



Gujarat Setco Clutch Limited

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Annual Report 2003-2004

**Board of Directors**

Shri D. Rajagopalan, IAS
Shri A.K.Rakesh, IAS
Shri Dinesh Brahmhatt, IAS
Shri Bhupinder Singh, Special Director (BIFR)
Shri M.L.Rathi, Bank's Nominee Director
Shri Pratap Merchant
Shri K.B.Patel
Shri Harish Sheth, Managing Director

Auditors

C.C.Chokshi & Co.
Chartered Accountants
Baroda

Bankers

Bank of Baroda
Kalol – 389 330, (Panchmahals)

**Registered Office
& Factory**

Baroda – Godhra Highway,
Kalol – 389 330
District Panchmahals, Gujarat

Mumbai Office

54-A, Tardeo Road
Nr. Film Center
Mumbai – 400 034.



NOTICE OF ANNUAL GENERAL MEETING

NOTICE is hereby given that **21st Annual General Meeting** of the members of **Gujarat Setco Clutch Limited** will be held on Friday, the 24th December 2004 at 3.00 pm at the Registered Office of the Company at Baroda - Godhara Highway, Kalol 389 330, District Panchmahals, Gujarat to transact the following business:

ORDINARY BUSINESS

1. To receive, consider and adopt the Company's Audited Balance Sheet as at 31st March 2004 and the Profit and Loss Account for the year ending on that date and the Reports of the Directors and the Auditors thereon.
2. To appoint a Director in place of Shri Pratap Merchant who retires by rotation and being eligible, offers himself for reappointment.
3. To appoint Shri A.K.Rakesh IAS as a Director who was co-opted as an additional Director by the Board of Directors on 25.11.2004 and hold office under Section 260 of the Companies Act 1956 till the date of ensuing Annual General Meeting of the Company and is eligible for reappointment and in respect of whom the Company has received a notice in writing from a member under the provision of Section 257 of the Companies Act, 1956 proposing the candidature of Shri A.K.Rakesh IAS for the office of a Director.
4. To appoint Shri Dinesh Brahmhatt IAS as a Director who was co-opted as an additional Director by the Board of Directors on 25.11.2004 and hold office under Section 260 of the Companies Act 1956 till the date of ensuing Annual General Meeting of the Company and is eligible for reappointment and in respect of whom the Company has received a notice in writing from a member under the provision of Section 257 of the Companies Act, 1956 proposing the candidature of Shri Dinesh Brahmhatt IAS for the office of a Director.
5. To appoint Auditors of the Company to hold office up to conclusion of the next Annual General Meeting and if thought fit, to pass with or without modification, the following resolution as **ORDINARY RESOLUTION**:

"RESOLVED THAT Messrs. Manesh Mehta & Associates Vadodara, Chartered Accountants, be and are hereby appointed as Auditors to the Company, to hold office till conclusion of the next Annual General Meeting on such remuneration as may be fixed by the Board of Directors."

By the Order of the Board of Directors,
For Gujarat Setco Clutch Limited,

Place: Gandhinagar
Date: 25.11.2004

Harish Sheth
Managing Director

**NOTES :**

- 1 The explanatory statement pursuant to Section 173 (2) of the companies Act 1956, in respect of item Nos. 3 and 4 is annexed hereto.
- 2 A MEMBER ENTITLED TO ATTEND AND TO VOTE AT THE MEETING IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF AND SUCH A PROXY NEED NOT BE A MEMBER. AN INSTRUMENT APPOINTING PROXY SHOULD BE DEPOSITED AT THE REGISTERED OFFICE OF THE COMPANY NOT LESS THAN FORTY EIGHT HOURS BEFORE THE COMMENCEMENT OF THE MEETING.
- 3 The Register of Members and Share Transfer Book of the Company will remain closed from Friday, 10th December 2004 to Friday, 24th December 2004 (both days inclusive).

Annexure to the Notice

EXPLANATORY STATEMENT pursuant to Section 173 (2) of the Companies Act, 1956.

