



SHANTHI GEARS LIMITED

Annual Report 2012-13

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Cautionary Statement

Certain expectations and projections regarding the future performance of the Company referenced in the annual report constitute forward-looking statements. These expectations and projections are based on currently available competitive, financial and economic data, along with the Company's operating plans and are subject to certain future events and uncertainties, which could cause actual results to differ materially from those indicated by such statements.

Message from the Chairman

Dear Shareholders,

It gives me immense pleasure to write to you and welcome you to be a part of the larger family – the Murugappa Group. The last one year has been an exciting time for me personally, commencing with the conclusion of the agreement to purchase 44.12% of the shares of your Company to being involved in shaping its direction and future.

At the outset, I would like to record my appreciation of Mr. P Subramanian for creating, growing and guiding this Company over the last four decades and being instrumental for the Company being acknowledged as one of the best in the industry. I also wish to express my gratitude to the members who served on the Board of Directors of Shanthi Gears Ltd for their guidance and counsel over the years.

Since the acquisition, building customer relationships and improving operational efficiencies have been the key focus of the new team. This helped us post a turnover of ₹ 146 crores and a Profit before Tax of ₹ 22 crores in FY2012-2013. The year was marked by a significant reduction in demand due to the depressed business conditions prevailing in the industry. The investment climate was also not conducive leading to delays in execution of large projects thereby impacting off-take.

As we embark on a new path leveraging brand “Shanthi”, adopting and integrating best practices, augmenting our product range and improving our service we hope to enhance the value proposition to all our stakeholders. Towards this, Shanthi’s main focus will be in the National market and key Industry segments like Steel, Cement, Mining, Construction and Metro Rail. Shanthi’s strength lies in its engineering and design capabilities, a large skill pool, state-of-the-art manufacturing infrastructure and the ability to innovate and re-engineer to provide solutions to our customers. The Company intends to leverage these to serve the standard and customised gearbox product segments.

Needless to mention, people make the difference and the team at Shanthi Gears, led by Dr. Sreeram Srinivasan, through its commitment and diligence is making this possible. I thank all our employees and stakeholders for their contribution and support and remain confident of their continued passion, enthusiasm and co-operation as we progress into the future.

I also thank my colleagues on the Board for their valuable contribution and guidance to take Shanthi to new heights of achievement.

Finally, my grateful thanks to you, the shareholders, for your continued support and confidence in the Company.

Sincerely,

MM Murugappan

10 Years Financials

₹ Crores

OPERATING RESULTS	2012-13	2011-12	2010-11	2009-10	2008-09	2007-08	2006-07	2005-06	2004-05	2003-04
Sales (Including excise duty)	160.94	186.67	173.46	129.07	276.90	274.73	227.97	184.26	138.07	97.54
Profit before Depreciation, Interest & Tax (PBDIT)	50.93	69.32	71.48	53.14	103.20	94.61	74.16	58.77	41.62	28.00
Profit before Interest & Tax (PBIT)	22.36	42.10	44.64	26.21	77.43	72.15	55.93	46.06	32.04	19.69
Profit before Tax (PBT)	22.07	41.60	43.76	24.33	68.81	67.49	51.15	43.06	30.66	19.04
Profit after Tax (PAT)	15.47	28.13	27.86	16.18	44.06	44.16	33.59	28.06	19.12	13.25
Earnings Per Share in (₹)	1.89	3.44	3.41	1.98	5.39	5.40	4.44	3.56	2.45	1.71
Dividend Per Share (₹)	0.60	1.00	1.00	0.80	1.20	1.20	1.00	1.00	0.50	0.75
Book Value Per Share (₹)	31.53	30.33	28.05	25.80	24.75	20.77	16.28	11.90	8.98	14.19
Interest	0.29	0.62	8.76	3.81	11.56	6.37	6.23	4.26	2.43	1.81

