

TATA TIMKEN LIMITED

REPORT & ACCOUNTS 1997-98

MD	✓		MKC	✓
CS	✓		OPY	✓
RO	✓		DEV	✓
TRA	✓		AC	✓
AGM	✓		SA	✓
YE	✓			✓

OUR VISION
 To become the world's leading Roller Bearing
 manufacturer and to produce components compared to
 the best in the world.





Dr. J. J. Irani, Chairman, and Dr. T. Mukherjee, Director, with other officials and guests at the inauguration ceremony of the 8" Cone Line inside TTL plant in Jamshedpur in March, 1998.



One of the TTL's bearings being checked to accuracies up to atleast 1/1000th of a human hair's thickness



Mr. G. W. Robinson, Managing Director and Mr. C. H. S. Rao, General Secretary, Tata Timken Workers Union at the launching of QS-9000 programme at TTL.

BOARD OF DIRECTORS

(As on 24th June, 1998)

DR J J IRANI	- Chairman
MR G W ROBINSON	- Managing Director
MR M SONDHI	
DR T MUKHERJEE	
MR J F TOOT (JR)	
MR R L LEIBENSBERGER	
MR J T ELSASSER	
DR DHARMENDRA BHANDARI	- IDBI Nominee
MR J B DADACHANJI	- Alternate To Mr J F Toot, Jr
MR P S DASGUPTA	- Alternate To Mr R L Leibensberger
MR V K DASARI	- Alternate To Mr J T Elsasser

MANAGEMENT TEAM

MR G W ROBINSON	- Managing Director
MR V K DASARI	- Director (Manufacturing & Technology)
MR S K SINHA	- Director (Finance & Systems)
MR A K SINHA	- Director (HR &P)
MR M PECORARI	- Director (Marketing)

Registered Office

Bara, P.O. Agrico
Jamshedpur - 831 009
Ph. No. (0657) 431119
Fax No. (0657) 431290

Company Secretary

Soumitra Hazra

Auditors

S B Billimoria & Co.
8B, C H Area North East
Jamshedpur - 831 001

Registrars and Transfer Agents

ABC Computers Private Limited
National Council of Education Building
Jadavpur University Campus
Jadavpur
Calcutta - 700 032
Ph. No. 473-1163/473-1292/473-5363
Fax : (033) 474 6548

Bankers

State Bank of India
Bank of Baroda

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Members are requested to please note that with effect from 2nd December, 1996, the Registered Office of the Company has been shifted from Tata Centre, 43, Chowringhee Road, Calcutta-700071 to Bara, P.O. Agrico, Jamshedpur-831009. All correspondence meant for the Registered Office of the Company may therefore please be sent to the new address for prompt attention.

As a measure of economy, copies of the Annual Report will not be distributed at the Annual General Meeting. Shareholders are requested to bring their copies to the meeting.

FIVE YEARS AT A GLANCE

		Year ended 31st March				
		1998	1997	1996	1995	1994
Net Sales, (Rupees in lakhs)						
(i)	Domestic	8917	12952	8399	4767	4183
(ii)	Export	4312	68	526	58	Nil
	Total	<u>13229</u>	<u>13020</u>	<u>8925</u>	<u>4825</u>	<u>4183</u>
Profitability (Rupees in lakhs)						
(i)	Gross Sales	14605	14991	10118	5666	4971
(ii)	Gross Profit	2827	2725	2216	378	(851)
(iii)	EBIT (Earnings Before Interest & Tax)	1966	1915	1443	(378)	(1572)
(iv)	Net Profit (PBT)	1344	1325	743	(1137)	(2380)
(v)	Net Profit (PAT)	1343	1325	743	(1137)	(2380)
(vi)	Accumulated Loss	(1997)	(3340)	(4373)	(4858)	(3721)
Production						
(i)	Standard Bearings (Nos.) (Equivalent)	2156128	1919417	1575954	1228116	627835
(ii)	AP Cartridge Tapered Roller Bearings (Sets)	27157	47120	15229	337	18887
Investment (Rupees in lakhs)						
(i)	Gross Block	10698	8791	8613	8295	8083
(ii)	Net Current Assets	6281	4905	2709	2201	71
Ratios						
(i)	G. P. % to Net Sales	21%	21%	25%	8%	-20%
(ii)	N. P. % to Net Sales	10%	10%	8%	-24%	-57%
(iii)	Asset Turnover Ratio	0.73	0.59	0.85	1.46	1.63
(iv)	EBIT/BIC (Earnings Before Interest & Tax / Beginning Invested Capital)	19%	22%	17%	-5%	-20%
(v)	Net Sales / Emp. Ratio (Rs. in lakhs)	24	26	18	11	10
(vi)	E.P.S. (Rupees)	2.11	-2.08	1.17	(1.78)	(3.75)



