

THIRTY SECOND ANNUAL REPORT 2006



SUNDARAM BRAKE LININGS LIMITED

**BOARD OF DIRECTORS**

K MAHESH
Chairman and Managing Director

K RAMESH
T DULIP SINGH
T KANNAN
P S RAMAN

KRISHNA MAHESH - Executive Director

SENIOR PRESIDENT

V R JANARDHANAM

PRESIDENT

R RAMASUBRAMANIAN

FINANCIAL CONTROLLER & SECRETARY AND COMPLIANCE OFFICER

M S SUBRAMANIAN

BOARD'S SUB-COMMITTEES**1. AUDIT COMMITTEE**

T Kannan
T Dulip Singh
P S Raman
Krishna Mahesh

2. SHAREHOLDERS' / INVESTORS' GRIEVANCE COMMITTEE

T Dulip Singh
K Mahesh
T Kannan

BANKERS

STATE BANK OF INDIA
Industrial Finance Branch
Chennai 600 002

AUDITORS

SUNDARAM & SRINIVASAN
Chartered Accountants
Chennai 600 018

REGISTERED OFFICE

180, Anna Salai, Chennai 600 006

FACTORIES

Padi, Chennai 600 050
Phone Nos. 044-42205300, 42205407
Fax No. 044 - 42205572
E-Mail : sbl@tvssbl.com
TSK Puram - Plant I & II
Mustakurichi Post
Kamarajar District
Pin code 626 106
Phone Nos. 04566 - 255401 to 255404

SHARE DEPARTMENT

At Factory Office
PADI, CHENNAI - 600 050
Phone Nos. 044-42205300, 42205407
E-Mail : finance@tvssbl.com

SUNDARAM BRAKE LININGS LIMITED

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HIGHLIGHTS OF FIVE YEAR PERFORMANCE

Rs. in lacs

Particulars	2001-02	2002-03	2003-04	2004-05	2005-06
1. Sales & Other income	8,583	10,195	12,075	13,367	14,560
2. Export Sales	4,285	5,339	5,251	5,878	5,482
3. Profit before interest, depreciation and Tax	1,389	1,620	1,889	2,065	2,260
4. Profit before tax	699	1,020	1,335	1,536	1,634
5. Profit after tax	597	734	909	1,015	1,039
6. Net fixed assets	4,651	5,201	5,352	5,612	6,156
7. Share capital	271.35	271.35	271.35	271.35	271.35
8. Reserves & Surplus	2,797	3,301	3,917	4,542	5,247
9. Net worth	3,068	3,572	4,188	4,814	5,518
10. Return on Net Worth (RONW) - PAT/Networth	19.4%	20.5%	21.7%	21.1%	18.8%
11. Return on Average Capital Employed (ROCE)	15.5%	18.0%	20.1%	19.9%	19.2%
12. Cash earnings per share (Rs.)	33.65	38.93	46.91	51.59	53.83
13. Earnings per share (Rs.)	21.99	27.03	33.50	37.41	38.30
14. Dividend per share (Rs.)	7.50	7.50	9.00	10.00	10.00
15. Book value per share (Rs.)	113.08	131.65	154.34	177.39	203.37
16. Sundry Debtors - No. of days	92	86	76	84	88
17. Turnover/Avg Inventory (Times)	14.5	16.3	19.5	21.3	19.1
18. Current Ratio	1.38	1.21	1.15	1.52	1.56
19. R & D Expenses - as % on Net Income	1.9%	1.9%	1.8%	3.9%	2.2%

SUNDARAM BRAKE LININGS LIMITED

NOTICE TO THE SHAREHOLDERS

NOTICE is hereby given that the Thirty Second Annual General Meeting of the Company will be held at Kasturi Srinivasan Hall, Music Academy, New No.168 (Old No. 306) TTK Road, Royapettah, Chennai - 600 014 on **Thursday the 27th day of July 2006 at 10.00 A.M.** to transact the following business:

ORDINARY BUSINESS:

1. To consider and, if thought fit, to pass with or without modification, the following resolution as an ordinary resolution :

RESOLVED THAT the Audited Balance Sheet as at 31st March 2006, the Profit & Loss Account for the year ended 31st March 2006 , Cash Flow Statement for the year ended 31st March 2006 and the Report of the Directors and the Auditors of the Company, be and are hereby approved and adopted

2. To consider and, if thought fit, to pass with or without modification, the following resolution as an ordinary resolution:

RESOLVED THAT pursuant to the recommendation of the Directors, the interim dividends aggregating to Rs.10/- per share absorbing a sum of Rs.271.35 lacs (excluding Dividend Tax of Rs.38.06 lacs paid / payable by the Company), declared during the year on the 27,13,500 equity shares of Rs.10/- each fully paid up, to those members whose names appeared in the Register of Members of the Company on such Record Dates fixed earlier be and are hereby ratified and approved as final dividend for the year ended 31st March 2006.

