



**SHANTHI GEARS LIMITED**

*Annual Report 2014 - 15*

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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,

2014-15 was a difficult year for Shanthi Gears. In subdued economic conditions, the company maintained its revenues but witnessed a significant decline in profits.

Our efforts in rebuilding the organisation continued during the year. The focus was towards regaining customer confidence, strengthening relationships and improving operations effectiveness in order to build a robust future. Although this has not reflected in improved performance, we are confident that it will do so in the coming years. During the year we also took a decision to make firm corrections relative to overdue payments and to manage the cost base more effectively without any compromise on quality and service.

I believe we are now at the threshold of a transformation. 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, focusing on new product development, driving revenue through service and new products and exploring new avenues for growth will be the direction of the Company. To this end, the Company has been investing in people and resources with a view to building the talent pipeline. Together with strong engineering and design capabilities, a large skill pool, state-of-the-art manufacturing infrastructure and an ability to innovate and re-engineer, we are confident in achieving our goals.

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 thank you shareholders, for your continued support and confidence in the Company.

Sincerely,

**MM Murugappan**

## 10 Years Financials

₹ Crores

OPERATING RESULTS	2014-15	2013-14	2012-13	2011-12	2010-11	2009-10	2008-09	2007-08	2006-07	2005-06
Sales (Including excise duty)	165.03	166.69	159.01	186.67	173.46	129.07	276.90	274.73	227.97	184.26
Profit before Depreciation, Interest & Tax (PBDIT)	29.89	51.56	50.93	69.32	71.48	53.14	103.20	94.61	74.16	58.77
Profit before Interest & Tax (PBIT)	13.14	25.95	22.36	42.10	44.64	26.21	77.43	72.15	55.93	46.06
Profit before Tax (PBT)	13.11	25.93	22.07	41.60	43.76	24.33	68.81	67.49	51.15	43.06
Profit after Tax (PAT)	9.32	18.38	15.47	28.13	27.86	16.18	44.06	44.16	33.59	28.06
Earnings Per Share (₹)	1.14	2.25	1.89	3.44	3.41	1.98	5.39	5.40	4.44	3.56
Dividend Per Share (₹)	0.50	1.00	0.60	1.00	1.00	0.80	1.20	1.20	1.00	1.00
Book Value Per Share (₹)	33.14	32.61	31.53	30.33	28.05	25.80	24.75	20.77	16.28	11.90
Interest	0.03	0.02	0.29	0.62	8.76	3.81	11.56	6.37	6.23	4.26
<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	8.17	8.08	7.88
Reserves & Surplus	262.57	258.23	249.41	239.67	221.04	202.68	194.12	161.53	123.45	85.90
Net Worth	270.74	266.40	257.58	247.84	229.21	210.85	202.29	169.70	131.53	93.79
Debt	0.00	0.00	0.00	3.96	9.75	25.63	89.27	92.79	118.68	120.46
Deferred Tax Liability (Net)	0.86	2.51	6.88	10.73	14.26	17.49	20.09	19.06	16.58	9.84
Total	271.60	268.91	264.46	262.53	253.22	253.97	311.64	281.55	266.78	224.09
<b>APPLICATION OF FUNDS</b>										
Gross Fixed Assets	367.52	364.27	361.09	360.21	353.46	344.13	338.60	299.19	265.20	191.18
Accumulated Depreciation	285.87	269.25	245.34	222.00	195.54	169.20	142.45	118.04	95.81	77.95
Net Fixed Assets	81.65	95.02	115.75	138.21	157.91	174.92	196.15	181.15	169.38	113.23
Capital Work-in-Progress	3.61	3.60	3.62	5.59	7.54	5.17	7.07	16.16	13.19	8.65
Short Term Investments & Deposits	101.09	107.76	90.60	55.02	46.00	27.50	47.50	15.84	18.13	47.51
Net Working Capital	85.25	62.53	54.49	63.71	41.77	46.38	60.92	68.40	66.07	54.71
Total	271.60	268.91	264.46	262.53	253.22	253.97	311.64	281.55	266.78	224.09
<b>RATIOS</b>										
PBDIT To Sales (%)	18.11	30.93	32.03	37.14	41.21	41.17	37.27	34.44	32.53	31.90
PBIT To Sales (%)	7.96	15.57	14.06	22.55	25.73	20.31	27.96	26.26	24.53	25.00
PBT To Sales (%)	7.94	15.56	13.88	22.28	25.23	18.85	24.85	24.57	22.44	23.37
PAT To Sales (%)	5.65	11.03	9.73	15.07	16.06	12.54	15.91	16.07	14.73	15.23
Interest Cover (times)	996.33	2578.00	175.62	111.81	8.16	13.95	8.93	14.85	11.90	13.80
ROCE (%) #	7.71	16.10	12.86	20.29	21.54	11.57	29.32	27.15	22.49	26.08
Return on Networth (%)	3.44	6.90	6.01	11.35	12.16	7.67	21.78	26.02	25.54	29.92
Total Debt Equity Ratio	0.00	0.00	0.00	0.02	0.04	0.12	0.43	0.48	0.60	1.07
Long Term Debt Equity Ratio	0.00	0.00	0.00	0.00	0.02	0.05	0.08	0.13	0.18	0.30
Sales/Net Fixed Assets (times)	2.02	1.75	1.37	1.35	1.10	0.74	1.41	1.52	1.35	1.63
Net Working Capital Turnover (times)	1.94	2.67	2.92	2.93	4.15	2.78	4.55	4.02	3.45	3.37

