



# SHANTHI GEARS LIMITED

*Annual Report 2013 - 14*

## CONTENTS

Corporate Information	01
Directors' Profile	02
Management Discussion and Analysis	03
General Shareholder Information	06
Corporate Governance Report	11
Directors' Report	17
Auditors' Report	22
Balance Sheet	26
Statement of Profit	27
Cash Flow Statement	28
Notes to Financial Statements	30

## 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 great satisfaction and confidence as I look back on the year gone by. This marks the first full year as a Murugappa Group Company for Shanthi Gears and has been a rewarding year for us. The Company registered a growth in both the top line and bottom line despite not very favourable economic conditions.



Since taking over the Company in September, 2012 the Senior Management team of Shanthi Gears has been actively involved in re-building the organisation. Our focus in the early period was on winning back the confidence of customers, strengthening customer relationships, improving operational efficiencies and processes, and building the base for the future.

I am glad to say these efforts have begun to bear fruit in this year with many customers beginning to trust Shanthi with their requirements, once again. The re-organisation of the sales structure and enhancing our presence by almost doubling our sales force in the field has helped us reach out and get closer to a larger customer base. Our efforts at improving efficiencies have been focused on service levels to customers and continuous efforts at managing the cost base to help the Company in maintaining its profitability.

I believe we are now at the threshold of a transformation as we seek to move from the Transition phase of the last 2 years. We look forward with hope for a new and exciting future as we seek to grow our business, nurture relationships and deliver value to all our stakeholders. Enhancing our network of channel partners, focus on product development, driving revenue through service and exploring new avenues for growth would be the focus of the Company. To this end, the Company has been investing in people with a view to building the talent pipeline. Together with the strong engineering and design capabilities, a large skill pool, state-of-the-art manufacturing infrastructure and its ability to innovate and re-engineer, we are confident we will be able to achieve our goals.

The team at Shanthi Gears is driving this transformation with zeal and passion under the leadership of Dr. Sreeram Srinivasan. I thank all our employees and stakeholders for their contribution and support and remain hopeful of their continued passion, enthusiasm and co-operation as we progress into this phase.

I also thank my colleagues on the Board for their valuable contribution and guidance in this transformation.

I also wish to thank you, the shareholders, for your continued support and confidence in the Company.

Sincerely,

**MM Murugappan**

## 10 Years Financials

₹ Crores

OPERATING RESULTS	2013-14	2012-13	2011-12	2010-11	2009-10	2008-09	2007-08	2006-07	2005-06	2004-05
Sales (Including excise duty)	166.69	159.01	186.67	173.46	129.07	276.90	274.73	227.97	184.26	138.07
Profit before Depreciation, Interest & Tax (PBDIT)	51.56	50.93	69.32	71.48	53.14	103.20	94.61	74.16	58.77	41.62
Profit before Interest & Tax (PBIT)	25.95	22.36	42.10	44.64	26.21	77.43	72.15	55.93	46.06	32.04
Profit before Tax (PBT)	25.93	22.07	41.60	43.76	24.33	68.81	67.49	51.15	43.06	30.66
Profit after Tax (PAT)	18.38	15.47	28.13	27.86	16.18	44.06	44.16	33.59	28.06	19.12
Earnings Per Share (₹)	2.25	1.89	3.44	3.41	1.98	5.39	5.40	4.44	3.56	2.45
Dividend Per Share (₹)	1.00	0.60	1.00	1.00	0.80	1.20	1.20	1.00	1.00	0.50
Book Value Per Share (₹)	32.61	31.53	30.33	28.05	25.80	24.75	20.77	16.28	11.90	8.98
Interest	0.02	0.29	0.62	8.76	3.81	11.56	6.37	6.23	4.26	2.43
<b>SOURCES AND APPLICATION OF FUNDS</b>										
<b>SOURCES OF FUNDS</b>										
Share Capital	8.17	8.17	8.17	8.17	8.17	8.17	8.17	8.08	7.88	7.80
Reserves & Surplus	258.23	249.41	239.67	221.04	202.68	194.12	161.53	123.45	85.90	62.25
Net Worth	266.40	257.58	247.84	229.21	210.85	202.29	169.70	131.53	93.79	70.05
Debt	0.00	0.00	3.96	9.75	25.63	89.27	92.79	118.68	120.46	54.95
Deferred Tax Liability (Net)	2.51	6.88	10.73	14.26	17.49	20.09	19.06	16.58	9.84	6.45
Total	268.91	264.46	262.53	253.22	253.97	311.64	281.55	266.78	224.09	131.45
<b>APPLICATION OF FUNDS</b>										
Gross Fixed Assets	364.27	361.09	360.21	353.46	344.13	338.60	299.19	265.20	191.18	142.05
Accumulated Depreciation	269.25	245.34	222.00	195.54	169.20	142.45	118.04	95.81	77.95	65.74
Net Fixed Assets	95.02	115.75	138.21	157.91	174.92	196.15	181.15	169.38	113.23	76.31
Capital Work-in-Progress	3.60	3.62	5.59	7.54	5.17	7.07	16.16	13.19	8.65	3.86
Short Term Investments & Deposits	107.76	90.60	55.02	46.00	27.50	47.50	15.84	18.13	47.51	7.50
Net Working Capital	62.53	54.49	63.71	41.77	46.38	60.92	68.40	66.07	54.71	43.78
Total	268.91	264.46	262.53	253.22	253.97	311.64	281.55	266.78	224.09	131.45
<b>RATIOS</b>										
PBDIT To Sales (%)	30.93	32.03	37.14	41.21	41.17	37.27	34.44	32.53	31.90	30.14
PBIT To Sales (%)	15.57	14.06	22.55	25.73	20.31	27.96	26.26	24.53	25.00	23.21
PBT To Sales (%)	15.56	13.88	22.28	25.23	18.85	24.85	24.57	22.44	23.37	22.21
PAT To Sales (%)	11.03	9.73	15.07	16.06	12.54	15.91	16.07	14.73	15.23	13.85
Interest Cover (times)	2578.00	175.62	111.81	8.16	13.95	8.93	14.85	11.90	13.80	17.13
ROCE (%) #	16.10	12.86	20.29	21.54	11.57	29.32	27.15	22.49	26.08	25.85
Return on Networth (%)	6.90	6.01	11.35	12.16	7.67	21.78	26.02	25.54	29.92	27.30
Total Debt Equity Ratio	0.00	0.00	0.02	0.04	0.12	0.43	0.48	0.60	1.07	0.58
Long Term Debt Equity Ratio	0.00	0.00	0.00	0.02	0.05	0.08	0.13	0.18	0.30	0.02
Sales/Net Fixed Assets (times)	1.75	1.37	1.35	1.10	0.74	1.41	1.52	1.35	1.63	1.81
Net Working Capital Turnover (times)	2.67	2.92	2.93	4.15	2.78	4.55	4.02	3.45	3.37	3.15