3. To consider and, if thought fit, to pass with or without modification, the following resolution as an ordinary resolution:

RESOLVED THAT Mr. T Dulip Singh, Director, who retires by rotation and being eligible for re-appointment be and is hereby re-appointed as a Director of the Company.

4. To consider and, if thought fit, to pass with or without modification, the following resolution as an ordinary resolution:

RESOLVED THAT Mr. P S Raman, Director, who retires by rotation and being eligible for re-appointment be and is hereby re-appointed as a Director of the Company.

5. To consider and, if thought fit, to pass with or without modification, the following resolution as an ordinary resolution:

RESOLVED THAT the retiring auditors Messrs Sundaram & Srinivasan, Chartered Accountants, Chennai be and are hereby re-appointed as Auditors of the Company to hold office from the conclusion of this Annual General Meeting till the conclusion of the next Annual General Meeting of the Company, on such remuneration as may be determined by the Board of Directors of the Company in addition to service tax, travelling and other out-of-pocket expenses actually incurred by them in connection with audit and fees, if any, for the professional services rendered by them in any other capacity from time to time.

SPECIAL BUSINESS

6. To consider and, if thought fit, to pass with or without modification the following resolution as an ordinary resolution

"RESOLVED THAT Mr. Krishna Mahesh who was appointed as an Additional Director at the meeting of the Board of Directors of the Company held on 21st July 2005, pursuant to Section 260 of the Companies Act,

1956 and Clause 72 of Table A of the First Schedule to the Companies Act 1956 and who holds office upto the date of this Annual General Meeting, and in respect of whom the Company has received a notice in writing from a member in terms of Section 257 of the Companies Act 1956 along with requisite deposit signifying his intention to propose the appointment of Mr. Krishna Mahesh, as a Director, be and is hereby appointed as a Director of the Company.

7. To consider and, if thought fit, to pass with or without modification the following resolution as an ordinary resolution.

RESOLVED THAT Mr. Krishna Mahesh, be and is hereby appointed as Whole-time Director designated as Executive Director of the Company and shall be paid such remuneration in accordance with the provisions of Sections 198, 269 & 309 of the Companies Act 1956, Schedule XIII and other provisions applicable, if any, including any statutory modification(s) or re-enactment thereof, for the time being in force, for a period of 5 (Five) years with effect from 21.07.2005, on the terms and conditions including remuneration as set out hereunder .

(i) Duration:

5 years (21st July 2005 to 20th July 2010)

(ii) Remuneration:

Mr. Krishna Mahesh shall be paid remuneration by way of salary, dearness allowance, perquisites, commission, and other allowances, any or more than one of them, in accordance with Sections 198, 309, 349, Schedule XIII and other applicable provisions of the Companies Act, 1956, as set out hereunder and as approved by the Board or Committee thereof, from time to time.

Salary :

Rs.1,50,000/- (Rupees one lakh fifty thousand only) per month in the scale of Rs.1,50,000 – Rs. 2,50,000 with annual increase as may be decided by the Board.

Commission :

Not exceeding 2% of the Net Profits of the Company for each financial year computed in the manner specified under Sections 198 and 309 of the Companies Act 1956.

Perquisites :

Housing, utilities and furnishings :

Provision of unfurnished residential accommodation, owned or leased by the Company, expenditure on which will be limited to 60% of the salary or house rent allowance not exceeding 60% of the salary. Expenditure incurred by the Company on Gas, Electricity, Water and Furnishings shall be evaluated as per the Income Tax Rules.

Other Perquisites :

Provision of chauffeur driven Company car, payment / reimbursement of medical expenses (for self and family), telecommunications, payment of medical and personal accident premium, leave travel assistance, club fees (excluding admission and life membership fee) and such other allowances / perquisites / benefits and amenities as may be decided by the Board from time to time.

Perquisites shall be evaluated as per Income Tax Rules, wherever applicable and in the absence of any such rule, the same shall be evaluated at actual cost.

SUNDARAM BRAKE LININGS LIMITED

Payment of Company's contribution to Provident Fund / Pension Fund / Superannuation Fund / Gratuity Fund and encashment of leave (at the end of the tenure). These payments and contributions shall not be included in the computation of remuneration.

Minimum Remuneration :

In the event of loss or inadequacy of profits, the remuneration payable to Mr. Krishna Mahesh, Executive Director shall be approved by the Board within the limits prescribed under Schedule XIII and other applicable provisions under the Companies Act 1956.

