme of Arrangement vide their Orders dated 29th March, 2006 and 30th March, 2006 respectively. Consequently, the Authorized Share Capital of the Company has increased to Rs. 12.60 Crores from Rs. 10 Lacs and the Paid-up Share Capital increased by Rs. 10 Crores from Rs. 5 Lacs. All the shareholders of Munjal Auto Industries Limited as on Record Date i.e. May 24, 2006, were issued one equity share of Shivam Autotech Limited and one equity share of Munjal Auto Industries Limited.

MANAGEMENT DISCUSSION AND ANALYSIS REPORT

The Indian economy performed better than expectations in 2005-06, with GDP growing in excess of 8 per cent. At around five per cent, inflation growth was contained well within the range projected in projected by the RBI for 2005-06. and inflation expectations have remained firmly anchored. This has been reflected in the relative stability of long-term interest rates. Financial markets were generally stable during the year, adapting to the shift in liquidity conditions from surplus to deficit with considerable resilience. The improvement in industrial activity in 2005-06 was mainly due to acceleration of manufacturing growth from 8.1 per cent in the preceding year to 9.4 per cent. Sustained expansion in domestic as well as export demand, increased capacity utilisation, augmentation of capacities and positive business and consumer confidence underpinned the strength of the manufacturing sector.

In urban India, lower taxes and good salary increments across sectors increased disposable income in the hands of consumers. A sizeable chunk of the GDP growth came from the service sector, which now contributes 54 per cent of the country's GDP. More significantly, the fastest growing segment in the service sector—information technology and IT enabled services—is being driven by youth.

This growing segment of the population offers a huge window of opportunity for the automobile industry, especially in emerging Tier 2 and Tier 3 cities spread over different corners of the country.

Overall, the auto industry clocked a 14% growth over the previous year. Good times in the automobile industry as far as volumes are concerned have been continuing and there are no signs of let up at least in the near future, given the trend of rising consumer incomes and relatively low penetration levels of automobiles. This 'feel-good' factor pervading the automobile industry has prompted several automakers to line up fresh investments to ramp up their operational capacities.

INDUSTRY STRUCTURE AND DEVELOPMENT

The Indian Two-wheeler industry volumes rose 18.3% year to year on the back of 21.3% year to year increase in motorcycle volumes.

Hero Honda Motors Limited (HHML) – our principal customer—continued to lead the motorcycle segment with a over all market share of 48.1%, and a lead of more than one million over its nearest rival.

The healthy growth of the two wheeler industry and in particular the continuing dominance of our principal customer HHML formed the backbone of your Company's impressive operational performance during the year. Your Company is confident that the current trends will be sustainable in the near term.

COMPANY PERFORMANCE

The Company is presently engaged in the manufacturing of Forging and Gear Components at its plants located at Binola near Gurgaon in Haryana.

OPERATIONS

The financial year 2005-06 was challenging for the Indian Automobile Industry. There was pressure on margins on the back of steep increases in commodity prices, especially steel and aluminum. During the period of 8 months, the Sales of the Company were Rs. 9658.99 Lacs. Operating Profit (PBDIT) of the company for the period under review was Rs. 2672.74 Lacs. The Profit Before Tax (PBT) was Rs. 1906.95 Lacs and Profit After Tax (PAT) was Rs. 1258.59 Lacs.

OPPORTUNITIES AND THREATS

Currently, your Company is heavily dependent on the prospects of growth of the two-wheeler industry and within that, the business of HHML. Any changes in the fortunes of HHML, therefore, could directly impact the prospects of your company. However, given HHML's growth potential, a reversal of fortunes would seem unlikely at this juncture.

Steel is the major raw material being used by your Company. The rise in steel prices could really prove to be a challenge to the Company and can exert pressure on the operating margins. Your Company can offset the price increase by increasing the

production capacities and volumes, but in the face of a continual rise, the impact of scale economics could be limited.

CAPACITY EXPANSION AND OUTLOOK

The Company has planned an aggregate investment of Rs. 20.17 Crores for expanding the capacities of existing forging / gear components in order to cater to the increased demand of Hero Honda Motors Limited. These expansions are scheduled to be completed by September, 2006. Your Company has further stepped up its investment to enhance the operational capacities and to embrace the new and exciting opportunities for additional business within the focused segments of automobile industry. Ongoing efforts to improve in all areas of operations and greater focus on the core values of its business should augur well for the future of your Company.

In other words, we expect that we would continue to grow, barring unforeseen contingencies, in the years ahead.

RISKS AND CONCERNS

Though guidelines and controls are in place to manage and mitigate downside business risks, the role played by external factors like inflation and high input costs cannot be underestimated. While your Company continues to derive benefit from the impressive growth and performance of its principal customer HHML, this also makes us more vulnerable to any adverse development or slow down in the growth of business of HHML.