# 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  
SOUNDARA KUMAR

### **COMPANY SECRETARY**

C SUBRAMANIAM

### **REGISTERED OFFICE**

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

### **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**

IDBI Bank Ltd  
Kotak Mahindra Bank

**CORPORATE IDENTIFICATION NUMBER** L29130TZ1972PLC000649

## Directors' Profile

### **Mr. M M Murugappan,** Chairman

Mr. M M Murugappan (59 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 (67 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 (59 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 35 years of rich and varied experience in management including 23 years in Tube Investments of India Ltd.

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

Mr. V Venkiteswaran (68 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 (54 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.

### **Ms. Soundara Kumar,** Non-Executive Director

Ms. Soundara Kumar (61 Years) holds a graduate degree in Mathematics. She worked in State Bank of India for over 39 years both in India and overseas and is well experienced in the financial services industry. She retired as Deputy Managing Director, Stressed Asset Management Group of State Bank of India. She is also on the Board of various companies including Ramco Systems Ltd, Orchid Chemicals & Pharmaceuticals Ltd and Asset Reconstruction Company (India) Ltd.

## MANAGEMENT DISCUSSION AND ANALYSIS

The Indian economy registered a growth rate of 7.4% for the year compared to 6.9% for the year 2013-14. The Indian Rupee remained range bound against the US dollar during the last financial year. After the formation of the new government at the center, various policy initiatives have been undertaken such as reallocation of coal blocks, investments in railway infrastructure, opening up of insurance to foreign direct investment. Many broad based set of initiatives aimed at encouraging "Make in India" is expected to give an impetus to the manufacturing sector. Inflation rate has been subdued and interest rates have softened.

### Review of Business

#### Industry Scenario

Your Company is in the business of design, manufacture, supply and servicing of gears and gear boxes. While the investment cycle in a few sectors of the economy such as Steel, Power, Windmill and Defence / Railways picked up, investments in many other sectors like Cement, Mining, Sugar, Construction and infrastructure did not. With the removal of hurdles in the mining sector, greater thrust on renewable energy, specifically wind power, and reactivating the stalled Construction, the Infrastructure industries would see more investments in the year.

The bulk of this market is serviced by five major national players while a fair portion of the market is met through imports. Import of gearboxes happens predominantly in the safety critical applications and high technology areas such as gearboxes for wind turbine generators, power plants and marine applications. While most of these are imported from Europe, China caters to the demand in other segments.

There are two major segments in the gear box industry, namely the standard segment and the customized segment. It is estimated that the standard gearboxes constitute about 35% of the market and the customized segment about a third of the market. Loose gears make up the balance. The market this year has been largely static. The standard gearbox segment is expected to grow at a faster rate while compared with the customized segment. The market for gearboxes is trending towards higher sizes due to larger capacities being planned by the various users. Accompanying these trends is the scale-up in capital equipment sizes. Newer technologies, energy efficiency and space reduction are emerging as key drivers in the gear box industry. India, in recent years, is witnessing a growth in the planetary gearbox segment signaling a maturing of the market.

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

While your Company services the needs of standard gearboxes, it differentiates itself through focus on supply of customised non-standard gearboxes. In addition, the Company also sells internals and spares (loose gears), and services any make of gearbox.

During the year, the Company reported a revenue of ₹152.00 crores in line with the previous year. During the year under review, the Company focused on re-establishing itself in the market and building a strong foundation for the future in terms of customers, capabilities and people. The Company grew its orders booked during the year by 20% due to the efforts taken in the previous year to enhance presence in the market especially in key user locations, enhancing its reach by strengthening its Sales and Service teams, building references in high potential segments, entry into the defence segment and building its capability in certain high end applications.

