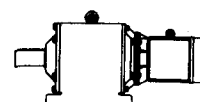
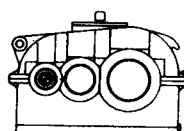
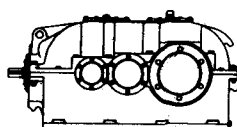
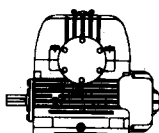


Shanthi **Gears**

Report  Junction.com

Thirty First Annual Report 2004





SHANTHI GEARS LIMITED

BOARD OF DIRECTORS

Shri P SUBRAMANIAN
Chairman & Managing Director

Shri P N GOPAL

Dr. D PADMANABAN

Shri M J VIJAYARAAGHAVAN

Ms S SANGEETHA
Wholetime Director

COMPANY SECRETARY

Shri C SUBRAMANIAM

AUDITORS

M/s. S LAKSHMINARAYANAN ASSOCIATES

INTERNAL AUDITOR

Shri T RAGHUNATHAN

BANKERS

STATE BANK OF INDIA
HDFC BANK LIMITED
IDBI BANK LIMITED
UTI BANK LIMITED
THE SOUTH INDIAN BANK LIMITED

Registrars & Share Transfer Agents

S.K.D.C. Consultants Limited
No.11, Street No.1, S.N. Layout
West Power House Road
Coimbatore - 641 012.

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,
Sulur Via,
Coimbatore - 641 402

C UNIT
Avanashi Road,
Muthugoundenpudur (PO),
Coimbatore - 641 406

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

E UNIT
2249 A-1, Trichy Road,
Singanallur,
Coimbatore - 641 005.

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NOTICE

Notice is hereby given that the **31st Annual General Meeting** of the Company will be held on Friday the **2nd day of July, 2004** at **9.30 a.m.** at the Registered Office of the Company at 304-A, Trichy Road, Singanallur, Coimbatore-641005 to transact the following business.

AGENDA

Ordinary Business

1. To receive, consider and adopt the Director's Report, Profit & Loss Account for the year ended 31st March, 2004, 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 a Director in the place of Sri. M.J.Vijayaraaghavan who retires by rotation and being eligible, offers himself for re-appointment.
5. To appoint Auditors to hold office from the conclusion of this meeting till the conclusion of the next Annual General Meeting and to fix their remuneration.

Special Business

6. To consider and if thought fit to pass the following resolution as an Ordinary Resolution with or without modification.

"Resolved that in supersession of the Resolution No.6 passed at the Annual General Meeting of the Company held on 8th September, 1995 the consent of the Company be and is hereby accorded in terms of Section 293(1)(d) and other applicable provisions if any of the Companies Act, 1956 and other applicable provisions of the Articles of Association of the Company, to the Board of Directors of the Company to borrow moneys from time to time at their discretion together with the moneys borrowed/already borrowed by the Company (apart from temporary loans obtained from the Company's Bankers in the ordinary course of business) either from the Company's Bankers and / or any one or more persons or Financial Institutions whether by way of cash credit, advance, loans or bills discounting, issue of debentures or otherwise unsecured or secured by mortgage, charge, hypothecation of lien or pledge of the Company's assets and properties whether movable or immovable or stock-in-trade (including raw materials, stores, spare parts and components in stock or in transit) and work in progress of the Company on such terms and conditions as may be considered suitable by the Board of Directors upto a limit of Rs. 100 Crores (Rupees One Hundred Crores Only) in excess of 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"

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

"RESOLVED that pursuant to Section 94 of the Companies Act, 1956 and Article 9 of Articles of Association of the Company, the Nominal value of Equity Shares of the Company be and is hereby altered to Rs. 1/- each from Rs.10/- each.



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

"RESOLVED that the Authorised Share Capital of the company be and is hereby increased from Rs. 5,00,00,000 divided into 50,00,000 Equity Shares of Rs. 10 each to Rs. 10,00,00,000 divided into 10,00,00,000 Equity Shares of Rs. - each."