CAUTIONARY STATEMENT

Statements in the Management Discussion and Analysis are forward looking in nature, based on certain assumptions and expectations of the future events that are subject to risks / uncertainties and unanticipated travails. Therefore, the actual performance / results and trends may differ substantially from those expressed or implied.

INTERNAL CONTROLS AND ADEQUACY

Your Company has an adequate system of internal controls that commensurate with the size and nature of business of the Company. Attempts have been made to ensure adequate protection of the Company's resources, provision of accurate and speedy financial statement agencies, Bankers, our valued customers and our vendors. The Board wishes to place on record its sincere appreciation of the efforts put in by the Company's workers, staff and executives.

Your Company has a balanced organization structure, well defined authority levels and set guidelines and rules for conducting business transactions and to promote ethical conduct. The Company's Internal Auditors conduct audit to ensure adequacy of internal control systems, adherence to management instructions and policies and compliance with laws and regulations of the country. The Internal Audit Reports are circulated to the Management which initiates action where necessary and the action taken reports of the management is considered and discussed by the Audit Committee.

DIVIDEND

The Directors are pleased to recommend a dividend of 25% on equity shares of the Company for the period ended 31st March, 2006. The dividend, if approved by the members in the forthcoming Annual General Meeting, would absorb Rs. 285.06 Lacs (inclusive of Corporate Dividend Tax of Rs. 35.06 Lacs) out of the profits available for the period.

MATERIAL CHANGES AND COMMITMENTS

No material changes and commitments affected the financial position of the Company between March 31, 2006 and the date in which this report has been signed.

BOARD OF DIRECTORS

Mr. Satyanand Munjal, Mr. Brijmohan Lall Munjal, Mr. Om Prakash Munjal, Mr. Vijay Munjal and Mr. Neeraj Munjal, First Directors of the Company, retire at the ensuing Annual General Meeting. All of them, being eligible, offer themselves for re-appointment.

Mr. Sunil Kant Munjal, Mr. Bhagwan Dass Narang, Mr. Surrinder Lal Kapur and Dr. Vinayshil Gautam were appointed as Additional Directors of the Company with effect from February, 14, 2006. They hold office upto the date of the forthcoming Annual General Meeting.

The Board of Directors of your company in its meeting held on August 3, 2006, subject to the approval of Members of the Company, appointed Mr. Neeraj Munjal as Managing Director of the Company for a period of 5 (five) years commencing from 1st April, 2006. Mr. Neeraj Munjal is spearheading the operations of the Binola unit. He successfully handled the operations that have brought the Company to this level. He brings with himself experience of 18 years in auto components sector. Directors feel his appointment as Managing Director is desirable and hence commend his appointment for a term of 5 (five) years. An appropriate resolution to that end is set out at item no.13 of the accompanying Notice of the Annual General Meeting.

DIRECTORS' RESPONSIBILITY STATEMENT

To the best of their knowledge and belief and according to the information and explanations obtained by them, your directors make the following statement in terms of Section 217(2AA) of the Companies Act, 1956:

- (i) that in the preparation of the account for the period ended March 31, 2006, the applicable accounting standards have been followed;
- (ii) that appropriate accounting policies have been selected and applied consistently and judgments and estimates that are reasonable and prudent have been made so as to give a true and fair view of the state of affairs as at March 31, 2006 and of the profit of the Company for the period ended on that date;
- (iii) that proper and sufficient care has been taken to maintain adequate accounting standards in accordance with the provisions of the Companies Act, 1956 so that the assets of the Company are safeguarded and frauds and other irregularities are detected or prevented.
- (iv) that the accounts for the period ended March 31, 2006 have been prepared on a going concern basis.

CORPORATE GOVERNANCE

Your Company is committed to benchmark itself with the highest standards in all areas including appropriate standards for good Corporate Governance. Your Company has put a structure of Corporate Governance in place, which ensures that the provisions and Guidelines contained in Clause 49 of the Listing Agreement with Stock Exchanges are duly complied with.

A report on Corporate Governance is alongwith the Auditors' Certificate on its compliance annexed hereto as **ANNEXURE – I**.

AWARDS AND RECOGNITIONS

The Board places on record its deep appreciation for the distinguished civilian honour – Life Time Achievement Award – bestowed upon Mr. Brijmohan Lall Munjal, Hero Group Chairman

and Member of the Board of your Company by the Institute of Company Secretaries of India, New Delhi in recognition for excellence in Corporate Governance in the Indian Industry. This honour is a recognition of the achievements of the entire Hero Group of which your company is a member.

FIXED DEPOSITS

The Company has not accepted any deposit under Section 58A and Section 58AA of the Companies Act, 1956 read with Companies (Acceptance of Deposits) Rules, 1975.