Item 3

Shri A.K.Rakesh, IAS was co-opted as an additional Director of the Company with effect from 25.11.2004 vice Shri G.R.Aloria, IAS. Pursuant to Section 260 of the Companies Act 1956, Shri A.K.Rakesh holds office of the Director up to the date of ensuing Annual General Meeting. The Company has received a notice from a member proposing the candidature of Shri A.K.Rakesh, IAS for the office of Director under the provision of Section 257 of the Companies Act 1956. Your Director consider it desirable and in interest of the Company to avail the services of Shri A.K.Rakesh IAS as Director and accordingly recommend reappointment of Shri A.K.Rakesh IAS as Director on your Company's Board as per item No. 3 of the Notice.

Item 4

Shri Dinesh Brahmhatt IAS was co-opted as an additional Director of the Company with effect from 25.11.2004 vice Shri A.C.Patel. Pursuant to Section 260 of the Companies Act 1956, Shri Dinesh Brahmhatt IAS holds office of the Director up to the date of ensuing Annual General Meeting. The Company has received a notice from a member proposing the candidature of Shri Dinesh Brahmhatt IAS for the office of Director under the provision of Section 257 of the Companies Act 1956. Your Director consider it desirable and in interest of the Company to avail the services of Shri Dinesh Brahmhatt IAS as Director and accordingly recommend reappointment of Shri Dinesh Brahmhatt IAS as Director on your Company's Board as per item No. 4 of the Notice.

Shri G. Rajagopalan, IAS Shri A.K.Rakesh, IAS and Shri Dinesh Brahmhatt, IAS representing GILC on the Company's Board are interested in the agenda items 4 and 5 to the extent they together represent GILC. No other Directors of the Company are interested in the items no. 3 and 4.



As required per Listing Agreement, particulars of the Directors proposed to be appointed / re-appointed are as under:

Name	Age	Qualification Experience
1. Shri A.K.Rakesh, IAS	40	Shri A.K.Rakesh, IAS is IAS officer of 1989 cadre, of the Government of Gujarat and presently Additional Secretary Finance. He has to his credit of -15- years experience of administrative service holding various positions in the Government. He has been Government Nominee Directors on various companies and members of various Committees on behalf of the Government.
2 Shri Dinesh Brahmhatt IAS	50	Shri Dinesh Brahmhatt, IAS is senior administrative executive with Government of Gujarat since 1978 and in IAS cadre since 2001. Presently he is Collector and District Magistrate, Godhra. Thus he has to his credit experience of two and half decades of administrative service holding various positions in the Government.
3 Shri Pratap Merchant	69	Shri Merchant, a graduate in Commerce, (CAIIB:I), has to his credit an experience of about three decades as practicing banker, He retired in March 1995 as Executive Director of Bank of Baroda. During his long drawn banking career, has been on various Committees constituted by Bank / RBI / IBA and Bank's nominee directors on various companies. Prior to commencing his banking career, he has been in industry for about - 12- years in managerial cadre having experience of industrial finance and project appraisal. Presently Shri Merchant is independent director on various companies.

By the Order of the Board of Directors,
For Gujarat Setco Clutch Limited,

Place : Gandhinagar
Date : 25.11. 2004

Harish Sheth
Managing Director

**DIRECTORS REPORT**

Your directors have pleasure in placing before you this 21st Annual Report of your Company along with Audited Statement of Accounts for the year ending 31st March 2004.

01 FINANCIAL RESULTS:

It is pleasure to report herewith the performance data of your Company for the year 2003.2004. You will notice that Company has achieved much improved result for the year as summarized below:

		(Rs Crs)
	31.03.2004	31.03.2003
i	Turnover	55.31 44.28
ii	Operating Profit for the Year (PBIDT)	5.82 5.56
iii.	Net Profit for the Year	5.60 2.49

02 DIVIDEND :

In view of the carry over losses and with a view to conserve the resources, your directors do not consider any dividend for the year.

