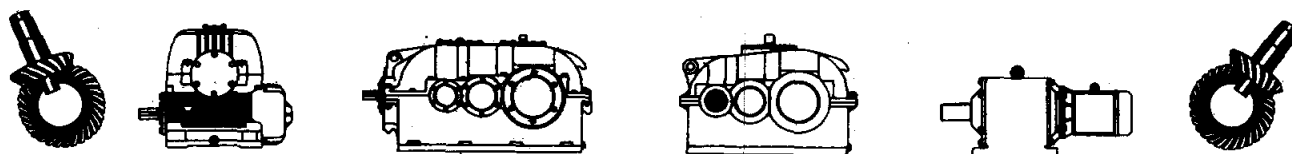


Shanthi[⚙]Gears

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Twentyninth Annual Report 2002





SHANTHI GEARS LIMITED

BOARD OF DIRECTORS

Shri P SUBRAMANIAN
Chairman & Managing Director

Shri N C RAMACHANDRAN

Shri P N GOPAL

Dr. D PADMANABAN

Shri M J VIJAYARAAGHAVAN

AUDITOR

Shri S LAKSHMINARAYANAN

INTERNAL AUDITOR

Shri T RAGHUNATHAN

BANKER

STATE BANK OF INDIA
UTI BANK LTD
IDBI BANK LTD

REGISTERED OFFICE

304-A, Trichy Road,
Singanallur,
Coimbatore - 641 005.

WORKS

A UNIT

304-A, Trichy Road,
Singanallur,
Coimbatore - 641 005.

B UNIT

304-F, Trichy Road,
Singanallur,
Coimbatore - 641 005.

FOUNDRY DIVISION

Kannampalayam, Suler Via,
Coimbatore - 641 402.

C UNIT

Avanashi Road,
Muthugoundenpudur (PO),
Coimbatore - 641 406.

D UNIT

K. Krishnapuram,
Kamanaickenpalayam (PO),
Coimbatore - 641 658.

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NOTICE

Notice is hereby given that the 29th Annual General Meeting of the Company will be held on Wednesday the 24th July, 2002 at 9.30 A.M. at the registered office of the Company at 304-A, Trichy Road, Singanailur, Coimbatore - 641 005 to transact the following business.

A G E N D A**Ordinary Business**

1. To receive, consider and adopt the Directors' Report, Profit & Loss Account for the year ended 31st March, 2002 the Balance Sheet as on that date and the Auditor's Report thereon.
2. To declare a Dividend.
3. To appoint a Director in the place of Sri. P.N. Gopal who retires by rotation and being eligible, offers himself for re-appointment.
4. To appoint Auditor to hold office from the conclusion of this meeting till the conclusion of the next Annual General Meeting and to fix his remuneration. Retiring Auditor S. Lakshminarayanan does not seek re-appointment. The Company has received a notice in writing from a member proposing M/s. S. Lakshminarayanan Associates, Chartered Accountants as Auditors in the place of Retiring Auditor.

Special Business

5. To consider and if thought fit, to pass, with or without modification(s), the following resolution as an Ordinary Resolution.

"RESOLVED that Sri. M.J. VIJAYARAAGHAVAN appointed as an Additional Director by the Board of Directors of the Company, pursuant to Article 114 of Articles of Association of the Company who holds office upto to the date of ensuing Annual General Meeting, in respect of whom the Company has received notice in writing from a member proposing his candidature for the office of Director, be and is hereby appointed as a Director of the Company."

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

"Resolved that pursuant to Article 117 (c) of the Articles of Association of the Company and provisions of Section 309 (2) and other applicable provisions, if any of the Companies Act, 1956, the consent of the Company, be and is hereby accorded to payment of Sitting Fees of Rs. 5,000 to Directors of the Company (Excluding Managing Director and Whole Time Director if any) for attending Board Meetings and Committee Meetings thereof.