SOURCES AND APPLICATION OF FUNDS

SOURCES OF FUNDS

Share Capital	8.17	8.17	8.17	8.17	8.17	8.17	8.08	7.88	7.80	3.90
Reserves & Surplus	249.41	239.67	221.04	202.68	194.12	161.53	123.45	85.90	62.25	51.48
Net Worth	257.58	247.84	229.21	210.85	202.29	169.70	131.53	93.79	70.05	55.38
Debt	0.00	3.96	9.75	25.63	89.27	92.79	118.68	120.46	54.95	45.24
Deferred Tax Liability (Net)	6.88	10.73	14.26	17.49	20.09	19.06	16.58	9.84	6.45	5.52
Total	264.46	262.53	253.22	253.97	311.64	281.55	266.78	224.09	131.45	106.14

APPLICATION OF FUNDS

Gross Fixed Assets	361.09	360.21	353.46	344.13	338.60	299.19	265.20	191.18	142.05	116.45
Accumulated Depreciation	245.34	222.00	195.54	169.20	142.45	118.04	95.81	77.95	65.74	57.56
Net Fixed Assets	115.75	138.21	157.91	174.92	196.15	181.15	169.38	113.23	76.31	58.89
Capital Work-in-Progress	3.62	5.59	7.54	5.17	7.07	16.16	13.19	8.65	3.86	0.00
Short Term Investments & Deposits	90.60	55.02	46.00	27.50	47.50	15.84	18.13	47.51	7.50	3.90
Net Working Capital	54.49	63.71	41.77	46.38	60.92	68.40	66.07	54.71	43.78	43.34
Total	264.46	262.53	253.22	253.97	311.64	281.55	266.78	224.09	131.45	106.14

RATIOS

PBDIT To Sales (%)	31.65	37.14	41.21	41.17	37.27	34.44	32.53	31.90	30.14	28.71
PBIT To Sales (%)	13.89	22.55	25.73	20.31	27.96	26.26	24.53	25.00	23.21	20.19
PBT To Sales (%)	13.71	22.28	25.23	18.85	24.85	24.57	22.44	23.37	22.21	19.52
PAT To Sales (%)	9.61	15.07	16.06	12.54	15.91	16.07	14.73	15.23	13.85	13.58
Interest Cover (times)	175.62	111.81	8.16	13.95	8.93	14.85	11.90	13.80	17.13	15.47
ROCE (%) #	12.86	20.29	21.54	11.57	29.32	27.15	22.49	26.08	25.85	19.26
Return on Networth (%)	6.01	11.35	12.16	7.67	21.78	26.02	25.54	29.92	27.30	23.93
Total Debt Equity Ratio	0.00	0.02	0.04	0.12	0.43	0.48	0.60	1.07	0.58	0.62
Long Term Debt Equity Ratio	0.00	0.00	0.02	0.05	0.08	0.13	0.18	0.30	0.02	0.06
Sales/Net Fixed Assets (times)	1.39	1.35	1.10	0.74	1.41	1.52	1.35	1.63	1.81	1.66
Net Working Capital Turnover (times)	2.95	2.93	4.15	2.78	4.55	4.02	3.45	3.37	3.15	2.25

Return on Capital Employed (ROCE) is Profit before Interest and Tax divided by the Capital Employed, excluding Short Term Investments, as at the end of the year.

CORPORATE INFORMATION

BOARD OF DIRECTORS

M M MURUGAPPAN, Chairman
L RAMKUMAR
C R SWAMINATHAN
J BALAMURUGAN
V VENKITESWARAN
SREERAM SRINIVASAN, President & Executive Director

COMPANY SECRETARY

C SUBRAMANIAM

REGISTERED OFFICE

304-A, Trichy Road, Singanallur, Coimbatore-641005

PLANTS

A UNIT, Trichy Road, Singanallur, Coimbatore
B UNIT, Trichy Road, Singanallur, Coimbatore
C UNIT, Avanashi Road, Muthugoundenpudur, Coimbatore
D UNIT, K. Krishnapuram, Coimbatore
FOUNDRY DIVISION, Kannampalayam, Coimbatore