NOTICE

The Eleventh Annual General Meeting of Tata Timken Limited will be held on Friday, the 25th day of September, 1998 at 11.00 a.m. at Shavak Nanavati Technical Institute, N - Road, Bistupur, Jamshedpur - 831 001 to transact the following business :

1. To receive and adopt the Profit and Loss Account for the year ended 31st March, 1998 and the Balance Sheet as on that date and the Reports of the Directors and Auditors.
2. To appoint a Director in place of Dr. J J Irani who retires by rotation and being eligible, offers himself for reappointment.
3. To appoint a Director in place of Mr Jon T Elsasser, who retires by rotation and being eligible, offers himself for reappointment.
4. To appoint Auditors of the Company and to fix their remuneration.

SPECIAL BUSINESS

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

"RESOLVED THAT subject to the approval of the Central Government and such other approvals as may be required from the appropriate Government Agencies, the duration of the Technology License Agreement dated 20th March, 1990 entered into between The Timken Company, USA and the Company be extended by six years from 16th July, 1998 as per the terms and conditions set out in the First Amendment to the Technology License Agreement executed between The Timken Company, USA and the Company."

NOTES :

1. A Member entitled to attend and vote at the meeting is entitled to appoint a Proxy to attend and vote instead of himself and the Proxy need not be a Member. Proxies, in order to be effective, must reach the Registered Office of the Company not less than 48 hours before the time for holding the Meeting.
2. An Explanatory Statement pursuant to Section 173(2) of the Companies Act, 1956 in respect of the Special Business under Item No.5 is annexed hereto.
3. The Register of Members and the Transfer Books of the Company will remain closed from 10th September, 1998 to 25th September, 1998, both days inclusive.
4. Copy of the First Amendment to the Technology License Agreement executed between the Company and The Timken Company, USA in terms of the Resolution under Item No.5 of the Notice is available for inspection at the Registered Office of the Company at Bara, P.O. Agrico, Jamshedpur - 831 009 on any working day prior to the date of the aforesaid Meeting between the hours of 10.00 am and 12.00 noon and will also be available for inspection from 10.00 a.m. at the place and date of the Meeting.
5. Members are requested to intimate the change of address, if any, to the Registrars & Transfer Agents viz., ABC Computers Pvt. Ltd., National Council of Education Building, Jadavpur University Campus, Jadavpur, Calcutta - 700 032 or to the Registered Office of the Company at Bara, P.O. Agrico, Jamshedpur - 831 009.

Registered Office :
Bara, P.O. Agrico
Jamshedpur - 831 009
17th August, 1998

By Order of the Board

Soumitra Hazra
Company Secretary



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

Item No. 5

In terms of the Technology License Agreement dated 20th March, 1990 entered into between The Timken Company, USA (Timken) and the Company, Timken is providing Technical Assistance to the Company in all the areas of manufacturing process including training, start-up (Phase I and Phase II) and further refining of the production process. Further, Technical Assistance is also being provided to the Company in product design & Tool Engineering and technical assistance through foreign technicians for process stabilisation and continuous improvement.

The process of absorbing Timken technology is ongoing in the areas of machining, heat treatment and finishing and it is felt that further technical assistance from Timken would be necessary to make improvements in the manufacturing process, product quality and production output. The term of the present Technology License Agreement expired on 16th July, 1998 and it has been decided, subject to necessary approvals, to extend the duration of the above Technology License Agreement for a further period of 6 years - from 16th July, 1998 as per the terms and conditions contained in the First Amendment to The Technology License Agreement executed between Timken and the Company.