RESOLVED further that Clause V of the Memorandum of Association of the company be and is hereby altered by substituting the following:

"The Authorised Share Capital of the Company is Rs. 10,00,00,000 (Rupees Ten Crores only) divided into 10,00,00,000 Equity Shares of Rs. 1 each"

9. To consider and if thought fit, to pass, with or without modification(s), the following resolution as a **Special Resolution**.

"RESOLVED that the Articles 3 of the Articles of Association of the Company be and is hereby altered by substituting the following:

"3. The Authorised Share Capital of the Company is Rs. 10,00,00,000 (Rupees Ten Crores only) divided into 10,00,00,000 Equity Shares of Rs. 1 each".

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

- a) RESOLVED that, subject to all necessary consents, approvals, permissions and/or sanctions where applicable, and pursuant to the Provisions of the Articles of Association of the Company, a sum of Rs. 3,90,17,800 (Rupees Three Crores Ninety Lacs Seventeen Thousand and Eight Hundred Only) out of the Share Premium Account be capitalized and distributed amongst the holders of the existing Equity Shares of the Company whose names appears in the Register of Members and Beneficial owners as per the details forwarded by Registrar and Transfer Agents (RTA) on such date as may be fixed by the Board of Directors in that behalf on the footing that they become entitled thereto as Capital and not as income and that the same be applied to paying up full 3,90,17,800 Equity Shares of the Company of Rs. 1 each at par, such shares (hereinafter referred to as "Bonus Shares") be allotted, distributed and credited as fully paid up to and amongst such Members and Beneficial owners in the proportion of One such Bonus Share for every existing One Equity Share held by them respectively.
- b) That the Bonus Shares so allotted shall always be subject to the terms and conditions contained in the Memorandum of Association and Articles of Association of the Company.
- c) That the Bonus Shares so allotted pursuant to this resolution shall rank in all respects paripassu with the existing fully paid Equity Shares of the Company save and except that they shall not participate in any dividend in respect of any financial year upto and including 31st March, 2004.
- d) That no letter of Allotment shall be issued but in respect of Physical Equity Shares holders, Bonus Share Certificates shall be issued within statutory time limit and in respect of Beneficial Owners who are holding Equity shares in dematerialized form, Bonus Shares Shall be directly credited to their respective demat Account
- e) That for the purposes of giving effect to this resolution, the Directors of the Company be and are hereby authorized to take such steps and actions and give such directions as they may in their absolute discretion deem necessary to settle any question that may arise in this regard to the issue, allotment and distribution of Bonus Shares as they may think fit.

Coimbatore
24th May, 2004

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

EXPLANATORY STATEMENT UNDER SECTION 173(2) OF THE COMPANIES ACT, 1956**ITEM NO. 6**

As per the provisions of Section 293(1)(d) of the Companies Act, 1956, the Board can borrow money only after getting the approval of the Company in General Meeting, if the money to be borrowed together with money already borrowed exceeds the paid-up capital and free reserves of the Company. Accordingly this limit was fixed in the Annual General Meeting held on 8th September 1995 for Rs. 40 Crores in excess of the paid-up capital of the Company and its free reserves. Considering the expansion and diversification activities of the Company your directors are of the opinion that this limit should be increased. Hence this resolution is brought before you for your approval.

None of the Directors is deemed to be concerned/interested in this resolution.

ITEM NO. 7

With the intention of providing liquidity for equity shares it is felt appropriate to sub-divide the nominal value of Equity Shares from Rs. 10 to Rs. 1 each.

In terms of Section 94 of the Companies Act, 1956 Company can Sub-divide its equity shares into smaller denomination. The Articles of Association of the Company further provides that the Company in General Meeting may Sub-divide the equity shares into smaller denomination.

The Directors of your Company may be deemed to be interested in this resolution to the extent of their respective shareholdings in the Company.

ITEM NO. 8 & 9

The present Authorised Capital of the Company is Rs. 5,00,00,000 (Rupees Five Crores only) consisting of 50,00,000 Equity Shares of Rs. 10 each. It is considered desirable that the Authorised Capital of your company be enlarged commensurate with the size and operations of your company. Further the company proposes to issue Bonus Shares. In order to accommodate the increase in paid-up capital, it is proposed to increase the number of Equity Shares in the Authorised Capital of the Company. Further Clause V of the Memorandum of Association and Articles 3 of Articles of Association of the Company would require suitable modifications as given in the resolutions.