AUDITORS

S LAKSHMINARAYANAN ASSOCIATES
Chartered Accountants

BANKERS

State Bank of India
IDBI Bank Ltd
Bank of Nova Scotia

Directors' Profile

Mr. M M Murugappan, Chairman

Mr. M M Murugappan (57 years) holds a Masters degree in Chemical Engineering from the University of Michigan, USA. He is currently the Chairman of Tube Investments of India Limited. He is also on the Board of various companies including Mahindra & Mahindra Limited and Wendt (India) Limited.

Mr. C R Swaminathan, Non-Executive Director

Mr. C R Swaminathan (65 years) holds a graduate degree in Agriculture and a Masters degree in Business Administration. He had been associated with the PSG group of institutions as its Chief Executive Officer. Mr. C R Swaminathan is well experienced in the Foundry Industry and is the Past President of the Institute of Indian Foundrymen. He is also the Past President of the Confederation of Indian Industry (Southern Region).

Mr. L Ramkumar, Non-Executive Director

Mr. L Ramkumar (57 years) is a Cost Accountant and has a Post Graduate Diploma in Management from Indian Institute of Management, Ahmedabad. He is currently the Managing Director of Tube Investments of India Ltd. He has over 33 years of rich and varied experience in management including 21 years in Tube Investments of India Ltd.

Mr. V Venkiteswaran, Non-Executive Director

Mr. V Venkiteswaran (66 years) has business experience of over 40 years in diverse areas of operations. He is a Mechanical Engineer from the University of Madras and worked over 36 years with Tata Tea Limited and retired as Executive Director of Tata Tea Limited.

Mr. J Balamurugan, Non-Executive Director

Mr. J Balamurugan (52 years) is an Electronics Engineer from Regional Engineering College, Trichy. He has also done the Management Programme for Entrepreneurial Firms in Indian Institute of Management, Bangalore. He has managing experience in the businesses of IT infrastructure, on-line services and aftermarket automotive enhancements and others. He was the past Chairman of Confederation of Indian Industry, Coimbatore Zone.

Dr. Sreeram Srinivasan, President & Executive Director

Dr. Sreeram Srinivasan (50 Years) holds a B.Tech. degree from IIT, Madras and also holds a MS and Ph.D from NC State University, Raleigh, USA. He has over two and a half decades of rich and varied experience, having worked for several leading multinational and Indian companies.

MANAGEMENT DISCUSSION AND ANALYSIS

The year 2012-13 witnessed a period of uncertainty across the globe. While the US economy showed signs of recovery in the early part of the year, there were mixed signals as the year progressed. Europe is likely to take some more time to return to normalcy. The Euro, as a common currency of Europe seems to be safe for now. Growth in some key economies such as China has slowed. However, recent developments in Japan with the new government appear to be positive.

The Indian economy too witnessed a year of gradual decline with the last quarter decline being particularly severe. Poor monsoons, high inflation leading to high interest rates, slowdown in infrastructure projects and overall drop in consumer confidence and supply side constraints led to the pace of growth coming down. Export of products from India dipped and combined with the high import of oil and gold the current account deficit became a matter of concern leading to a depreciating currency.

Review of business

Industry scenario

Your Company is in the business of design, manufacture, supply and servicing of gears and gear boxes. The market size for these products is estimated to be around ₹ 3000 cr. The industry is growing at a rate of about 6% per annum and is expected to touch about ₹ 4000 cr. in the next five years. Within the industry, there are certain segments growing at a faster rate while a few are flat or declining. In the National Market, Steel, Cement, Sugar, Mining, Paper, Marine make up the conventional part of this Industry while off-highway (Construction), Windmill and Metro Rail constitute the relatively newer segments. The Metro and Off-highway segments are expected to grow at almost twice the average of the industry growth while the Windmill segment is not expected to register any growth at all in the next few years. There are five major players and a few regional players in the National market while a significant portion of gearboxes for critical applications are met through imports. Exports presents an opportunity for your Company but is limited at present due to the global economic scenario.