03 OPERATION & FINANCE :

Your Company has clocked growth of 25 % in turnover at Rs 55.31 Crs from that of Rs 44.28 Crs in the previous year. Net profit for the year is Rs 5.60 Crs. During the year, operating margins remained under pressure with selling price not fully absorbing continuing increase in steel based input cost and the exchange fluctuations. However the continuing cost control measures and ongoing vigil for improving process engineering and operating systems has helped keeping in control the overall production cost. The working results of the year have incremental charge of Rs 92 lacs as detailed herein after to meet with the various accounting standards. Considering the effect of such additional charge, PBDIT and Net Profit for the year would have been Rs 6.74 Crs and Rs. 6.52 Crs respectively. The overall rupee appreciation against US dollars has adverse effect on export realization though there is increase in export in term of quantity. The improvement is operation during the current year has continued, turnover registering 62 % increase during the first half of the year compared to that in similar period of the previous year. This will give better / improved profitability for the year.

Your Company is Sick Industrial Undertaking in terms of Section 3 (1) (0) of Sick Industrial Companies (Special Provisions) Act, 1985, (SICA, 1985). The Modified Scheme approved by the Board for Industrial and Financial Reconstruction (BIFR) is in operation. The Company is meeting its commitments as per the revised Scheme / as agreed with the respective institutions / Bank.

04 MANAGEMENT DISCUSSION AND ANALYSIS :

The commercial vehicle sector of auto industry has continued to show volume growth during the year registering 20 – 25 % increase in sales, continuing the healthy trend set in financials 2003. The demand in core sector industries has grown substantially. The Government continuing emphasizes on infrastructure development policy and judiciary ban on commercial vehicles of over 15 years' age together are expected to continue to give growth graph to the industry. Auto industry has made some pioneering efforts in adopting modern technology as a result there is growing popularity of made-in-India vehicles in foreign markets. The Indian made auto component demand in the global



market has continued to receive the higher patronage on quality, price competitiveness and ability to meet the demand schedules in time. The industry has accepted the needs to synergies the manufacturing capabilities, process systems and leverage on the industry strength such as low labour costs, supportive government policies, and trained manpower, designing and engineering skill to increase the share in the domestic and global automotive market. As per the market analyst reports, Auto Component Industry is likely to record five-fold growth by 2015 touching the 35 – 40 billion dollars, half of which accruing from export. Encouraged with the growth orientated industry scenario, the industry has found confidence for investment drive. The volatility in the auto industry is likely to be relatively muted in the current cycle due to the host of infrastructure factors and supportive demands.

Your Company has, as it may be noticed from the business data for last three years, gained due share of the market growth; total turnover showing five-fold growth in three years. The Company has during the year augmented its customer base and market area.

The export will continue to be our thrust area to reap the benefit of the global sourcing in components and also by entering the market with the main product. Keeping in view the expected growth in auto components industry, your Company has also started drawing blue prints for expansion for enhancing volume business and the market share to plough the benefit of the encouraging market synergy.

The rising input cost particularly on steel based input and the effect of the exchange fluctuation are considered the risks and concerns. Input raw material costs have increased significantly over last two years, especially in financials 2004 and the selling prices have not been enough elastic to absorb such increases fully or to a larger extent.

The action on cost control, improving process engineering and operating systems, enhancing efficiency of capital and men power employed in our business has become inbuilt system to achieve the desired goal. The actions in these areas are continuously monitored on on-going basis to lessen the effects of pressure on margins particularly the effect of steel prices and exchange rates. The measures taken have given results in the aimed direction.

Your directors virtually consider the Human Assets as very important factor in our growth. In modern globalize arena, the skill of the human capital assumes great importance. Up gradation of the skill is one of the important instruments to meaningfully service the customers to their best of the satisfaction; very important factor to enhance the market base with brand establishment. Vigilant in this direction, your Company continuously arranges for imparting training for the men-power at all the level through in-house and outside training courses. This has helped us to achieve high quality product with continuous process improvement at effectively optimized cost maximizing customer satisfaction.