The Profit before Tax for the year was at ₹ 13.11 crores, after a charge of ₹ 3.03 crores towards settlement of a long pending dispute with a customer, against ₹ 25.93 crores. in the previous year. Intense competition and pressure on prices continued to be significant concerns through the year. The Company will focus on enhancing service levels, growing in profitable segments, improving operating efficiencies and cost reduction with a view to improving its profitability.

The Company continued to invest in human resources, its key strength, with a view to building a pool of talented people to lead the Company into the future. Skill development and employee engagement initiatives continued to receive high attention. Your Company signed its maiden Wage Settlement Agreement with the Union through amicable negotiations brining in measures for improving the productivity in the long run.

The Company undertook capital expenditure facilitating improvements in efficiency and productivity and building capability. While the Company took several steps to maintain control over its working capital, higher inventory levels were necessary to service requirements of customers. 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 market and customer requirements. Your Company's emphasis 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.

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 lasting value. Expectations of a more conducive economic environment especially with the initiatives of the government to revive manufacturing growth in India augur well for the Company.

## 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.

**On behalf of the Board**

Coimbatore  
29<sup>th</sup> April, 2015

**M M Murugappan**  
Chairman



## Enterprise Risk Analysis and Management

Risk	Why considered as risk	Mitigation Plan / Counter Measure
General slowdown in industry	Decline in overall economic growth, especially Capital Goods sector, will impact order book	<ul style="list-style-type: none"> <li>❖ Pursue opportunities in international markets</li> <li>❖ Focus on recession proof segments like Railways and Defence</li> <li>❖ Diversify into new segments and widen customer base in traditional segments</li> <li>❖ Focus on adjacencies</li> </ul>
Risk of variations due to long gestation affecting profitability	Likelihood of change in input costs	<ul style="list-style-type: none"> <li>❖ Obtaining partial payment in advance and tying up supplies</li> <li>❖ Adequate protection for price escalation, through agreements</li> <li>❖ Identifying alternative uses</li> </ul>
Changes by customers specifications, schedule or inspection	Changes to specifications could lead to change in profits	<ul style="list-style-type: none"> <li>❖ System based tracking of all changes with alerts to people concerned</li> <li>❖ Feedback to Sales &amp; Costing for re-pricing</li> </ul>
Statutory compliances	Increasing regulatory oversight	<ul style="list-style-type: none"> <li>❖ Continuous monitoring</li> <li>❖ Constant Updation of norms and regular audits</li> </ul>
HR Risks	Attrition & Loss of skilled resources	<ul style="list-style-type: none"> <li>❖ Adequate Remuneration</li> <li>❖ Opportunities to grow from within</li> <li>❖ Training and development on contemporary practices</li> </ul>
IT Risks	Data Security, disruption due to breakdown	<ul style="list-style-type: none"> <li>❖ Access controls, firewalls and building multiple layers of security</li> <li>❖ Back-up at two levels including remote backup</li> <li>❖ Disaster recovery systems</li> </ul>

On behalf of the Board

Coimbatore  
29<sup>th</sup> April, 2015

**M M Murugappan**  
Chairman

## General Shareholder Information

### Company Registration

The Corporate Identity Number (CIN) of the company is L29130TZ1972PLC000649

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

### Annual General Meeting

Day : Thursday

Date : 30<sup>th</sup> July, 2015

Time : 4.00 P.M.

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

### Tentative Calendar for 2015 - 16

Annual General Meeting	30 <sup>th</sup> July, 2015
Results for the Quarter Ending 30 <sup>th</sup> June, 2015	30 <sup>th</sup> July, 2015
Results for the Quarter Ending 30 <sup>th</sup> September, 2015	28 <sup>th</sup> October, 2015
Results for the Quarter Ending 31 <sup>st</sup> December, 2015	January / February, 2016
Results for the Year Ending 31 <sup>st</sup> March, 2016	April / May, 2016

**Book Closure Dates** : 25<sup>th</sup> July, 2015 to 30<sup>th</sup> July, 2015 (Both days inclusive)

### Dividend

During the year, in February, 2015, the Company paid an interim dividend of ₹ 0.50/- 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 of transfer of the unclaimed / un-encashed 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
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
2014-15 (Interim)	02.02.2015	10.03.2022

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/un-encashed dividends up to the year 2006-07 have been transferred to the IE&P Fund.