The National gearbox industry also constitutes two major segments, viz., standard and non-standard. Standard gearboxes constitute about 35% of the market and growing approximately at over 10% CAGR while the non-standard (customised) gear boxes constitute over 33% and growing below the Industry average. The remainder of the industry is made up of loose gears and are growing at the Industry level. The industry is witnessing a greater drive towards standardization thanks to the entry of multi-national players.

Industrial growth in general and infrastructure growth in particular present the opportunity for growth of the gears and gearbox industry. Thus, import substitution by local players and overall economic growth would be the drivers for growth in the gear and gearbox industry. The former would however entail acquisition or development of technology from established players in the field. Skilled resources and state of the art facilities are critical success factors in this industry.

Review of performance

Your Company has three focus areas: supply of internals and spares (loose gears), customised non-standard gearboxes and servicing of any make of gearbox. The Company reported a revenue of ₹ 146 Cr. in the year under review against ₹ 172 Cr. in the previous year. The decline was largely due to the lower demand for gearboxes, predominantly in the infrastructure related industries, significantly lower exports, and lower servicing revenue. The Profit before Tax for the year was also lower at ₹ 22.07 cr. against ₹ 41.60 cr. due to the lower turnover, higher input costs mainly on power which could not be recovered from customers and intense competition in the various segments. During the year there were also one-time charges to the Profit & Loss Account due to review and changes of certain accounting policies. This was consequent to the change in the management. The Company has embarked on a program of improving its operational efficiencies and also improving its cost base. These factors helped the Company partly mitigate the impact of the increased costs on the bottom line.

There was also a strong focus on reduction of resources employed in the business both on working capital and on fixed assets. This exercise helped in achieving a significant reduction in inventory holding. The Company generated cash of ₹ 60 Cr. from operations and remains debt free. Investments in essential capital expenditure towards enhanced productivity are ongoing.

The Company is focusing on developing a new range of products in the standard segment. These products are expected to provide greater value to customers while enhancing our competitiveness in this segment. Efforts are also on to enhance the range of planetary gear boxes. These gear boxes have made a positive impact on customers and the demand for such products is set to increase.

The Company remains confident that the future is positive given the confidence of its customers on the Company's products and service and the fact that the government is seized of the need to stimulate growth. Prospects of a better monsoon, lower inflation and reduction in interest rates could spur economic growth during the current financial year.

Internal Control

The Company has an Internal Audit system commensurate with its size and operations. The internal audit is carried out by a firm of chartered accountants covering all aspects of the business. The internal audit team periodically evaluates the adequacy and effectiveness of internal controls. The Audit committee reviews the plan for Internal Audit, significant internal audit observations and functioning of the internal audit department on a periodical basis.

By Order of the Board

Chennai
30th April, 2013

Sreeram Srinivasan
President & Executive Director

General Shareholder Information

Registered Office : 304-A, Trichy Road, Singanallur, Coimbatore-641005

Annual General Meeting

Day : Wednesday
Date : 24th July, 2013
Time : 2.00 P.M.
Venue : Registered Office of the Company
304-A, Trichy Road, Singanallur, Coimbatore-641 005

Financial Calendar

Annual General Meeting	24 th July, 2013
Results for the Quarter Ending 30 th June, 2013	24 th July, 2013
Results for the Quarter Ending 30 th September, 2013	23 rd October, 2013
Results for the Quarter Ending 31 st December, 2013	January/February, 2014
Results for the Year Ending 31 st March, 2014	April/May, 2014

Book Closure Date : 13th July, 2013 to 24th July, 2013 (Both days inclusive)

Dividend

The Board of Directors has recommended the payment of a final dividend of ₹ 0.60 per equity share. The Dividend on equity shares will be paid to those members, whose names appear in the Register of Members on Wednesday, 24th July, 2013 and the same will be paid on 29th July, 2013.