(iii) Other terms:

Mr. Krishna Mahesh shall carry out such duties as may be entrusted to him by the Board of Directors or the Managing Director from time to time.

Mr. Krishna Mahesh will not be entitled to sitting fees for each meeting of the Board or Committee thereof attended by him."

(On behalf of the Board)

Chennai
May 4, 2006

K MAHESH
Chairman & Managing Director

**NOTES:**

- 1 A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and, on a poll, to vote instead of himself. Such proxy need not be a member of the Company. The instrument of proxy duly stamped and executed for use at the meeting must be lodged at the Factory and Office of the Company at **PADI, CHENNAI 600 050** not less than 48 hours before the time fixed for the meeting.
- 2 Information about the Directors seeking re-appointment in this Annual General Meeting is furnished in the Corporate Governance section of Directors Report to shareholders forming part of this Annual Report.
- 3 The dividend declared is exempt from tax in the hands of the shareholders in terms of Section 10 (34) of the Income Tax Act 1961.
- 4 The Register of Members and Share Transfer Books of the Company will remain closed from 20.07.2006 to 27.07.2006 (both days inclusive)
- 5 Intimation to Shareholders concerned pursuant to Rule 4A of the Companies Unpaid Dividend (Transfer to General Reserve Account of the Central Government) Rules, is furnished elsewhere in this Report.
- 6 Explanatory statement pursuant to Section 173 (2) of the Companies Act 1956 in respect of item Nos. 6 & 7 is annexed hereto.

EXPLANATORY STATEMENT PURSUANT TO SECTION 173 (2) OF THE COMPANIES ACT, 1956

Item No. 6 & 7

At the meeting of the Board of Directors of the Company held on 21st July 2005, Mr. Krishna Mahesh was appointed as an Additional Director pursuant to Section 260 of the Companies Act 1956 and Clause 72 of Table A of the First Schedule to the Companies Act 1956 and designated as Executive Director. The said appointment was subject to approval of the shareholders at the Annual General Meeting to be held subsequent to such appointment. The abstract of the agreement between the Company and Mr K Mahesh, pursuant to Section 302 of the Companies Act 1956, was sent to each of the Members during August 2005. The Company has received a notice in writing from a member in terms of Section 257 of the Companies Act 1956 along with requisite deposit signifying his intention to propose the appointment of Mr. Krishna Mahesh, as a Director liable to retire by rotation.

Mr. Krishna Mahesh, born on 20th October 1974 has completed 31 years of age. He acquired Master of Science Degree in Mechanical Engineering from Stanford University, Stanford, CA in 1998 , after completing his Bachelor of Science Degree in Mechanical Engineering from the same University . In 1998 he joined M/s McKinsey & Co., Management Consultants, Cleveland, USA. During his time at McKinsey from 1998 to 2001, he had hands on experience in lean manufacturing techniques, guiding & training their clients engaged in tyre manufacturing, automobile manufacturing, biotechnology, engineering products in the areas of strategic price leadership, development of product-platform, purchasing and supplier management techniques and various other aspects of management.

During the period 2001 to 2003 he joined, for intensive training in Toyota Production System (TPS), M/s Toyota Motor Manufacturing North America, Erlanger, USA and gained experience in the field of system redesign, process improvements, defect reduction and process improvement techniques implementation resulting in considerable savings for the company.

After training at Toyota, he took up his management study at Harvard Business School, Cambridge, MA during 2003 and acquired his Masters Degree in Business Administration (MBA) in June 2005.

During his education and training he had submitted various papers in seminars and forums and was also holding various position in social committees and bodies.

Mr. Krishna Mahesh, son of Mr. K Mahesh, Chairman and Managing Director of Sundaram Brake Linings Limited is not a director of any other company or a member of any Committee thereof, other than Audit Committee membership in Sundaram Brake Linings Limited .

None of the Directors of the Company is in any way concerned or interested in the above arrangement except Mr. Krishna Mahesh, Executive Director, Mr. K Mahesh, Chairman & Managing Director and Mr. K Ramesh, Director being relatives of Mr. Krishna Mahesh.

The Directors commend the resolutions for adoption.

The documents referred to in the notice and the explanatory statement will be available for inspection at the Factory and Office of the Company at Padi, Chennai 600 050 on any working day between 10.00 a.m. and 12.00 noon.

(On behalf of the Board)

Chennai
May 4, 2006

K MAHESH
Chairman & Managing Director

SUNDARAM BRAKE LININGS LIMITED

DIRECTORS' REPORT TO THE SHAREHOLDERS

Your Directors have pleasure in presenting the Thirty Second Annual Report of the Company together with the audited accounts for the year ended 31st March 2006.