Coimbatore
10th June, 2002

By Order of the Board
P. Subramanian
Chairman & Managing Director



EXPLANATORY STATEMENT UNDER SECTION 173(2) OF THE COMPANIES ACT, 1956

ITEM NO. 5

Sri. M.J. VIJAYARAAGHAVAN was appointed as an Additional Director with effect from 31/10/2001, by the Board of Directors of the Company. Sri. M.J. Vijayaraaghavan holds office as a Director upto the Date of Ensuing Annual General Meeting of the Company and is eligible for re-appointment as Director. The Company has received notice under Section 257 of the Companies Act, 1956, from a member proposing the candidature of Sri. M.J. Vijayaraaghavan alongwith the Deposit of Rs. 500.

The Board considers his association as a Director of the Company will be beneficial and is in the interest of the Company.

Except Sri. M.J. Vijayaraaghavan none of the other Directors is any way concerned or interested in the above appointment.

The Board recommends this Resolution for approval of the Members.

ITEM NO. 6

The Articles 117 (c) of the Company provides for payment of Sitting Fees to the Directors of the Company (other than Managing Director and Whole Time Directors if any). The present Sitting Fees payable to the Directors of the Company for attending Board and Committee Meetings thereof is Rs. 1000. The articles further provides that Sitting Fees payable to the Directors be increased by the Members by way of resolution adopted at the General Meetings.

Keeping into consideration the increased role of Directors, added responsibilities under the Companies Act and Corporate Governance regulations it is felt appropriate to enhance the Sitting Fees payable to the Directors. Accordingly it is proposed to enhance the Sitting Fees payable to the Directors for the Board and Committee Meetings attended by them to Rs. 5,000.

All the Directors except the Chairman and Managing Director may be deemed to be concerned or interested in the said resolution to the extent of Sitting Fees receivable by them.

The Board recommends the resolution for approval by the Members.

Coimbatore
10th June, 2002

By Order of the Board
P. Subramanian
Chairman & Managing Director

NOTES :

1. A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote instead of himself/herself. Such proxy need not be a member of the Company. Proxies in order to be effective must be received by the Company not less than 48 hours before the Meeting.
2. The Register of Members and Share Transfer Books of the Company will remain closed from 16th July, 2002 to 24th July, 2002 (both days inclusive).
3. Dividend on approval will be paid on 29/07/2002 to the members whose name appear in Register of Members as on 24/07/2002. In respect of shares held on Demat Form, the Dividend will be paid to the Beneficial owners as on 16/07/2002 as per the details forwarded by the RTA for this purpose.

4. Consequent upon the amendment to Section 205A of the Companies Act, 1956 the Dividend declared for the year ended 31st March, 1996 and for any financial year ending thereafter which remain unclaimed for a period of seven years will be transferred to the Investor Protection Fund of the Central Government. Members who have not encashed their Dividend Warrants in respect of the above period are requested to make their claim to the Company by surrendering the unencashed warrants immediately.
5. Members are requested to notify immediately of any change in their address to the Company. Members holding shares in the electronic form are advised to notify any change in their address to the concerned Depository Participant.
6. No Tax will be deducted at source if the Dividend payable to an Individual Share Holder does not exceed Rs. 1000. Members, who desire to get their Dividend without Deduction of Tax from the Company may file a Declaration in Form No.15G induplicate, on or before 15th July, 2002. While filing Form No. 15G members are requested to satisfy themselves the condition of Section 197A (1B) of the Income Tax Act.
7. Members are requested to bring their copy of the Annual Report with them to the Annual General Meeting.
8. Company's Equity Shares are listed at

Coimbatore Stock Exchange Ltd.,
CSE Towers
683-686, Trichy Road
Singanallur
COIMBATORE - 641 005.

National Stock Exchange Limited
Trade World, Kamala Mill Compound
2nd Floor, Senapati Bapat Marg
Lower Parel,
MUMBAI - 400 013.