The estimates and judgments on the growth orientation of the market and the business opportunities are based on the normal market analysts. This are based on many important surrounding circumstances and the government policies amongst the others. The unforeseen changes in the circumstances beyond the control of the management may have impact on the business estimates and the judgments affecting the overall working of the Company.

Your Directors assure you that all actions are being taken to march in the direction of continuing to corner the higher market share with quality product, enhance the market area and maintain the cost effectiveness which will help to improve the business values.

05 FIXED DEPOSITS / DEBENTURES:

The Company has no public deposit and has not accepted any fresh deposit during the year. Debentures are being redeemed in phased manner. As at year-end date two installments for



redemption of the debentures were in arrear; one of which is paid at subsequent date and the arrangement is being made for payment of the other.

06 DIRECTORS:

Shri G R Aloria, IAS, and Shri A C Patel have resigned from the post of director w.e.f. 25.11.2004. Your Company has received valuable services from Shri G R Aloria, IAS, and Shri A C Patel during the tenor of their office as directors with the Company. Your Directors put on record their appreciation for the services rendered by Shri G R Aloria, IAS, and Shri A C Patel.

Shri A K Rakesh, IAS and Shri Dinesh Brahmhatt, IAS, were co-opted as additional Directors of the Company with effect from 25.11.2004 vice Shri G R Aloria, IAS, and Shri A C Patel. Pursuant to Section 260 of the Companies Act 1956, Shri A K Rakesh, IAS and Shri Dinesh Brahmhatt, IAS, hold office of the directors till the date of this Annual General Meeting. Considering the varied and enriched experience of Shri A K Rakesh, IAS and Shri Dinesh Brahmhatt, IAS, your Directors recommend reappointment of Shri A K Rakesh, IAS and Shri Dinesh Brahmhatt, IAS, as Directors on the Company's Board.

Shri Pratap Merchant in accordance with Section 256 of the Companies Act, 1956, retires by rotation and being eligible, offer himself for reappointment.

07 AUDITORS :

The present statutory auditors retire at this Annual General Meeting. It is proposed to appoint Messrs Manesh Mehta & Company, Chartered Accountants, Vadodara as Statutory Auditors to the Company. Your Directors recommend their appointment as Auditors to the Company till the next Annual General Meeting. A resolution to that effect is placed for your consideration.

08 COMMENTS ON AUDITORS REMARKS :

In compliance to Section 217 (3) of the Companies Act, 1956, your directors states as follows. Notes contained in Schedules 5, 17 and 18 of the Accounts together with Directors Responsibility Statement hereafter are self-explanatory as to the comments made by the Auditors in their Report. As to the specific remarks of the Auditors in their report at Para 4 (d) (i), (ii), (iii) and 5 (c), the management has been consistently applying these accounting policies in the preparation of its financial statements from year to year and also the impact of such deviations have been disclosed in the annual reports. The management shall make concerted efforts to harmonize its accounting policies in line with the accounting standard requirements over a phased period as it shall necessitate changes in business processes and the supporting systems. The claim on price revision is recognized since it has been agreed with the customer pending formal confirmation in terms of the amended purchase order. Your directors are hopeful of recovery of debts / advances and therefore at this point of time do not consider it necessary to provide for. To meet with the accounting standards, some of the expense on product / market development hitherto considered as deferred revenue expense is now charged to the profit and loss account of the year. Similarly certain of the expense so far treated on cash basis are now accounted on accrual basis. Also, in meeting with the accounting standards, period of amortization on intangible assets is shortened. As an effect of all these together, there is an extra charge of Rs 92 lacs on the profit of the year. As stated earlier, keeping in view this additional charge to the accounts, the PBDIT and Net Profit for the year would have been Rs 6.74 Crs and Rs 6.52 Crs respectively.