FINANCIAL RESULTS

	Year ended 31.03.2006	(Rs. in lacs) Year ended 31.03.2005
NET SALES	14,473.71	13,277.28
Profit before interest, depreciation and tax	2,259.50	2,064.93
Less: Interest	203.57	143.87
Profit before depreciation and tax	2,055.93	1,921.06
Less: Depreciation	421.49	384.69
Profit before tax	1,634.44	1,536.37
Less: Provision for taxation		
- Current Tax	565.00	407.00
- Deferred Tax	(12.75)	114.25
- Fringe Benefit Tax	43.00	—
Profit after tax	1,039.19	1,015.12
Add: Surplus/(Deficit) brought forward	334.07	310.39
Total available for appropriation	1,373.26	1,325.51
APPROPRIATIONS		
Prior Period Tax	25.00	81.82
General Reserve – I	103.92	101.51
General Reserve – II	500.00	500.00
Interim Dividends	271.35	271.35
Tax on Dividends	38.06	36.76
Surplus carried over	434.93	334.07
Total	1,373.26	1,325.51

DIVIDEND

Your Directors consider that the two interim dividends totaling to 100 % for the year 2005-06 declared by the Board would be reasonable and commensurate with the performance for the year 2005-06. Accordingly the interim dividends are considered as final dividend. The interim dividends of Rs. 10/- per share – 100 % as compared to a dividend of 100 % for the previous year – would absorb a sum of Rs. 271.35 lacs excluding a dividend distribution tax of 12.5% together with cess & surcharge thereon payable by the Company.

OPERATIONS

The domestic market witnessed a growth of 21.5% for the year compared to the previous year. The domestic turnover increased from Rs. 73.99 crores in 2004-05 to Rs. 89.92 crores in 2005-06. The net sales for the year went up to Rs. 144.74 crores as against Rs.132.77 crores in the previous year - an increase of 9 % .

SETTING UP OF PLANT IV IN SPECIAL ECONOMIC ZONE (SEZ)

Your Company has taken the necessary steps to establish a unit in a notified Special Economic Zone (SEZ). This unit will be manufacturing Asbestosfree friction material products for export market. This step is expected to augment Company's export turnover and at the same time increase the retained profit with the tax incentives which will be available for that unit as per the guidelines of the Government. The project is under implementation and the unit is expected to commence its commercial operation during the second half of the current financial year 2006-07.

ECE R 90 APPROVAL

During the year, your company introduced commercial vehicle lined shoes to the export market and obtained ECE R 90 approval for the CV Disc brake pads – ECE R 90 for commercial vehicle application is expected to be mandated in European Union (EU) countries in the near future as a quality parameter. The certification is expected to strengthen the Company's export competitiveness in these markets.

EXPORTS

Your company continued its efforts in the export market segment and achieved an export turnover of Rs. 54.82 crores - almost 38 % of its total turnover. However in view of tough competition prevailing in the international market and particularly due to lower off take in Europe and Far East markets, the turnover has decreased by 6.7% over its previous year export turnover of Rs. 58.78 crores . Your company has taken proactive actions during the year to significantly increase the exports in the coming years taking into consideration that there would be lower global demand for commercial vehicle brake linings and increased demand of commercial vehicle disc brake pads . Your Company has added Seychelles to the Company's export destination list during the year.

PUBLIC DEPOSITS

The deposits accepted by your company from public as at the close of 31st March 2006 were Rs.129.25 lacs as against Rs. 284.25 lacs at the close of the previous year. All deposits which matured during the year were repaid on the due dates except 1 deposit for a total value of Rs.0.06 lac which was not claimed by the depositor.

DIRECTORS

Mr. T Dulip Singh and Mr. P S Raman, Directors, retire by rotation at the Annual General Meeting and, being eligible, offer themselves for reappointment.

Mr. Krishna Mahesh who was appointed as an Additional Director at the meeting of the Board of Directors of the Company held on 21st July 2005, pursuant to Section 260 of the Companies Act 1956 and Clause 72 of Table A of the First Schedule to the Companies Act 1956 and who holds office upto the date of this Annual General Meeting, and in respect of whom the Company has received a notice in writing from a member in terms of Section 257 of the Companies Act 1956 along with requisite deposit signifying his intention to propose the appointment of Mr. Krishna Mahesh, as a Director, be appointed as a Director of the Company.

CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION, EXPORTS AND FOREIGN EXCHANGE EARNINGS AND OUTGO

The details regarding Conservation of Energy, Technology Absorption and Foreign Exchange Earnings and Outgo, pursuant to Section 217 (1) (e) of the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988, are given in Annexure I which forms part of this report.