

**Shanthi**  **Gears**

SHANTHI GEARS LIMITED

47<sup>th</sup> Annual Report  
2019-2020



**Shanthi** 



**“WE  
MAKE THE BEST &  
REBUILD  
THE REST”**

## CONTENTS

## Page No

### CORPORATE REVIEW

From the Desk of The Chairman	02
10 Year Financial Highlights	05
Board of Directors	06
Corporate Information	07

### MANAGEMENT REPORTS

Board's Report & Management Discussion and Analysis	08
Report on Corporate Governance	44
General Shareholder Information	55

### AUDITORS' REPORT AND FINANCIAL STATEMENTS

Auditors' Report	62
Financial Statements	70



### 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.



# The Spirit of the Murugappa Group

The light of  
**INTEGRITY**  
that gives us the courage to  
always do the right thing

The light of  
**RESPONSIBILITY**  
that gives us the humility to  
think about the world around us

The light of  
**PASION**  
that provides us with  
the desire to win

The light of  
**RESPECT**  
that inspires people  
around us to perform

The light of  
**QUALITY**  
which makes us  
dream of excellence

These **five lights** guide us as we navigate  
through professional and personal decisions.

## From the Desk of The Chairman



**Dear Shareholders,**

The FY 2019-20 was a challenging year for our business in many ways. The business achieved a double-digit growth in the first half of the year and the second half of the year was sluggish due to lower demand across the key sectors. The business was focused on the market development and customer engagement activities. Shanthi Gears Limited (SGL) participated in Indian and International exhibitions and gained visibility. We got the opportunity for developing products for newer applications in the overseas market. Your company continues to focus on maximizing the custom build products, cost optimization and enhancing the delivery performance. The team is working on many product development activities for major global customers in priority sectors. The results of these efforts would be seen in the coming years.

Your Company launched “**Shanthi Re-build**” to promote the service business and inaugurated Shanthi Re-build service

centers in select areas in the country to enhance reach. Customer relationships were built through a high level of customer engagement activities during the year. The company established itself as the most reliable service provider in servicing of critical Gear Boxes for various industries including the Government Sectors. SGL invested in precision equipments wherever technological upgradation was required to address the emerging opportunities.

The Company continued its focus on 4 key financial priorities i.e., Revenue growth, Profitability, Return on Capital Employed (RoCE) and Free Cash Flow (FCF). Conscious effort on cash generation such as effective working capital management helped generate strong free cash flow for the year. The year ended with COVID-19 pandemic, resulting in countrywide lock down. Your company prioritized the safety and health of its employees, ensured customer satisfaction and pitched in to help the society to battle the pandemic.

The real challenge would be in the coming months, where we must find ways to understand and respond to the gradually evolving dynamics of the new normal. Though there could be difficulties, your Company will overcome the downtrends by maintaining deep relationships with customers, suppliers and other stakeholders. As we look to the year ahead, I have confidence that Shanthi Gears will continue to be admired as a reliable partner for Mechanical Power Transmission Solutions.

The members of the Board continue to be a great source of encouragement and support to the Company's management team. I thank them for their involvement, guidance and participation.

I also take this opportunity to express my gratitude to all of you, our esteemed and valued shareholders for the continued support and the confidence you have reposed in the Company.

Sincerely,  
**L Ramkumar**



## Commitment to Stakeholders and Society

Your Company, being part of the Murugappa Group, is known for its tradition of philanthropy and community service.

The Company's philosophy is to reach out to the community by establishing service-oriented philanthropic institutions in the field of education and healthcare as the core focus areas.

Your Company has identified and provided infrastructure facility for 2 government schools in rural areas of Coimbatore by constructing class rooms and overhead water tank.

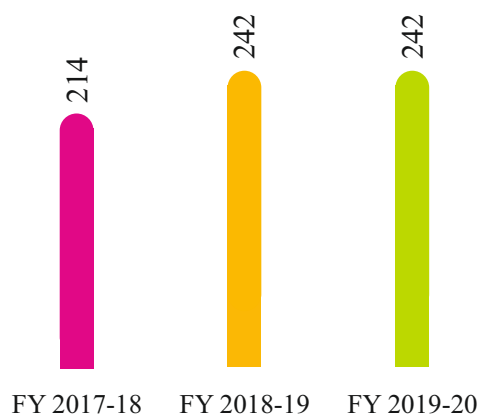
IIMPACT (IA) with the support of Shanthi Gears has mobilized and motivated non-school going and drop out girls, aged 6-14, from economically and socially backward families in the rural areas of Raigarh District, Chhattisgarh, providing them quality primary education.