None of the Directors of the Company is either directly or indirectly interested or concerned in the resolutions.

ITEM NO. 10

With the intention that the members of the Company should be given the benefit of the reserves/ share premium built up over the years by your company, Your Directors have pleasure in proposing issue of shares by way of Bonus. The Directors propose 1:1 Bonus issue. Such shares shall be distributed as fully paid Bonus Shares to and amongst the members of your company whose names shall appear in its Register of Members and Beneficial Owners as per the details forwarded by Registrar and Transfer Agents (RTA) on such date as may hereinafter be determined by your Directors.

The Proposed issue of Bonus Shares will be in compliance with the guidelines in this respect issued by Securities Exchange Board of India. Requisite application will also be made to all the Stock Exchanges where the existing shares of the Company are already listed, for permission to deal in such Bonus Shares.

The Directors of your Company may be deemed to be interested in this resolution to the extent of their respective shareholdings in the Company.

Coimbatore
24th May, 2004

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 29/06/2004 to 02/07/2004 (Both days inclusive)
3. Dividend on approval will be paid on 05/07/2004 to the members whose name appear in Register of Members as on the closing hours of 28/06/2004. In respect of shares held on Demat Form, the Dividend will be paid to the Beneficial owners as on the closing hours of 28/06/2004 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 Investors 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 Registrars. Members holding shares in the electronic form are advised to notify any change in their address to the concerned Depository Participant. Members are requested to send Electronic Clearance Service Mandate (ECS) to the Registrars to enable the company to pay the dividend through Electronic Clearance Service (ECS).
6. Members are requested to bring their copies of report and Accounts to the Meeting.
7. Company's Equity Shares are listed at

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.

The Company has paid the Annual Listing fees for the Financial year 2004-05 in respect of the above Stock Exchanges.

8. Company's equity shares have been delisted from Madras Stock Exchange Limited w.e.f. November 28, 2003 and from Coimbatore Stock Exchange Limited w.e.f. March 31, 2004.
9. Members requiring information on the Accounts are requested to write to the Company atleast seven (7) days in advance, so as to enable the Company to furnish such information.

Coimbatore
24th May, 2004

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

DIRECTORS' REPORT TO THE SHAREHOLDERS

Your Directors have pleasure in presenting to you the Thirty First Annual Report, together with the audited accounts of your Company, for the year ended 31st March 2004.

FINANCIAL RESULTS

	31-03-2004 Rs. in Millions	31-03-2003 Rs. in Millions
Gross profit before interest and depreciation	280.422	171.320
Less : Interest	6.814	8.012
Depreciation	83.120	58.392
Donation	0.372	1.105
Provision for taxation	51.000	38.400
Deferred Taxes	6.796	0.238
	<u>148.102</u>	<u>106.147</u>
	132.320	65.173
Add : Surplus brought forward	2.227	2.571
Transfer from Investment		
Allowance Utilised Reserve	—	0.100
Excess Provision of tax for Earlier Years	0.169	0.223
	<u>2.396</u>	<u>2.894</u>
	134.716	68.067
Appropriations :		
Proposed Dividend	29.263	22.906
Tax on Dividend	3.749	2.934
Debenture Redemption Reserve	10.000	10.000
General Reserve	75.734	30.000
Surplus in Profit & Loss Account	15.970	2.227
	<u>134.716</u>	<u>68.067</u>

DIVIDEND

Your Directors recommend a Dividend of **75% (Rs. 7.50 per Equity Share of Rs.10 each fully paidup)**

OPERATING RESULTS

The Company has achieved a Net Turnover of **Rs. 858.435** Millions for the year under review as against the turnover of **Rs. 562.745** Millions of the previous year showing a growth of **52.54%**. The other financial parameters have also improved in line with the sale growth. Barring unforeseen circumstances your Directors hope to achieve satisfactory results for the current year.

