

DRIVING SUSTAINABLE PROFITABLE GROWTH





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Cautionary Statement

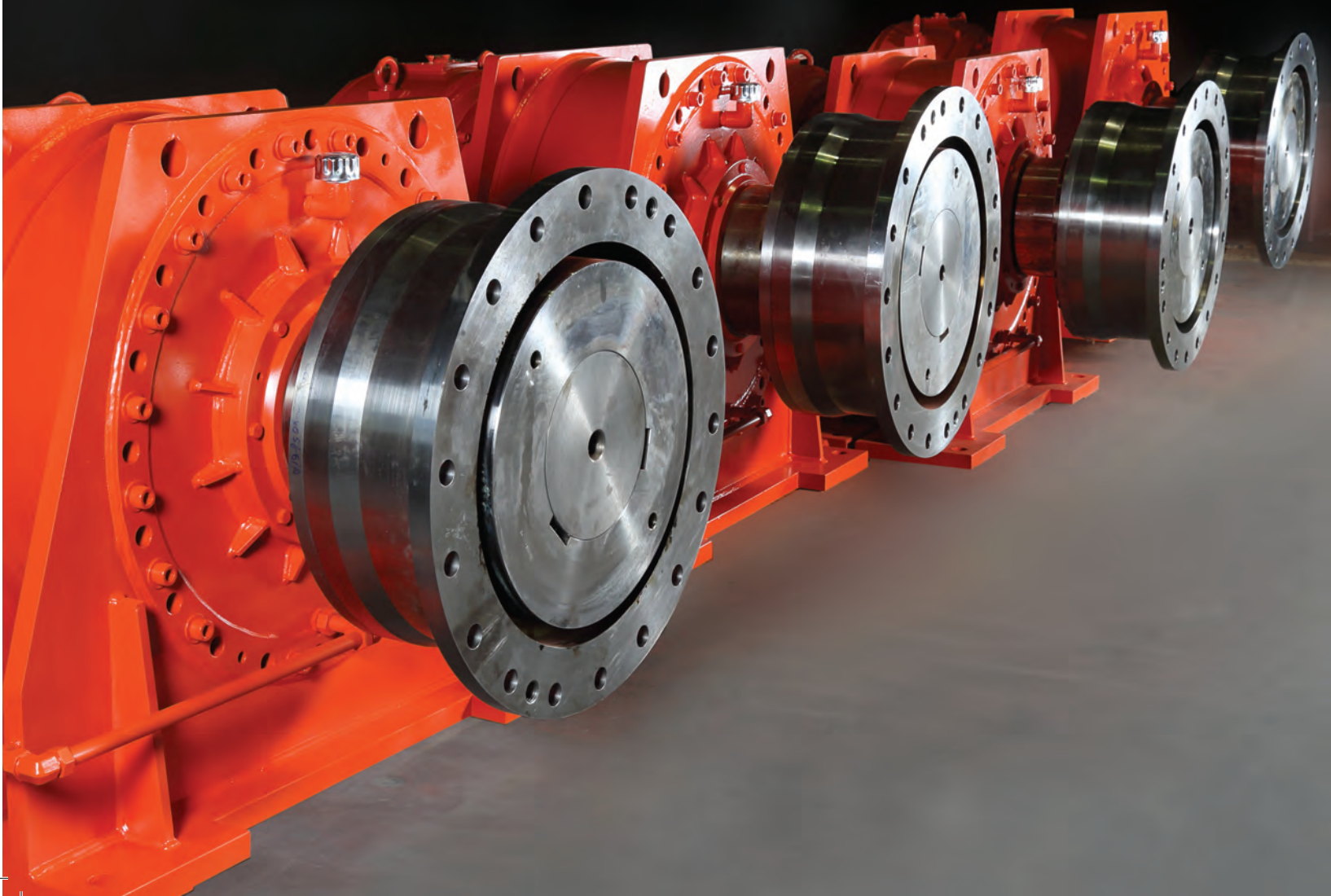
Certain expectations and projections regarding the future performance of the Company referenced in the Annual Report constitute forward-looking statements. These expectations and projections are based on currently available competitive, financial and economic data, along with the Company's operating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

DRIVING SUSTAINABLE PROFITABLE GROWTH

2016-17 - Shanthi Gears leveraged its strength of being a manufacturer of quality gears and assemblies to enlarge its market presence, create a robust channel, enhance process capabilities, launch new products and build a strong people resource.