In respect of shares held in electronic form, dividend will be paid on the basis of beneficial ownership as per details furnished by the depositories for the purpose.

Unclaimed Dividend

The details of dividend paid by the Company and the respective due dates of transfer of the unclaimed/unencashed dividend to the Investor Education & Protection Fund ("IE&P Fund") of the Central Government are as below:

Financial Year to which dividend relates	Date of declaration	Due for Transfer to IE&P Fund
2005-06	14.07.2006	19.08.2013
2006-07	16.07.2007	21.08.2014
2007-08	14.07.2008	19.08.2015
2008-09	10.07.2009	15.08.2016
2009-10	13.08.2010	18.09.2017
2010-11	11.07.2011	16.08.2018
2011-12	23.07.2012	28.08.2019

As provided under the Companies Act, 1956, dividends remaining unclaimed for a period of seven years shall be transferred by the Company to the IE&P Fund. In the interest of the investors, the company is in the practice of sending reminders to the investors concerned, before transfer of unclaimed dividend to the IE&P Fund. Unclaimed/unencashed dividends up to 2004-05 have been transferred to the IE&P Fund.

Instructions to Shareholders

(a) Shareholders holding shares in physical form

Requests for change of address must be sent to the Company's Registrar & Transfer Agent viz., S.K.D.C. Consultants Limited, Kanapathy Towers, 3rd Floor, 1391/A-1, Sathy Road, Ganapathy, Coimbatore-641006 ("RTA"), not later than 13th July, 2013 to enable them to forward the dividend warrants to the latest address of Members. Members are also advised to intimate the RTA the details of their bank account to enable incorporation of the same on dividend warrants. This would help prevent any fraudulent encashment of dividend warrants.

(b) Shareholders holding shares in demat form

Shareholders can make use of the National Electronic Clearing Services ("NECS") of Reserve Bank of India, offered at select centres, to receive dividend payment directly into their bank account, avoiding thereby the hassles relating to handling of physical warrants besides elimination of risk of loss in postal transit/ fraudulent encashment of warrants. The NECS operates on the account number allotted by the Bank post Core Banking Solution ("CBS") implementation. The new Bank account number may kindly be intimated by the shareholder to the Depository Participant (in case of the shares are held in demat mode) or to the Company's RTA viz., S.K.D.C. Consultants Limited (in case the shares held in physical mode) by sending a request letter along with a cancelled cheque, if not already done.

Listing on Stock Exchanges and Stock Code

National Stock Exchange of India Ltd	:	SHANTIGEAR
Bombay Stock Exchange	:	522034
ISIN Number in NSDL & CDSL for equity shares	:	INE 631A01022

The Company has paid annual listing fees for the financial year 2013-2014 in respect of the above stock exchanges.

Stock Market Data

Month	Bombay Stock Exchange Limited (BSE)		National Stock Exchange of India Limited (NSE)	
	High (₹)	Low (₹)	High (₹)	Low (₹)
April 2012	41.50	36.10	41.15	36.80
May 2012	53.35	36.70	53.45	36.50
June 2012	57.75	49.30	57.90	49.35
July 2012	69.60	50.50	69.50	50.70
August 2012	71.00	66.25	72.00	66.10
September 2012	75.50	69.50	75.75	69.25
October 2012	76.50	64.70	76.50	64.50
November 2012	67.95	50.25	68.00	50.00
December 2012	72.95	58.10	64.25	57.65
January 2013	72.40	60.60	72.50	60.00
February 2013	64.65	59.00	70.40	59.00
March 2013	61.75	53.50	61.75	53.50