The Stock Exchange, Mumbai
Phiroze Jeejeebhoy Towers
Dalal Street, MUMBAI - 400 001.

Madras Stock Exchange Ltd.,
Exchange Building, Post Box No.183,
11, Second Line Beach,
CHENNAI - 600 001.

The Company has paid the Annual Listing fees for the Financial year 2002-2003 in respect of the above Stock Exchanges.

9. Members requiring Information on the Accounts are requested write to the Company atleast seven (7) days in advance, so as enable the Company to furnish such information.

Coimbatore
10th June, 2002

By Order of the Board
P. Subramanian
Chairman & Managing Director

Shanthi[®] Gears

DIRECTORS' REPORT TO THE SHAREHOLDERS

Your Directors have pleasure in presenting to you the Twentyninth Annual Report, together with the audited accounts of your Company, for the year ended 31st March, 2002.

FINANCIAL RESULTS

| | 31-03-2002 Rs. in Millions | 31-03-2001 Rs. in Millions |
|---|-------------------------------|-------------------------------|
| Gross profit before interest and depreciation | 176.695 | 173.049 |
| Less : Interest | 17.331 | 19.967 |
| Depreciation | 57.753 | 55.183 |
| Donation | 0.931 | 0.418 |
| Provision for taxation | 39.200 | 41.262 |
| Deferred Taxes | (2.467) | — |
| | <u>112.748</u> | <u>116.830</u> |
| | 63.947 | 56.219 |
| Add : Surplus brought forward | 3.187 | 1.403 |
| Transfer from Investment | | |
| Allowance Utilised Reserve | 4.500 | 1.600 |
| | <u>7.687</u> | <u>3.003</u> |
| | 71.634 | 59.222 |
| Appropriations : | | |
| Proposed Dividend | 22.906 | 19.088 |
| Tax on Dividend | — | 1.947 |
| Debenture Redemption Reserve III | 10.000 | — |
| General Reserve | 36.157 | 35.000 |
| Surplus in Profit & Loss Account | 2.571 | 3.187 |
| | <u>71.634</u> | <u>59.222</u> |

DIVIDEND

Your Directors recommend a Dividend of **60%** (Rs. 6 per Equity Share of Rs. 10 each fully paidup).

OPERATING RESULTS

The Company has achieved a Turnover of **Rs. 530.386** Millions for the year under review as against the turnover of **Rs. 479.206** Millions of the previous year. Barring unforeseen circumstances your Directors hope to achieve satisfactory results for the current year.

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

The Company is making continuous efforts to conserve and optimise energy wherever practicable by economising on fuel and power. For the Company's existing product line there is no technical collaboration/arrangement. Your Company has made export sales of **Rs. 16.966** Millions during the year. The outflow of foreign exchange on import of Machinery, Raw Materials, Consumable stores, Machinery Spares and Travelling amounted **Rs. 51.865** Millions and **Rs. 0.136** Millions has been spent towards payment of dividend for the year ended 31st March, 2001.

FIXED DEPOSITS

No Fixed Deposit which has become due remains unpaid as on the last day of the Financial Year.

DIRECTORS

The following Director is due to retire by rotation at the ensuing Annual General Meeting and being eligible offer himself for re-election.

Sri P.N. Gopal

Sri M J Vijayaraaghavan was appointed as Additional Director during the period under review, retires at the ensuing Annual General Meeting. A member has given a notice in writing proposing Sri M J Vijayaraaghavan for the office of Director alongwith Deposit of Rs. 500.

DIRECTORS' RESPONSIBILITY STATEMENT :

Incompliance to the Provisions of Section 217 (2AA) of the Companies Act, 1961, your Directors wish to place on record –

- (i) that in preparing the Annual Account, all applicable accounting standards have been followed.
- (ii) that the accounting policies adopted are consistently followed and the judgments and estimates made 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 and Loss Account of the Company for the Financial Year.
- (iii) that the Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding the assets of the Company and for preventing/detecting fraud and other irregularities.
- (iv) that the Directors have prepared the Annual Accounts on going concern basis.

