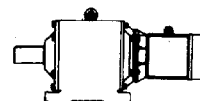
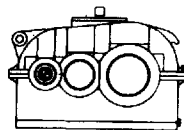
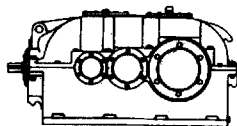
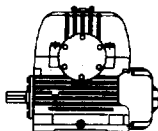


Shanthi^{⚙️} Gears

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Thirty Second Annual Report 2005



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****THE HONGKONG AND SHANGHAI BANKING
CORPORATION LIMITED****IDBI BANK LIMITED****UTI BANK LIMITED****THE BANK OF NOVA SCOTIA****THE TORONTO-DOMINION BANK****Registrars & Share Transfer Agents****S.K.D.C. Consultants Limited**No.7 (Old 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.**CONTENTS**

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NOTICE

Notice is hereby given that the **32nd Annual General Meeting** of the Company will be held on Monday the **11th day of July, 2005 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 Directors' Report, Profit & Loss Account for the year ended 31st March, 2005, 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 Dr. D. Padmanaban who retires by rotation and being eligible, offers himself for re-appointment.
4. To appoint a Director in the place of Ms. S. Sangeetha who retires by rotation and being eligible, offers herself 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 with or without modification, the following Resolution as a Special Resolution.

"Resolved that approval of Shareholders of the Company, be and is hereby accorded to alter clause III of the Memorandum of Association of the Company by inclusion of the new object as item Nos.3, 4,5 & 6 in sub-clause (A) of Clause III thereof:

3. To manufacture, deal in, import, export, buy, sell, distribute, exchange, convert, alter, process repair and recondition in all kinds of cutting tools, grinding tools, press tools, taps, dies, thread rolls, chasers, twist drills, milling cutters, hobbing cutters, shaping cutters, shaving cutters, bevel cutters, lapping cutters, reamers, hard metal tools, carbide tips, diamond dressers & tools, collets, gauges, dividing heads, precision thread grinding tools and spares of every kind from diamond, carbide, steel, mild steel or other ferrous or non ferrous metals in India or elsewhere in the World.
4. To manufacture, deal in, import, export, buy, sell, distribute, exchange, convert, alter, process in all types of forgings, die casting, dies, injection moulding, die tools from iron, steel, brass, aluminium, bronze, zinc and other ferrous and non-ferrous metals required for all industries in India or elsewhere in the World.
5. To manufacture, deal in, import, export, buy, sell, distribute, exchange, convert, alter, process in all types of iron founders, fabricators, brass founders, aluminium founders casters, spinners, rollers and workers of metals and alloys, founders of all kinds of metals and metal alloys, whether ferrous or non-ferrous metal, manufacture of iron, pig iron, cast iron, steel ingots, all kinds of metallic sheets required for all types of Industries in India or elsewhere in the World.
6. To carry on the business of consultants in the field of engineering design, advisors and purveyors of technical know-how, formulae, processes and applied technology and to organize and to pursue research and development in the field of engineering design and to provide plans, operating data, layout, blue prints, useful for design, manufacture, erection and operation of plant & machinery required for all types of industries and to provide turn key solution, technology transfers, to act as solution providers and business process outsourcers in the field of engineering

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design & drawings, software programming and impart training in computer software in India or elsewhere in the World.

Note : This resolution requires the consent of shareholders through Postal Ballot for which necessary steps have been taken as per the Companies (Passing of Resolution by Postal Ballot) Rules 2001.

Coimbatore
14th May, 2005

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 1st July 2005 to 11th July 2005 (Both days inclusive)
3. Dividend on approval will be paid on 14th July, 2005 to the members whose name appear in Register of Members as on 11th July, 2005. In respect of shares held on Demat Form, the Dividend will be paid to the Beneficial owners as on the closing hours of 30th June, 2005 as per the details forwarded by the RTA for this purpose.
4. In compliance with Section 205A and 205C of the Companies Act, 1956 unclaimed dividend upto the year ended 31st March, 1997 has been transferred to the "Investors Education and Protection Fund" established by the Central Government. Members who have not encashed their Dividend Warrants in respect of the year ended 31st March 1998 and succeeding years, 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. In respect of Special Resolution as per Item 6 of the notice, this resolution is required to be passed through Postal Ballot pursuant to the provisions of Companies (Passing of the Resolution by Postal Ballot) Rules, 2001. A separate notice has been issued to the members in respect of the same. The Chairman will announce the results at the Annual General Meeting. If the resolution is assented to by the requisite majority of the shareholders in the Postal Ballot, it shall be deemed to have been passed at the said Annual General Meeting as per Sub Section (4) of Section 192A of the Companies Act, 1956.
7. Members are requested to bring their copies of report and Accounts to the Meeting.
8. 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 2005-06 in respect of the above Stock Exchanges.

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
14th May, 2005

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 Second Annual Report, together with the audited accounts of your Company, for the year ended 31st March 2005.