The salient features of the First Amendment to the Technology License Agreement are as follows :

1. Royalty : @ 3% on domestic sales and 3% on exports instead of 5% on domestic sales and 10% on exports as per the Technology License Agreement dated 20th March, 1990.
2. Technical Assistance : 150 man months starting from 20th March, 1990 to 16th July, 2004.
3. Technical Assistance Fees : \$600 per day per person in place of \$500 per day per person as per the Technology License Agreement dated 20th March, 1990.
4. Lump sum Fees : No lump sum payment is required to be made by the Company.

Since the extension of the Technology License Agreement is considered as variation of the terms as contained in the original Technology License Agreement referred to in the Public Issue Prospectus dated 13th June, 1991, such variation is required to be approved by the Members of the Company pursuant to Section 61 of the Companies Act, 1956.

The Board recommends the extension of duration of the Technology License Agreement as set out in the Resolution under Item No. 5 for approval by the Members.

MEMORANDUM OF INTEREST

Mr. J F Toot (Jr.), Mr. R L Leibensperger and Mr. J T Elsasser, Directors of the Company who are also representatives of Timken on the Board of Directors of the Company and Dr. J J Irani and Mr. Mantosh Sondhi, Directors of the Company who are also Directors of The Tata Iron & Steel Company Limited (TISCO) may be deemed to be concerned or interested in the Resolution as set out in the Notice to the extent of the respective shareholding interests of the two promoters in the Company.

Registered Office :
Bara, P.O. Agrico
Jamshedpur - 831 009
17th August, 1998

By Order of the Board

Soumitra Hazra
Company Secretary



CHAIRMAN'S STATEMENT



Dear Shareholders,

At this time last July, I expressed concern at the gathering clouds on the economic horizon, but the economic downturn was greater and more far reaching than anyone's expectations. The meltdown in South East Asia has certainly impacted on the Indian economic scene also. While less dramatic, India is in the midst of a prolonged economic slowdown which has resulted in a deep and sustained recession in several business areas. This is particularly true in the commercial vehicle segment which represents one of Tata Timken's key markets. The 1997-98 financial year showed a 35% drop in our customers' sales to this segment which coupled with their drive to reduce stocks resulted in a 50% cut in TTL sales to commercial vehicle manufacturers.

Due to the high International Quality level of all products produced by TTL, we were able to seek export businesses, winning important orders at Rockwell and Eaton Corporation in the USA and ZF in Germany, to name a few. The speed at which these orders were obtained speaks volumes about the dedication of many TTL associates who worked almost miracles to change the product mix at very short notice. A special note of thanks should also go out to our key suppliers who responded to our export challenge with equal commitment. Supported by this export business, I am pleased to present a financial performance at par with the previous year despite extremely difficult trading conditions.

Other domestic market segments, in particular, Railways and the Tractor segment fared better but even here the future looks less promising unless clear and consistent Government policies are implemented to speed up investment in much needed infrastructure projects. This together with a concerted effort to rebuild the confidence of the people in the nation's economic progress through firm, directed and uncompromising policies must remain the top priority of Government.

The year under review saw a successful completion of a major expansion of our production facilities. I am pleased to confirm that the project was completed within budget and ahead of schedule. TTL Associates are to be congratulated on this achievement. This investment positions us well for the eventual upturn in the economy which must come and will enable us to provide a wider range of tapered roller bearings for our valued customers.

The financial institution has also recognized our improving balance sheet with ICRA according TTL the highest Credit Rating of A1+ for Commercial Borrowing. This enables TTL to fund future projects at the lowest commercial borrowing rates.

Much progress was also made in overall reduction in business costs which was essential to sustain profitability in the current market scenario of falling prices. Here the completion of a major project called Accelerated Continuous Improvement (ACI) is starting to show results in enhanced quality and customer service levels while achieving aggressive cost cutting targets. This work will be extended under the Continuous Improvement initiatives launched in all areas of our activities and drive us towards our Vision : *To become the "Number One" tapered roller bearing supplier in India with best practices compared to any bearing company worldwide.*

The current economic outlook remains difficult with even our export business showing signs of slowdown, but we remain confident in building further shareholder value through into the next millennium.

Thank you.