The year was marked by a concerted drive for consolidation of competencies, innovative engineering, customer centric value creation and brand leadership.

Differentiated strategies with one clear focus - driving sustainable, profitable growth.





CHAIRMAN'S MESSAGE

Dear Shareholders,

2016-17. At Shanthi Gears, the year was marked by a focused drive for steady, sustainable growth. Despite the domestic market registering a slowdown, reacting to the demonetisation and currency correction initiative of the Government, your Company recorded a turnover of ₹ 203.82 Crores overcoming hurdles with growth-led strategies of enhancing efficiencies, exploring new markets and enlarging the customer base.

In line with this, the Company followed a roadmap of capacity enhancement, new product innovation, market and channel development, customer partnering and value added services to grow the business.

During the year the Company rolled out the OPEX model of work practices for optimising efficiencies, reducing downtime, managing cost and adhering to best-in-class standards in quality and execution. Training and capability building programmes enhanced people efficiencies, gearing them for greater responsibilities and growth.

At Shanthi Gears the future holds great promise. The Company's reputation as a manufacturer of quality gears and its technical expertise has positioned it as a reliable supplier to large OEMs, Government Undertakings, End-Users and

Distributors. The Government's 'Make-in-India' thrust and infrastructure building programmes will further provide us the opportunities in conventional and emerging markets.

Across Shanthi Gears there is a strong focus on building sustainable and profitable growth. The team has charted out an aggressive growth map and is well on the way to meet ambitious targets that it has set for itself.

Our People are our greatest assets. I thank the respective teams across the Company for their diligence and dedication and look forward to the achievement of greater goals.

In our journey, the members of the Board have been a great source of strength and support. I thank them sincerely for their active involvement, support and guidance to the Company's Management Team and to me personally.

I thank all of you dear shareholders for your continued support and for the confidence reposed in us. We will do our best.

Sincerely,

M M Murugappan

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*Award for 'Best Improvement in Employee Engagement'
in Medium Business Category in the Murugappa Group.*

At Shanthi Gears, we believe people potential is of vital importance for the growth of an organisation.

In line with this, the Company focused on building a strong people resource, resilient and ready to meet the challenges of a competitive and global business environment.

Collaborative team projects, focus on best practices, multi-skilling of workmen, communication meetings

fostering trust and transparency, employee engagement initiatives, motivational reward and recognition programmes - across Shanthi Gears, differentiated people strategies were deployed to build an empowered, goal driven, workforce.

Training and capability development modules were mapped to accelerate learning, hone people competencies and build a talent and leadership pipeline.

Driven by a passion to excel, teams across the Company participated in various competitions, winning awards for best-in-class work practices.

Capability building, commitment to customer-centric value creation and a thrust to accelerate performance - these formed part of the people strategies to drive the Company's goal of sustainable, profitable growth.

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Quality, Dependability, Deliverability- the 3 word formula has defined us at Shanthi Gears and has been our main strength. When our customers refer to our gears as “quality gears” that have been working non stop at their factories for years, it makes us happy at our brand reputation. A reputation, earned from our uncompromising focus on quality and our commitment to customer value creation. A reputation, that comes with a great responsibility to sustain and surpass and also challenges us to push limits.

Carrying this forward, the Company launched a range of new products and value added services, both for the non standard segment and channel market.