AUDITORS

M/s. S. S. Kothari Mehta & Co., Chartered Accountants, New Delhi, Statutory Auditors of the Company will retire at the conclusion of the ensuing Annual General Meeting and being eligible, offer themselves for re-appointment.

AUDITORS' REPORT

As for the Auditors' Report, the respective notes to the accounts are self-explanatory and therefore do not call for any comments.

LISTING

After the Scheme of Demerger, your company has issued 1,00,00,000 equity shares of Rs. 10/- each to the shareholders of Munjal Auto Industries Limited (MAIL) as on Record Date i.e. 24th May, 2006 and these shares are to be listed on The Bombay Stock Exchange Limited (BSE) and The National Stock Exchange of India Limited (NSE) where the shares of MAIL are listed. In view of this, your company has made application to The Bombay Stock Exchange Limited (BSE) and The National Stock Exchange of India Limited (NSE) for getting its shares listed and approval from both the Stock Exchanges is awaited.

QUALITY

Your Company has been certified for its quality standards as per ISO/TS 16949:2002. Efforts have been made to improve, qualitative aspects of all operational areas by adopting the tools like *KAIZEN* - for Continuous Improvement, *Total Productive Maintenance (TPM)* - for improving overall equipment effectiveness, 5 "S" - for work place management, Six Sigma approach for reducing the manufacturing process variation and *GEMBA KAIZEN* - a systematic approach by cross functional teams for improvements in plants. Your Company was recognized as a **Direct on Line** supplier by Hero Honda Motors Limited - a major customer. This reflects the commitment of your company towards achieving the highest quality standards. Continuing with these high quality standards, your company also received the "Excellence in Performance" award from MICO-BOSCH, another important customer.

ENVIRONMENT

Your Company is committed to maintain the highest standards of environment compliances and has adopted a systematic approach towards environment management. Your Company has been certified for its environmental management system as per ISO 14001:2004. Your Company has also been accredited with "**Occupational Health and Safety Assessment Series**" (OHSAS 18001:1999).

Your Company has complied with the applicable environmental regulations and all effluents and wastes are treated properly and monitored before safely disposing them off in conformity with the environmental regulations prescribed by statutory authorities. Further, the Company has been following all procedural requirements and has been granted all necessary clearances / consents by the State Pollution Control Board. The Company maintains all its pollution control facilities in good condition and upgrades them from time to time in line with the enhanced volume

of discharge.

CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION, FOREIGN EXCHANGE EARNINGS AND OUTGO

Information required under Section 217(1)(e) of the Companies Act, 1956, read with Companies (Disclosure of Particulars in the Report of the Board of Directors) Rules, 1988 is given as per **ANNEXURE - II** and forms an integral part of this Report.

PARTICULARS OF EMPLOYEES

A statement showing Particulars of Employees as required under Section 217(2A) of the Companies Act, 1956, read with Companies (Particulars of Employees) Rules, 1975 is given as per **ANNEXURE - III** and forms an integral part of this Report.

HUMAN RESOURCES / INDUSTRIAL RELATIONS

Our employees are future, and the organization continues to develop the internal capabilities of its people through various training and development initiatives.

During the period under review, Company continued with initiatives to develop its employees at professional and personal levels. A sizeable number of employees have undergone training that accord an opportunity to sharpen their skills, improve their performance and widen their perspective.

Company has also put in place a system of performance appraisal to ensure a direct link between employees' performance and their variable pay as well as training needs. Company has a strong belief to attract, retain and nurture the optimal talent, effective management of human capital is imperative and to that end, it consistently strives toward improvement in the standards of improvement, occupational health and safety of all its employees as well as at the work place. This not only improves productivity but also provides a safe and healthy environment and an atmosphere of congeniality.

Industrial relations have remained cordial in the Company.

HEALTH AND SAFETY

Your Company is committed towards the safety of every employee and other persons who may be affected by its operations. We believe that the safe working practices lead to motivated workforce and higher productivity. We strive to eliminate accidents at our factory. We have a safety culture in the organization by:

- Integrating safety and health in all our activities
- Ensuring compliance with all applicable legislative requirements.
- Encouraging employees to ensure safety at their workplace.
- Continuous improvement in safety performance through precautions besides participation and training of employees.

ACKNOWLEDGEMENTS

Your Directors acknowledge with sincere gratitude the co-operation and assistance extended by the Customs and Excise Departments, the State Government and other Government agencies, Bankers, our valued customers and our vendors.

The Board wishes to place on record its sincere appreciation of the efforts put in by the Company's workers, staff and executives.

For and on behalf of the Board

Place: New Delhi
August 3, 2006

Sunil Kant Munjal
Chairman