## Four Cardinal Metrics

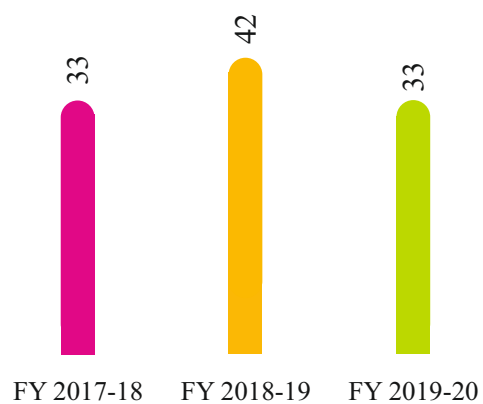
### NET REVENUE

₹ in Crs

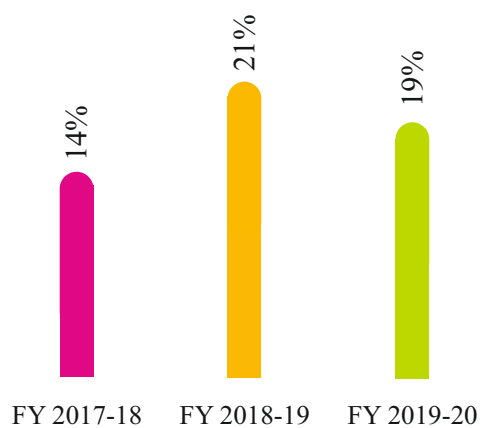


### PBT

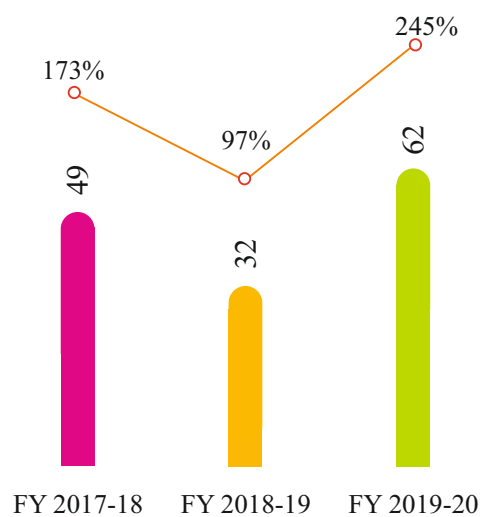
₹ in Crs



### ROCE



### FCF ₹ in Crs FCF / PAT %



## 10 YEAR FINANCIAL HIGHLIGHTS

₹ Crores

Particulars	2019-20	2018-19	2017-18	2016-17	2015-16	2014-15	2013-14	2012-13	2011-12	2010-11
<b>OPERATING RESULTS</b>										
Revenue (Excluding excise duty)	242.29	241.68	214.12	183.95	164.79	152.00	150.77	143.72	172.32	160.37
Earnings before Depreciation, Interest & Tax (EBITDA)	41.08	53.08	48.73	46.33	39.86	29.89	51.56	50.93	69.32	71.48
Profit before Interest & Tax (PBIT)	32.69	42.46	33.17	28.50	23.15	13.14	25.95	22.36	42.10	44.64
Profit before Tax (PBT)	32.69	42.46	33.17	28.50	23.15	13.11	25.93	22.07	41.60	43.76
Profit after Tax (PAT)	25.20	33.35	28.58	22.51	17.73	9.32	18.38	15.47	28.13	27.86
Earnings Per Share (₹)	3.28	4.08	3.50	2.75	2.23	1.14	2.25	1.89	3.44	3.41
Dividend Per Share (₹)	2.00	6.00	1.00	0.75	0.50	0.50	1.00	0.60	1.00	1.00
Book Value Per Share (₹)	29.80	36.97	38.90	37.49	34.75	33.14	32.61	31.53	30.33	28.05
Interest	-	-	-	-	-	0.03	0.02	0.29	0.62	8.76
<b>SOURCES AND APPLICATION OF FUNDS</b>										
<b>SOURCES OF FUNDS</b>										
Share Capital	7.67	8.17	8.17	8.17	8.17	8.17	8.17	8.17	8.17	8.17
Reserves & Surplus	221.00	293.91	309.62	298.15	275.72	262.57	258.23	249.41	239.67	221.04
Net Worth	228.62	302.08	317.79	306.32	283.89	270.74	266.40	257.58	247.84	229.21
Debt	-	-	-	-	-	-	-	-	3.96	9.75
Deferred Tax Liability (Net)	-	-	-	-	-	0.86	2.51	6.88	10.73	14.26
<b>Total</b>	<b>228.62</b>	<b>302.08</b>	<b>317.79</b>	<b>306.32</b>	<b>283.89</b>	<b>271.60</b>	<b>268.91</b>	<b>264.46</b>	<b>262.53</b>	<b>253.22</b>
<b>APPLICATION OF FUNDS</b>										
Gross Fixed Assets	120.45	113.76	101.28	98.14	89.93	367.52	364.27	361.09	360.21	353.46
Accumulated Depreciation	60.68	55.13	44.47	32.82	16.71	285.87	269.25	245.34	222.00	195.54
Net Fixed Assets	59.77	58.63	56.81	65.32	73.22	81.65	95.02	115.75	138.21	157.91
Capital Work-in-Progress	6.40	0.18	0.50	0.77	0.36	3.61	3.60	3.62	5.59	7.54
Deferred Tax Asset (Net)	4.13	4.96	5.95	3.60	1.45	-	-	-	-	-
Long Term Investments	27.67	14.16	12.17	12.17	6.00	-	-	-	-	-
Short Term Investments & Deposits	63.06	112.69	149.01	119.26	105.30	101.09	107.76	90.60	55.02	46.00
Net Working Capital	67.62	111.46	93.35	105.20	97.56	85.25	62.53	54.49	63.71	41.77