**09 DIRECTORS RESPONSIBILITY STATEMENT :**

In terms of Section 217 (2AA) of the Companies Act, 1956, the Board of Directors of the Company would like to state that :

- i) In preparation of the annual accounts, the applicable accounting standards have been followed save the following exceptions which are consistently followed by the Company as stated in the Significant Accounting Policies and Notes to the Accounts (Schedule 17 & 18); deviating from :
 - (a) Accounting Standard -2-, in valuation of inventories.(Note 5 of Schedule 17)
 - (b) Accounting Standard -15-, in accounting gratuity and leave encashment on cash basis as against on accrual basis
 - (c) Accounting Standard -9-, in accounting sales on dispatches of the goods from the works with payment of excise and providing for taxes, as against recognizing the revenues from sales only on transfer of significant risks and rewards of ownership to the buyer.
- ii) That selected accounting policies were applied consistently and the Directors made judgment and estimates that are 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 or loss of the Company for the period;
- iii) That proper and sufficient care has been taken 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 preventing and detecting fraud and other irregularities;
- iv) That annual account has been prepared on a going concern basis.

10 CORPORATE GOVERNANCE:

Your Company is committed to observe the best practices in the area of corporate governance. In keeping with this philosophy and to meet with the related regulations, your directors have implemented the measures as required in this area from the year 2002.2003 itself though the provisions relating to the Corporate Governance pursuant to Clause 49 of the Listing Agreement with Stock Exchange are applicable to your Company from FY 2003.2004. Accordingly the Management Discussion and Analysis and Corporate Governance Report along with the auditors' certificate for the same are incorporated / annexed to this report.

11 PARTICULARS OF EMPLOYEES :

None of the employees were in receipt of remuneration during the year equal to or in excess of sum prescribed as per Section 217 (2A) of the Companies Act, 1956 read together with the Companies (Particulars of Employees) Rules, 1975 as amended.

12 CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE EARNINGS AND OUT-GO :

Information pursuant to Section 217 (1) (e) of the Companies Act, 1956 read with the Companies (Disclosures of particulars in the Report of Board of Directors) Rules, 1988 is detailed below :

**A Conservation of Energy :**

Ours being automobile engineering industry, since cost of energy is comparatively very low, overall impact of energy on cost of production is not significant. However general energy conservation measures considered necessary are implemented at different points in the factory and office and the same are reviewed from time to time to save energy, besides developing consciousness amongst the personnel. This has bearing on total energy charge to be absorbed. No major investment is considered necessary.

B Technology Absorption :

Company is engaged in manufacturing commercial vehicle clutches under Foreign Technology Collaboration. Almost all components are indigenized so as to reduce dependence on import element. However as per the collaborators specifications and also with a view to have the benefit of better global quality and international price competitiveness, few critical components not produced in India continue to be imported.

C Foreign Exchange Earnings and Out-Go :

The overall foreign exchange earnings and out-go is detailed in Notes 14 and 15 (ii) Schedule 18 of the Annual Accounts,

13 QUALITY STANDARD ACCREDITATION :

The Company was certified under ISO 9002 of 1994 for its quality systems. Your Directors are happy to state that the Company has now successfully achieved the Quality System conformation under TS 16949. Your Company is also having Certification of Quality Systems under ISO 9001 of 2000. Your Company now plans to move for achieving health, safety and environment system qualified under Environmental Management System as per ISO 14001 Standards.

14 INDUSTRIAL RELATION:

The industrial relations through out the year have remained very cordial. Human capital too is very important at the GSCL. The dedicated hard teamwork with due diligence of the men-power at all the level is instrumental for your Company achieving new heights. Your Directors express their deep appreciation for the commitment and contribution of all the staff members.

15 ACKNOWLEDGEMENT :

Your Directors place on record their deep appreciation for the assistance received from the Government of Gujarat. The Directors takes on record their appreciation for the continued support of the Company's Bankers, Bank of Baroda and Financial Institutions who are associated with the Company. The continued patronage received from Customers, OEMs, STUs, Distributors, Dealers and Mechanics is greatly valued. The Directors also take on record their sincere thanks to the members of the Company, Debenture holders for their continuing confidence and look forward for their continued support.

For and on behalf of the
Board of Directors

Place : Gandhinagar
Date. 25.11.2004

D Rajagopalan
Chairman