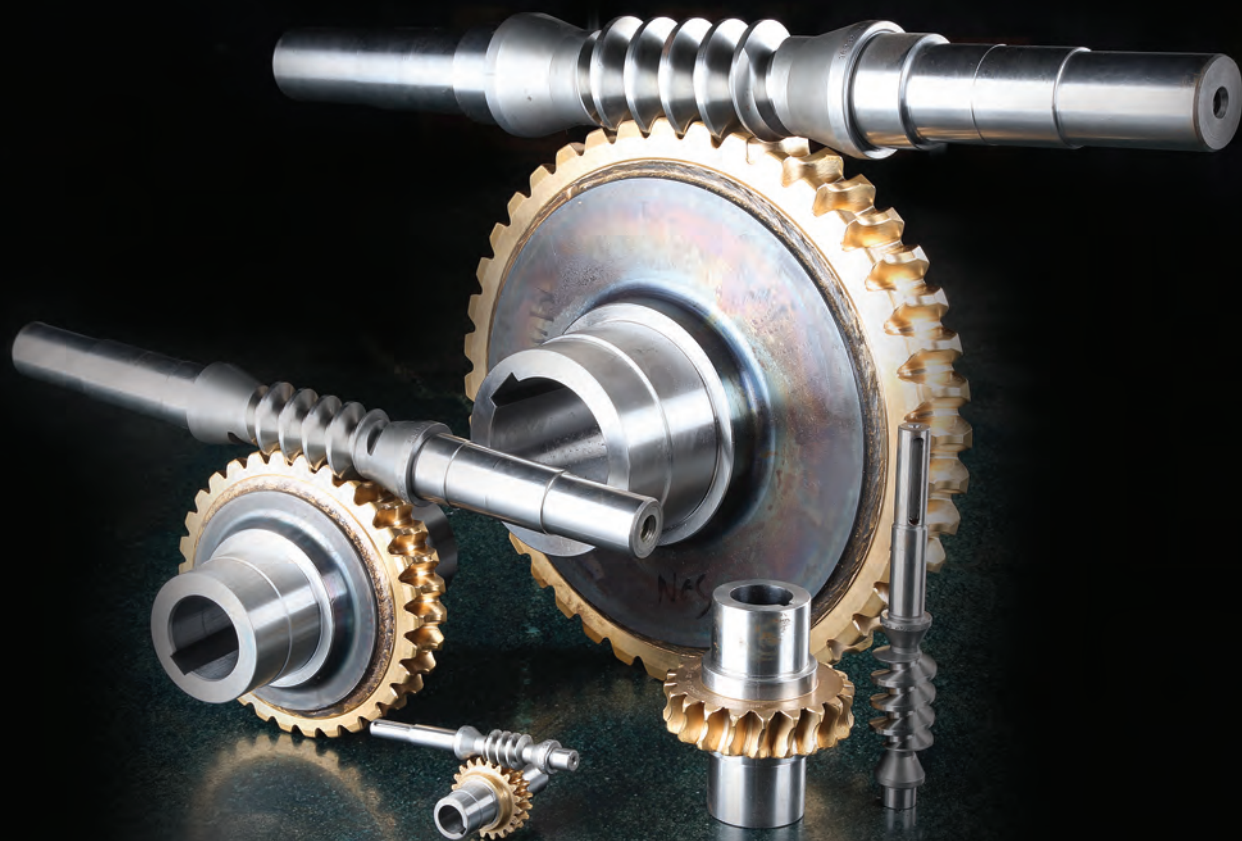
The Company expanded its presence in the niche, non standard space, with custom built, import-substitute products and replacement spares for highly critical applications.

Leveraging its industry experience, technical knowhow and design engineering expertise, the Company focused on market penetration and value partnering with OEM's, Government Undertakings and Large End User segments.