Amalgamation

As per the Scheme of Amalgamation approved by the members and subsequently sanctioned by the Honourable High Court of Madras, the assets and liabilities of Shanthi Precision Industries Limited were transferred to and vested in the Company with effect from the Appointed Date 1st July, 2003. Consequent to amalgamation 84180 Equity Shares of Rs. 10 each of the Company have been issued to the Equity Shareholders of erstwhile Shanthi Precision Industries Limited.

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. 37.045 Millions** during the year. The outflow of foreign exchange on import of Machinery, Tools & Equipments, interest on FCNR (B) Loans, Repayment of Foreign Currency Loans, Raw Materials, Consumable stores, Machinery Spares, Travelling & Advertisement amounted **Rs. 291.60 Millions** and **Rs. 0.163 Million** has been spent towards payment of dividend for the year ended 31st March 2003.

FIXED DEPOSITS

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

DIRECTORS

The following Directors are due to retire by rotation at the ensuing Annual General Meeting and being eligible offer themselves for re-election

Sri. P.N. Gopal

Sri. M.J. Vijayaraaghavan

Your Directors regret to inform about the sad demise of Sri N C Ramachandran on August 17, 2003. He was associated with the company from 17.03.1986 as Director. The Directors place on record the valuable guidance and support rendered by Sri N C Ramachandran during his tenure of office as Director.

DIRECTORS' RESPONSIBILITY STATEMENT

In compliance to the Provisions of Section 217 (2AA) of the Companies Act, 1956 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. Auditors Certificate regarding Compliance of conditions of Corporate Governance.

AUDITOR

Your Company's auditors M/s. S. Lakshminarayanan Associates are due to retire at the ensuing Annual General Meeting and are eligible for re-appointment.

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 Banks and Financial Institutions. The Board conveys its thanks to the Central and State Governments. It also thanks the customers and suppliers for their support and investors for reposing faith in the Company.

Coimbatore
24th May, 2004

By Order of the Board
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, 2004.

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 *	61	Chairman & Managing Director overall Management of the affairs of the Company	10,228,807	L.M.E. P.D. Prod.E.	39 Years	01-07-1972	Managing Partner Shanthi Engg & Trading Company.
2.	Ms. S. Sangeetha *	29	Wholtime Director Day to day Management of the Company	4,091,523	B.B.M.	8 Years	05-01-1996	—

* Note : The nature of employment is contractual.
Mr. P. Subramanian and Ms. S. Sangeetha are related

Coimbatore
24th May, 2004

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

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

Shanthi Gears Limited holds 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. 1,90,812 after tax for the year ended 31st March, 2004. The net aggregate profit of Shanthi Sales Limited for the Financial year upto 31st March, 2004 amounting to Rs. 718,248 has not been dealt with in the books of account of Shanthi Gears Limited.

P. Subramanian
Chairman & Managing Director

Coimbatore
24th May, 2004

S. Sangeetha
Wholtime 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 the Share Holders and all other concerned.

2. Board of Directors

a) The Board of Directors consists of 5 Directors. Of whom 3 are Independent Non-executive Directors.

b) Attendance of each Director 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	5	Present
Sri. P.N. Gopal	Independent Director Non Executive	5	Present
Dr. D. Padmanaban	Independent Director Non Executive	3	Not Present
Sri. M.J. Vijayaraaghavan	Independent Director Non Executive	5	Present
Ms. S. Sangeetha	Wholetime Director Executive Director	5	Present
Sri. N.C. Ramachandran (Deceased on 17.08.2003)	Independent Director Non Executive	1	Not Present

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	2	- NIL -	- NIL -
Sri. P.N. Gopal	- NIL -	- NIL -	- NIL -
Dr. D. Padmanaban	1	- NIL -	- NIL -
Sri. M.J. Vijayaraaghavan	1	1	1
Sri. N.C. Ramachandran	2	1	1
Ms. S. Sangeetha	1	- NIL -	- NIL -

d) Details of Board Meeting held during the Period from 01.04.2003 to 31.03.2004.

Sl. No.	Date of the Meeting
1	30.05.2003
2	28.07.2003
3	01.10.2003
4	17.10.2003
5	18.01.2004