<b>Total</b>	<b>228.62</b>	<b>302.08</b>	<b>317.79</b>	<b>306.32</b>	<b>283.89</b>	<b>271.60</b>	<b>268.91</b>	<b>264.46</b>	<b>262.53</b>	<b>253.22</b>
<b>RATIOS</b>										
EBITDA to Sales (%)	16.95%	21.96%	22.76%	25.19%	24.19%	19.66%	34.20%	35.44%	40.23%	44.57%
PBIT to Sales (%)	13.49%	17.57%	15.49%	15.49%	14.05%	8.64%	17.21%	15.56%	24.43%	27.83%
PBT to Sales (%)	13.49%	17.57%	15.49%	15.49%	14.05%	8.63%	17.20%	15.36%	24.14%	27.29%
PAT to Sales (%)	10.40%	13.80%	13.35%	12.24%	10.76%	6.13%	12.19%	10.76%	16.32%	17.37%
Interest Cover (Times)	-	-	-	-	-	996.33	2,578.00	175.62	111.81	8.16
ROCE (%) #	14.30%	14.06%	10.44%	9.30%	8.15%	4.84%	9.65%	8.45%	16.04%	17.63%
Return on Networth (%)	11.02%	11.04%	8.99%	7.35%	6.25%	3.44%	6.90%	6.01%	11.35%	12.16%
Total Debt Equity Ratio	-	-	-	-	-	-	-	-	0.02	0.04
Long Term Debt Equity Ratio (+)	-	-	-	-	-	-	-	-	-	0.02
Sales/Net Fixed Assets (Times)	4.05	4.12	3.77	2.82	2.25	1.86	1.59	1.24	1.25	1.02
Net Working Capital Turnover (Times)	3.58	2.17	2.29	1.75	1.69	1.78	2.41	2.64	2.70	3.84

#Return on Capital Employed (ROCE) is Profit Before Interest and Tax (PBIT) divided by the Capital Employed, as at the end of the year.

\* Figures pertaining to 2015-2016 to 2019-20 are as per Ind AS and 2009-10 to 2014-15 are as per IGAAAP.

## OUR BOARD OF DIRECTORS



### **Mr. L Ramkumar, Chairman**

Mr. L Ramkumar (64 years; DIN-00090089) is a Cost Accountant and has a Post Graduate Diploma in Management from Indian Institute of Management, Ahmedabad. He has over 39 years of rich and varied experience in management including 27 years in Tube Investments of India Ltd.



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

Mr. J Balamurugan (59 years; DIN-00023309) is an Electronics Engineer from Regional Engineering College, Trichy. He has also done the Management Programme for Entrepreneurial Firms from Indian Institute of Management, Bangalore. He has experience in managing the businesses of IT infrastructure, On-line services and Aftermarket automotive enhancements and others. He is the past Chairman of Confederation of Indian Industry, Coimbatore Zone.



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

Ms. Soundara Kumar (66 years; DIN-01974515) 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, Rajapalayam Mills Ltd, Tamil Nadu Newsprint and Papers Limited, Bank of Baroda and Carborundum Universal Ltd.