CORPORATE GOVERNANCE :

Pursuant to the requirements of Listing Agreements with the Stock Exchanges, your Directors are pleased to annex the following :

1. Management Discussion and Analysis Report
2. A Report on Corporate Governance
3. Auditor Certificate regarding Compliance of conditions of Corporate Governance

AUDITOR

Your Company's auditor Mr. S. Lakshminarayanan is to retire at the ensuing Annual General Meeting. Mr. S. Lakshminarayanan has intimated his intention that he is not seeking re-appointment. A notice in writing has been received from a Share holder proposing M/s. S. Lakshminarayanan Associates, Chartered Accountants as Auditors in the place of Retiring Auditor.

PERSONNEL

In accordance with the requirements of Section 217 (2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975, particulars of employees are given in the annexure to this report.

APPRECIATION

The relationship between management and staff & workers is very cordial and your Directors wish to place on record their sincere appreciation for the devoted and efficient services rendered by all employees of the Company. Your Directors thankfully acknowledge the continued co-operation and support rendered by the SBI, ICICI, IDBI Bank and UTI Bank. The Board conveys its thanks to the Central and State Governments. It also thanks the customers and suppliers for their support and the investors for reposing faith in the Company.

Coimbatore
10th June, 2002

On behalf of the Board of Directors
P. Subramanian
Chairman & Managing Director



Statement Under Section 217 (2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975 and forming part of the Directors' Report for the year ended 31st March, 2002.

| S.No. | Name | Age (Years) | Designation/ Nature of duties | Remuneration Rs. | Qualification | Experience | Date of Commence ment of Employment | Previous Employment |
|-------|----------------------|----------------|---|---------------------|------------------------|------------|--|--|
| 1. | Mr. P. Subramanian * | 59 | Chairman & Managing Director Management of the affairs of the Company | 5,349,455 | L.M.E. P.D. Prod.E. | 37 Years | 01-07-1972 | Managing Partner Shanthi Engg & Trading Company. |

* Note : The nature of employment is contractual.

Coimbatore
10th June, 2002

For The Board of Directors
P. Subramanian
Chairman & Managing Director

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Statement Pursuant to Section 212 (3) of the Companies Act, 1956.

Shanthi Gears Limited held the entire issued Share Capital of 5000 Equity Shares of Rs. 100 each of Shanthi Sales Limited. Shanthi Sales Limited has earned a profit of Rs. 80,656 after tax for the year ended 31st March, 2002. The net aggregate profit of Shanthi Sales Limited for the Financial year upto 31st March, 2002 amounting to Rs. 439,244 has not been dealt with in the books of account of Shanthi Gears Limited.

P. Subramanian
Chairman & Managing Director

Coimbatore
10th June, 2002

N.C. Ramachandran
Director

REPORT ON CORPORATE GOVERNANCE

1. Company's Philosophy of Corporate Governance

The Company firmly believes in good Corporate Governance and envisage the attainment of transparency in all matters of Management of the Company and in reporting to Share Holders and all other concerned.

2. Board of Directors

a) The Board of Directors consists of 5 Directors, of whom 4 are Independent Non Executive Directors.

b) Attendance of each Directors at the Board Meeting and the Last Annual General Meeting (AGM).

| Name of the Directors | Category of Directorship | No. of Board Meeting Attended | Attendance at the Last AGM |
|---------------------------|--|-------------------------------|--|
| Sri. P. Subramanian | Chairman & Managing Director Executive Director | 7 | Present |
| Sri. N.C. Ramachandran | Independent Director Non Executive | 6 | Not Present |
| Sri. P.N. Gopal | Independent Director Non Executive | 6 | Present |
| Dr. D. Padmanaban | Independent Director Non Executive | 6 | Present |
| Sri. M.J. Vijayaraaghavan | Independent Director Non Executive | 4 | N.A. Since Appointed as an Additional Director by the Board at the Meeting held on 31.10.2001 |

c) Number of other Companies or Committee the Directors of the Company is a Director / Member / Chairman.