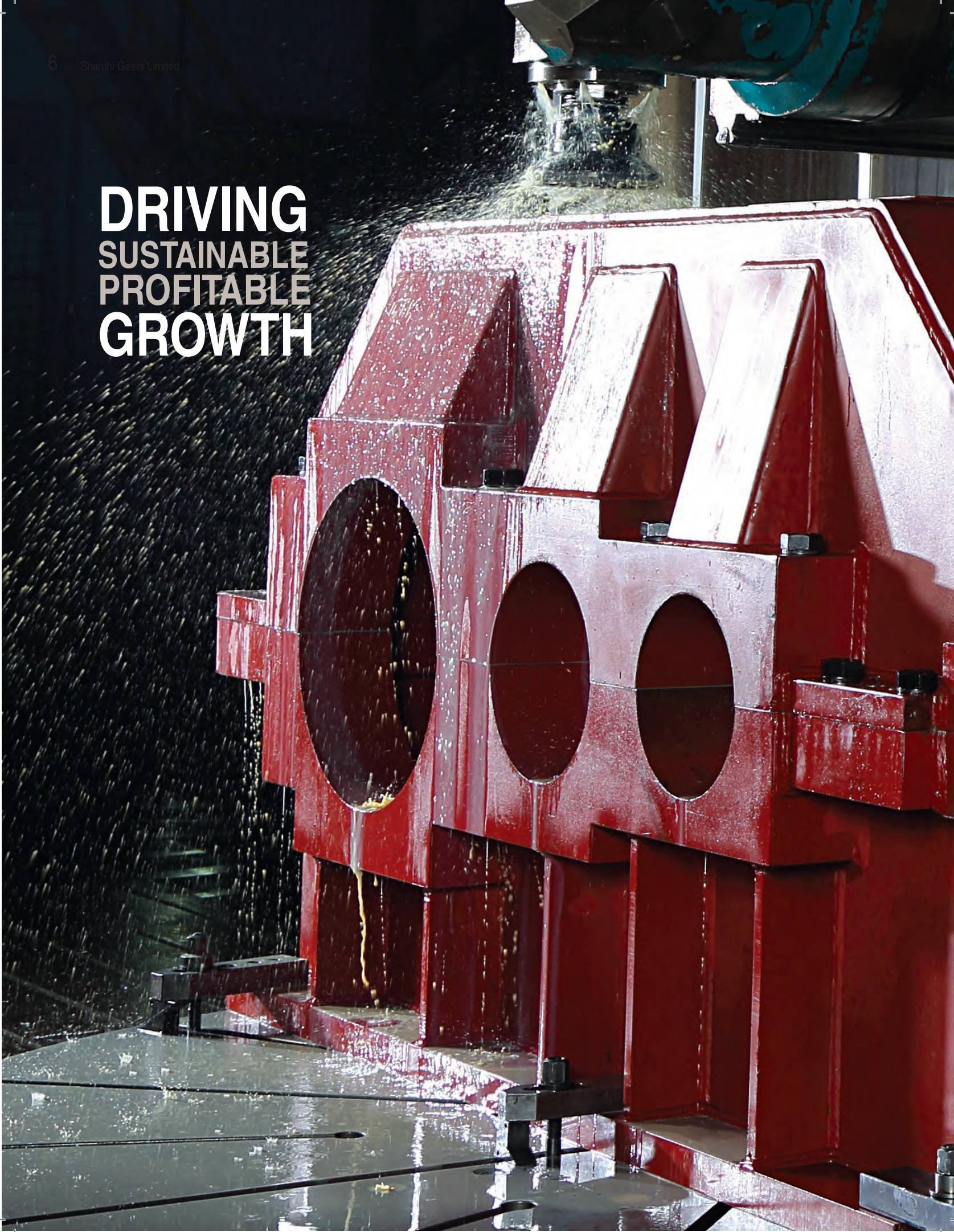
During the year, sales of helical gears showed a steady upward graph, while worm gears gained good traction.

To address the burgeoning demand in the Channel market, the Company launched the 'Elite' brand of Standard Helical Gears, 'Worm +' range of Standard Worm Gears and the 'Power +' group of Gear Couplings.

The Company adopted an aggressive and strategic roadmap for market expansion and brand visibility. Channel promotion and market building initiatives such as Customer Connect Meets, All India Dealer Meet, Customer Portal, E-Store and Service Centre, enabled a significant growth in sales and service revenue for the Company.



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Automation, capacity augmentation, process optimisation - at Shanthi Gears the focus was to consolidate capabilities, enhance efficiencies and build best-in-class manufacturing systems.

Envisioning the demand from new and emerging markets and to address niche, high value segments, the Company enhanced its process capabilities in line balancing by adding modern, fully automated hobbing and grinding machines, to manufacture special gears for heavy duty applications. Prototype development and product approval of a new drive assembly was a major breakthrough during the year, gaining access to new markets.

At Shanthi Gears, Operational Excellence became the main focus in building people, process and product capabilities.

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To foray into new geographies, new product segments, the Company built capabilities across the value chain to address critical applications in conventional and emerging markets.