# 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

### **CHIEF FINANCIAL OFFICER**

KRISHNA RAMNATH

### **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, Avinashi Road, Muthugoundenpudur, Coimbatore  
D UNIT, K. Krishnapuram, Tirupur District  
FOUNDRY DIVISION, Kannampalayam, Coimbatore

### **AUDITORS**

Deloitte Haskins & Sells  
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 (58 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 (66 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 (58 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 34 years of rich and varied experience in management including 22 years in Tube Investments of India Ltd.

### **Mr. V Venkiteswaran,** Non-Executive Director

Mr. V Venkiteswaran (67 years) 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. He has business experience of over 40 years in diverse areas of operations.

### **Mr. J Balamurugan,** Non-Executive Director

Mr. J Balamurugan (53 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 (51 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 multi-national and Indian companies

## MANAGEMENT DISCUSSION AND ANALYSIS

Global economies witnessed an improved year in 2013-14 when compared to the previous year. Thanks to several positive factors, global recovery is on track. The US economy registered sustained growth and is well on the path of recovery to pre-recession levels. The growth has been spurred by the shale gas boom and what is now referred as a "Renaissance in US Manufacturing". Europe seems to be coming out of its period of low growth with most major economies beginning to report growth, even though moderate. China continues to grow at a reasonable level though the rate of growth is lower when compared to the past. Japan too is witnessing improvement with the policy measures of the new administration.

The Indian economy passed through a difficult period with the growth rate expected to be less than 5%, below the initial estimates. High inflation for a greater part of the year, widening current account deficit, depreciating currency and tight money conditions together with high interest rates dampened the investment climate leading to a slowdown in completion of projects and very little commitment to new projects. The Index of Industrial Production fell by 1.93%, y-o-y February, 2014 with manufacturing registering the largest decline of 3.72%. The Capital Goods sector declined significantly by 17.37%.

### 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 ₹ 2500 crores, down from about ₹ 3000 crores in the previous year. The industry is expected to touch about ₹ 3200 crores in the next few years. Certain sectors like Steel, Metro and Railways have witnessed some growth but sectors like Cement, Mining, Sugar, Construction and Infrastructure have registered negative growth. The Windmill sector which used to be high in growth has been declining over the last few years. It is expected that most of these sectors will recover and start to grow in the coming months with a better industrial scenario and more growth friendly policies.

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. While most of the safety critical applications are imported from Europe, China has been very active in the other segments. The Indian market is very attractive to the European manufacturers and a few of them are exploring possibilities of establishing a presence here. Export of gears and gear boxes presents an opportunity and the opening up of the North American market augurs well for the future of exports.