| Name of the Directors | No. of Directors in other Boards | No. of Membership in other Board Committees | No. of Chairman in other Board Committees |
|---------------------------|----------------------------------|---|---|
| Sri. P. Subramanian | 3 | - NIL - | - NIL - |
| Sri. N.C. Ramachandran | 2 | 1 | 1 |
| Sri. P.N. Gopal | - NIL - | - NIL - | - NIL - |
| Dr. D. Padmanaban | 1 | - NIL - | - NIL - |
| Sri. M.J. Vijayaraaghavan | 1 | 1 | 1 |

d) Details of Board Meeting held during the Period from 01.04.2001 to 31.03.2002

| Sl. No. | Date of the Meeting |
|---------|---------------------|
| 1 | 06.06.2001 |
| 2 | 25.07.2001 |
| 3 | 05.09.2001 |
| 4 | 31.10.2001 |
| 5 | 31.01.2002 |
| 6 | 08.03.2002 |
| 7 | 15.03.2002 |

3. Audit Committee

The Audit Committee was formed on 31.10.2001.

The Audit Committee consists of 3 Independent Directors.

The Details of Audit Committee Meetings held

| Sl. No. | Date of the Meeting |
|---------|---------------------|
| 1 | 31.01.2002 |

Composition of Audit Committee and Meeting Attendance

| Sl.No. | Members of Audit Committee | No.of Meetings Attended |
|--------|-------------------------------------|-------------------------|
| 1 | Sri. M.J. Vijayaraaghavan, Chairman | 1 |
| 2 | Sri. N.C. Ramachandran | 1 |
| 3 | Sri. P.N. Gopal | 1 |

The terms of reference to the Audit Committee are wide enough to cover all matters specified under the Listing Agreement and the Companies Act, 1956.

4. Remuneration paid to Chairman & Managing Director

The Remuneration payable to Chairman & Managing Director was approved by the Members in the General Meeting.

The aggregate value of Salary, perquisites and commission paid to the Chairman & Managing Director for the period from 01.04.2001 to 31.03.2002 is Rs. 53,49,455.

5. Remuneration paid to non executive Directors

No Remuneration is paid to Non Executive Directors except Sitting Fees payable for attending Board Meetings / Committee Meetings which are as under :

| Name of the Directors | Sitting Fees Paid |
|---------------------------|-------------------|
| Sri. N.C. Ramachandran | Rs. 8,000 |
| Sri. P.N. Gopal | Rs. 7,000 |
| Dr. D. Padmanaban | Rs. 7,000 |
| Sri. M.J. Vijayaraaghavan | Rs. 6,000 |

Professional Charges includes Rs. 30,000 paid to a Non Executive Director in his capacity as Advocate.

6. Shareholders / Investor Grievance Committee

a) The Shareholders / Investor Grievance Committee was formed on 15.03.2002.

The Shareholders / Investor Grievance Committee consists of 3 Independent Directors.

b) The Details of Shareholders / Investors Grievance Committee Meetings held

| Sl. No. | Date of the Meeting |
|---------|---------------------|
| 1 | 30.03.2002 |

c) Composition of Shareholders / Investor Grievance Committee and Meeting Attendance

| Sl.No. | Members of Audit Committee | No.of Meetings Attended |
|--------|----------------------------------|-------------------------|
| 1 | Sri. N.C. Ramachandran, Chairman | 1 |
| 2 | Sri. M.J. Vijayaraaghavan | 1 |
| 3 | Dr. D. Padmanaban | 1 |

d) Compliance Officer

Sri. S. Srinivas, Manager Finance & Secretarial Officer.