### **Mr. S K Sundararaman, Non-Executive Director**

Mr. S K Sundararaman (47 years; DIN-00002691) holds a Masters Degree in Business Administration from Cambridge University, United Kingdom. He is currently the Managing Director of Shiva Texyarn Ltd. He has wide experience in the field of Textile Technology and well known for his innovative approach and Development of new technical textile products.



### **Mr. Vellayan Subbiah, Non-Executive Director**

Mr. Vellayan Subbiah (50 years; DIN-01138759) is a Bachelor of Technology in Civil Engineering from IIT Madras and holds a Masters in Business Administration from the University of Michigan. He has over 23 years of work experience in consulting, technology and financial services. He is currently the Managing Director of Tube Investments of India Ltd. He was earlier the Managing Director of Cholamandalam Investment and Finance Company Ltd. He is on the Board of various companies including SRF Ltd. and Havells India Ltd.



### **Mr. Krishna Samaraj, Non-Executive Director**

Mr. Krishna Samaraj (65 years; DIN-00048547) is an Engineering Graduate with a Masters in Business Administration from the University of Michigan, USA. He is currently the Managing Director of Magna Electro Castings Limited. He is also a national council member of the Institute of Indian Foundry Men (IIF) and served as the President of IIF for the year 2015-16. He is one of the Directors of Foundry Development Foundation. He is also holding directorship in various companies including Veejay Terry Products Limited and Chandra Textiles Private Limited.



## CORPORATE INFORMATION

### BOARD OF DIRECTORS

L Ramkumar, Chairman  
J Balamurugan  
Soundara Kumar  
S K Sundararaman  
Vellayan Subbiah  
Krishna Samaraj

### CHIEF EXECUTIVE OFFICER

M Karunakaran

### CHIEF FINANCIAL OFFICER

B Balamurugan

### COMPANY SECRETARY

C Subramaniam

### REGISTERED OFFICE

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

### 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

### CORPORATE IDENTIFICATION NUMBER

L29130TZ1972PLC000649

### AUDITORS

Deloitte Haskins & Sells,  
Chartered Accountants

### BANKERS

HDFC Bank  
IDBI Bank  
Kotak Mahindra Bank

## BOARD'S REPORT & MANAGEMENT DISCUSSION AND ANALYSIS

### Dear Shareholders,

Your Directors have pleasure in presenting to you the performance of the Company, for the year ended 31 March 2020.

### 1. Business Environment

The FY 2019-20 was a challenging business year. The business environment during the year was competitive in the first half year, the demand for products remained sluggish during the second half year and the year ended with COVID-19 pandemic resulted in lockdowns.

The COVID-19 pandemic is inflicting high and rising human costs worldwide and the necessary protection measures are severely impacting the economic activity. The Great Lockdown, as one might call it, is projected to shrink global growth dramatically. As a result of the pandemic, the global economy is projected to contract sharply by 3% in 2020, much worse than during the 2008–09 financial crisis. In a baseline scenario which assumes that the pandemic fades in the second half of 2020 and containment efforts can be gradually unwound—the global economy is projected to grow by 5.8 % in 2021 as economic activity normalizes, helped by policy support.

### On Indian Economy

According to IMF, the Indian economy's growth at 4.2% in FY20 and estimated as 1.9% FY 21. However, it expects economy to bounce back strongly in fiscal 2021-22.

There are tentative signs of bottoming out of slowdown in

manufacturing activity and global trade, which will have a positive impact on growth in the next fiscal. On a net assessment, it appears that the upside risks should prevail, particularly when the government, with a strong mandate, has the capacity to deliver expeditiously on reforms. Manufacturing is expected to advance by only 2%, sharply slowing from a 6.9% growth in the previous financial year, as trade tensions and global economic slowdown hit activity. However, various economic package and reliefs are being announced by GOI, RBI, other government bodies to spur growth and to build a 'self-reliant India'. The self-reliant India mission to be achieved by meeting global demands by usage of local manufacturing, local market and local supply chains.

### On the Gear Industry

The industrial gear market is categorized into stationary, wind and mobility. Gearboxes for Stationary applications exist along with high torque products. Gearboxes for Mobile Applications show good opportunity. The technology trends indicate the focus on alternate materials, macro/micro gear geometry, application specific & measurement-based load design, process optimization and reduction of Total Cost of Ownership.

### Industry Scenario

#### Focus Markets

India's industrial output contracted in March, 2020 as the spread of the COVID-19 pandemic began to disrupt economic activity from the middle of the month. All three key sectors, mining, manufacturing and electricity saw a contraction in manufacturing during Mar-20.