FINANCIAL RESULTS

	31-03-2005 Rs. in Millions	31-03-2004 Rs. in Millions
Gross profit before interest and depreciation	416.841	280.422
Less : Interest	13.822	6.814
Depreciation	95.756	83.120
Donation	0.644	0.372
Provision for taxation	105.000	51.000
Deferred Taxes	9.243	6.796
Prior year Taxes	1.147	—
	<u>225.612</u>	<u>148.102</u>
	191.229	132.320
Add : Surplus brought forward	15.970	2.227
Excess Provision of tax for Earlier Years	—	0.169
	<u>15.970</u>	<u>2.396</u>
	207.199	134.716
Appropriations :		
Proposed Dividend	39.018	29.263
Tax on Dividend	5.472	3.749
Debenture Redemption Reserve	10.000	10.000
General Reserve	140.000	75.734
Surplus in Profit & Loss Account	12.709	15.970
	<u>207.199</u>	<u>134.716</u>

DIVIDEND

Your Directors recommend a Dividend of **50% (Rs. 0.50 per Equity Share of Re.1 each fully paidup)**

OPERATING RESULTS

The Company has achieved a Turnover of **Rs. 1212.475** Millions for the year under review as against the turnover of **Rs. 858.435** Millions of the previous year showing a growth of **41.24%**. The other financial parameters have also improved in line with the sales growth. Barring unforeseen circumstances your Directors hope to achieve satisfactory results for the current year.

SUBSIDIARY COMPANY

During the year under review, Shanthy Sales Limited ceases to be the subsidiary Company consequent to the divestment of entire shares held by the company.

CHANGES IN SHARE CAPITAL

As per the approval accorded at the last AGM, the company had sub divided the nominal value of equity shares from Rs.10 each to Re. 1 each on 04.08.2004 and issued bonus shares on 07.08.2004 in the ratio of 1:1, i.e. one bonus equity share for every one equity share held by the shareholders who held equity shares as on the record date i.e. 03.08.2004. Consequent to changes, the Issued Subscribed and paid up Equity Capital of the Company is 78,035,600 Equity Shares of Re.1 each.

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.62.08 Millions** during the year. The outflow of foreign exchange on import of Machinery, interest on FCNR (B) Loans, Raw



Materials, Consumable stores & Tools, Machinery Spares, Advertisement, Subscription, Sales Promotion Expenses, Exhibition Expenses and Tax & Licenses amounted **Rs.256.13 Millions** and **Rs.0.20 Million** has been spent towards payment of dividend for the year ended 31 st March, 2004.

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

Dr. D. Padmanaban
Ms. S. Sangeetha

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
14th May, 2005

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, 2005.

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 *	62	Chairman & Managing Director overall Management of the affairs of the Company	16,492,136	L.M.E. P.D. Prod.E.	40 Years	01-07-1972	Managing Partner Shanthi Engg & Trading Company.
2.	Ms. S. Sangeetha *	30	Wholetime Director Day to day Management of the Company	6,596,854	B.B.M.	9 Years	05-01-1996	—

* Note : The nature of employment is contractual.

Mr. P. Subramanian and Ms. S. Sangeetha are related.

Coimbatore
14th May, 2005

For The Board of Directors
P. Subramanian
Chairman & Managing 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

- The Board of Directors consists of 5 Directors. Of whom 3 are Independent Non-executive Directors.
- Attendance of each Director at the Board Meetings 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	6	Present
Sri. P.N. Gopal	Independent Director Non Executive	6	Present
Dr. D. Padmanaban	Independent Director Non Executive	5	Not Present
Sri. M.J. Vijayaraaghavan	Independent Director Non Executive	6	Present
Ms. S. Sangeetha	Wholetime Director Executive Director	6	Present

- c) Number of other Companies or Committees 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	1	- NIL -	- NIL -
Sri. P.N. Gopal	- NIL -	- NIL -	- NIL -
Dr. D. Padmanaban	2	- NIL -	- NIL -
Sri. M.J. Vijayaraaghavan	- NIL -	- NIL -	- NIL -
Ms. S. Sangeetha	1	- NIL -	- NIL -

- d) Details of Board Meetings held during the Period from 01.04.2004 to 31.03.2005.

Sl. No.	Date of the Meeting
1	14.05.2004
2	24.05.2004
3	16.07.2004
4	07.08.2004
5	27.10.2004
6	24.01.2005

3. Audit Committee

The Audit Committee consists of 3 Independent Directors.

The Details of Audit Committee Meetings held

Sl. No.	Date of the Meeting
1	22.05.2004
2	15.07.2004
3	26.10.2004
4	22.01.2005

Composition of Audit Committee and Meeting Attendance

Sl.No.	Members of Audit Committee	No. of Meetings Attended
1	Sri. M.J. Vijayaraaghavan, Chairman	4
2	Sri. P.N. Gopal	4
3	Dr. D. Padmanaban	2

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.

The Committee has met 4 times during the Financial Year ended 31st March, 2005.

4. Remuneration paid to Chairman & Managing Director and Wholetime Director.

The Board of Directors at their Meeting held on 30.05.2003 have approved the re-appointment of Chairman & Managing Director and remuneration payable to him as recommended by the Remuneration Committee at their meeting held on 29.05.2003. The members in the General Meeting held on 28.07.2003 have approved the re-appointment of Mr.P.Subramanian as Chairman & Managing Director for a period of 5 years from 01.04.2004 and remuneration payable to him.