There are two major segments in the gears and gear box industry, namely the standard segment and the customised segment. It is estimated that the standard gearboxes constitute about 35% of the market and the customised segment about a third of the market. In the current year it is estimated that the market has shrunk due to the depressed economic conditions. Consequently, the standard and customised segments too have declined. Over a longer term, the standard gearbox segment is estimated to grow faster than the customised segment. The remainder of the industry is made up of loose gears and this segment has been largely static. The industry is witnessing a greater drive towards use of more energy efficient, compact gearboxes and the

planetary segment is beginning to witness greater interest. Growth in planetary gearboxes vis a vis helical or worm gearboxes is a sign of maturing of the market. This trend is likely to accelerate as the economy and the market grows and the awareness for energy efficiency improves. It is therefore important to build capabilities and technology for the manufacture of Planetary gearboxes.

Growth of the Capital Goods sector, Industrial growth, in general, and Infrastructure growth, in particular, present the opportunities for growth in the gears and gearbox industry. Import substitution by local players and overall economic growth would also drive the growth in this industry. Acquisition or development of technology from segment leaders would be critical to the indigenization drive.

## Review of Performance

Your Company focuses on supply of customised non-standard gearboxes, internals and spares (loose gears), and servicing of any make of gearbox. During the year the Company reported a revenue of ₹ 151 crores against ₹ 144 crores in the previous year resulting in a growth of 5%. This growth needs to be viewed against the backdrop of low industrial activity and decline in the key user segments for the Company's products leading to a drop in the total market for gears and gearboxes itself. The Company grew its top line in both the domestic market and in exports. This was possible mainly due to the focus on winning back customers lost during the difficult years of the past, improving operational efficiencies leading to higher service levels and focus on the service segment. The Company enhanced its presence in the market expanding its presence in key user locations and enhancing its reach to customers by strengthening its teams involved in sales and service. The Company also built on its distribution network during the year and established its presence in many key markets.

Thanks to focus on product mix, efficiencies and costs, the Profit before Tax for the year was higher at ₹ 25.93 crores against ₹ 22.07 crores. Intense competition and pressure on prices continued to be significant concerns through the year and are expected to continue well into the new financial year. Nevertheless, your company continued to build a strong team to create an efficient and enduring talent pool with a view on the long-term growth of the company. Your company continued to invest in new products, skill development and employee engagement initiatives.

The Company took several steps to maintain its control over the utilisation of resources, both fixed and revolving. Working Capital continued to be managed tightly and remained in line with the previous year despite worsening trends in the industry. Essential Capital expenditure was undertaken primarily to improve efficiency and productivity at the plants. The Company remains debt free and invests its surplus funds judiciously ensuring safety and appropriate returns.

The Product development initiatives of the Company are in line with its plan and are linked to market / customer requirements. A new range of standard gearboxes was also launched during the year enhancing our competitiveness in this segment. Your Company's stress on cost innovation is likely to result in further enhancing cost competitiveness of products aimed at the faster growing standard gearbox segment. The Company also continued to invest in building strong capabilities in Planetary gearboxes. These gear boxes, developed completely in-house by the Company, have met with good acceptance from pedigreed customers and have created industry leading references for critical applications in certain important market segments during the year.



The Company remains confident that the future is positive given the confidence of its customers on the Company's products, service and on its ability to provide value over a long period.

## **Internal Control**

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

Coimbatore  
29<sup>th</sup> April, 2014

**By Order of the Board**

**Sreeram Srinivasan**  
President & Executive Director

## General Shareholder Information

**Registered Office** : 304-A, Trichy Road, Singanallur, Coimbatore-641 005

### Annual General Meeting

Day : Saturday

Date : 26<sup>th</sup> July, 2014

Time : 4.00 P.M.

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

### Financial Calendar

Annual General Meeting	26 <sup>th</sup> July, 2014
Results for the Quarter Ending 30 <sup>th</sup> June, 2014	26 <sup>th</sup> July, 2014
Results for the Quarter Ending 30 <sup>th</sup> September, 2014	27 <sup>th</sup> October, 2014
Results for the Quarter Ending 31 <sup>st</sup> December, 2014	January / February, 2015
Results for the Year Ending 31 <sup>st</sup> March, 2015	April / May, 2015

**Book Closure Dates** : 19<sup>th</sup> July, 2014 to 26<sup>th</sup> July, 2014 (Both days inclusive)

### Dividend

During the year, in February, 2014, the Company paid an interim dividend of ₹ 1/- per equity share. The same has been treated as final dividend.

### Unclaimed Dividend

The details of dividend paid by the Company and the respective due dates for 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
2006-07(Final)	16.07.2007	21.08.2014
2007-08(Final)	14.07.2008	19.08.2015
2008-09(Final)	10.07.2009	15.08.2016
2009-10(Final)	13.08.2010	18.09.2017
2010-11(Final)	11.07.2011	16.08.2018
2011-12(Final)	23.07.2012	28.08.2019
2012-13(Final)	24.07.2013	29.08.2020
2013-14 (Interim)	27.01.2014	04.03.2021

As provided under the Companies Act, 2013, 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 2005-06 have been transferred to the IE&P Fund.