The aggregate value of salary, perquisites and commission for the period from 01.04.2004 to 31.03.2005 paid to the Chairman & Managing Director is Rs.16,492,136.

The Board of Directors at their Meeting held on 24.07.2002 have approved the appointment of Wholetime Director and remuneration payable to her as recommended by the Remuneration Committee at their meeting held on 24.07.2002. The members in the General Meeting held on 28.07.2003 have approved the appointment of Ms.S.Sangeetha as Wholetime Director for a period of 5 years from 24.07.2002 and remuneration payable to her.

The aggregate value of salary, perquisites and commission for the period from 01.04.2004 to 31.03.2005 paid to the Wholetime Director is Rs.6,596,854.

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. P.N. Gopal	Rs. 50,000
Dr. D. Padmanaban	Rs. 35,000
Sri. M.J. Vijayaraaghavan	Rs. 50,000

6. Shareholders / Investor Grievance Committee

a) The Shareholders/ Investors Grievance Committee consists of 3 Independent Directors.

b) Composition of Shareholders / Investor Grievance Committee

Sl.No.	Members
1	Sri. P.N. Gopal, Chairman
2	Sri. M.J. Vijayaraaghavan
3	Dr. D. Padmanaban

c) Compliance Officer

Sri. C. Subramaniam, Company Secretary.

d) Complaints

During the year, 30 letters/complaints were received from the investors which were replied/resolved to the satisfaction of the investors. Complaints were routine in nature and it was resolved by the Company/ RTA.

4 Share transfer for 9240 shares is pending as on 31.03.2005. Of these 2 transfers for 3240 shares were processed on 16.04.2005 and 2 transfers for 6000 shares were processed on 30.04.2005.

7 Electronic requests for 36850 Shares Dematerialisation were pending for approval as on 31st March, 2005. Of these 3 requests for 26850 shares were confirmed on 01.04.2005 and 3 requests for 9000 shares were confirmed on 04.04.2005 and 1 request for 1000 shares were confirmed on 06.04.2005 by share transfer Agent.

7. Remuneration Committee

a) The Remuneration Committee consists of 3 Independent Directors.

b) The Details of Remuneration Committee Meeting held

- NIL -

c) Composition of Remuneration Committee

Sl. No.	Members of Remuneration Committee
1	Sri. M.J. Vijayaraaghavan, Chairman
2	Sri. P.N. Gopal
3	Dr. D. Padmanaban

8. General Body Meeting

(i) Location and time of Last Three Annual General Meetings held.

Financial Year Ending	Date	Time	Venue
31.03.2002	24.07.2002	9.30 A.M.	Registered Office of the Company 304-A, Trichy Road, Singanallur, Coimbatore - 641 005
31.03.2003	28.07.2003	9.30 A.M.	Registered Office of the Company 304-A, Trichy Road, Singanallur, Coimbatore - 641 005
31.03.2004	02.07.2004	9.30 A.M.	Registered Office of the Company 304-A, Trichy Road, Singanallur, Coimbatore - 641 005

iii) Whether Special Resolution were put through postal ballot, last year.

— NO —

iv) Any voting proposal to be conducted through postal ballot, this year.

— YES —

9. a) Disclosure on Materially significant related party transaction.

The Company had not entered into any transaction of a material nature which will have a conflict with its interest during the year.

Full disclosure of related party transactions as per Accounting Standard 18 issued by the Institute of Chartered Accountants of India is given under Note No.15 of Notes on the Annual Accounts. All the transaction covered under related party transaction were fair, transparent and at arms length.

b) Details of Non-compliance by the Company, penalties, strictures imposed on the Company by the Stock Exchanges, SEBI or any Statutory authorities on any matter related to capital markets during the last three years.

NIL

10. Means of Communication

- i) Half Yearly Report sent to each house hold of Share holders : No. Quarterly, Half Yearly, Unaudited Financial Results and Audited Financial Results are published in leading National News Papers and in Regional News Papers.
- ii) Quarterly Results published in News Papers. : Yes. Details of Publication for the period 01.04.2004 to 31.03.2005 is as under.

Year Ended/ Quarter ended	Audited / Unaudited	Approved on	Published in
31.03.2004	Audited	24.05.2004	Business Line & Dinamalar
30.06.2004	Unaudited	16.07.2004	Business Line & Dinamalar
30.09.2004	Unaudited	27.10.2004	Business Line & Dinamalar
31.12.2004	Unaudited	24.01.2005	Business Line & Dinamalar The Economic Times & Dinathanthi

iii) Any website where results published : www.shanthigears.com

iv) No presentation has been made to Institutional Investors or to the Analysts.

v) The Management Discussion and Analysis (MD & A) is part of the Annual Report.

11. General Share Holders Information.

a) Annual General Meeting

i) Date & Time : 11th July, 2005 - 9.30 A.M. (Monday)

ii) Venue : Registered Office of the Company
304-A, Trichy Road, Singanallur, Coimbatore - 641 005