Yours sincerely,

Jamshed J Irani

Mumbai, July 29, 1998

Jamshed J Irani



DIRECTORS' REPORT TO THE MEMBERS

The Directors have pleasure in presenting the Eleventh Annual Report on the business and operations of the Company together with the Financial Results for the year ended 31st March, 1998.

FINANCIAL RESULTS

	(Rs. in Lakhs)	Previous year (Rs. in Lakhs)
a) Gross Profit	2826.77	2725.30
b) Less : Interest	622.24	589.81
c) Cash Profit	2204.53	2135.49
d) Less : Depreciation	861.09	810.59
e) Profit before Tax	1343.44	1324.90
f) Less : Provision for Tax	0.58	—
g) Profit after Tax	1342.86	1324.90
h) Less : Transfer to Debenture Redemption Reserve	—	292.51
i) Profit after Tax and appropriation to Debenture Redemption Reserve	1342.86	1032.39
j) Add : Balance Profit/ (Loss) brought forward	(3340.34)	(4372.73)
k) Balance Profit/(Loss) carried forward	(1997.48)	(3340.34)

FINANCIAL HIGHLIGHTS

The year under review was not particularly favourable to the Company due to the recession being witnessed by the Automobile Industry. As a result of the recession, the Bearing Industry experienced a severe downtrend with the constituents slashing down their production and cutting down prices all through the year. Despite this, Profit after tax for the year has marginally increased by 1.35% largely due to

significant improvement in export of Standard Bearings and components.

The Letter of Offer for the Rights Issue had shown projected Profit after tax of Rs.2253 lacs for 1997-98 against which the actual after tax profit was Rs.1343 lacs. This is primarily due to lower net realisation for products under severe recessionary condition prevailing in Automobile Industry.

OPERATIONS

Production of Standard Bearings and components had improved during the year from 18,36,602 nos. Standard Bearings in 1996-97 to 15,69,968 nos. Standard Bearings and 9,79,779 nos. components in 1997-98. The production of AP Bearings, however, had been reduced by 42% from 47,120 sets to 27,157 sets in view of the reduced demand.

In spite of low demand in the domestic market, the overall volume of sales was maintained at the same level as last year. During the current year, the sales of Standard Bearings and components was 16,24,396 nos. and 10,98,330 nos. respectively compared to 16,72,267 nos. and 1,73,947 nos. respectively for the last year. The Company made significant improvements on the export front through the Timken network worldwide and exported 4,62,896 Standard Bearings and 9,31,572 components to US, France, Germany, Brazil and UK, compared to the export of only 17,478 Standard Bearings in 1996-97. Your Company's products have been approved for regular export supplies by major automotive manufacturers worldwide such as Meritor, ZF, Eaton etc.

The market for AP Bearings was depressed and the Company experienced a 42% fall in the sales volume at 27,055 sets compared to 46,508 sets for the previous year.

QUALITY CERTIFICATION

Your Company had become the first tapered roller bearing supplier to achieve Telco's Self Certified Quality (CQ) status. Further, your Company had successfully undergone recertification of the quality system to the requirements of ISO-9002 in February, 1998. It is planned to achieve QS 9000 certification by the end of 1998 to further upgrade the quality system. A large number of the Associates / Officers are involved in various cross-functional teams to



develop and implement the procedures prescribed by QS 9000 requirements.

ONE MILLION EXPANSION PROJECT

Production of first part number under the Expansion Project had formally commenced on 15th October, 1997 though execution of certain infrastructural facilities such as Stores & Facility Building, Additional Transformer, Chiller capacity increase, Augmentation of Testing and material handling facilities etc., have been delayed due to the severe downtrend in the Bearing Industry and have been planned to be completed during the Financial Year 1998-99.

RAILWAY BEARINGS

In order to be cost competitive and to reduce foreign exchange exposure, your Company is undertaking a project to complete indigenisation of the remaining A P Bearings components. The project is expected to cost Rs. 12 crores and be executed by mid 1999. The project will be financed partly by internal accruals and partly through loans.

TECHNOLOGY LICENSE AGREEMENTS

The Indian Automobile sector is currently undergoing rapid technological changes. Keeping this in view and to meet the requirements of the potential export market, your Directors have decided to extend the existing range of bearing designs beyond 50 Part Numbers being manufactured at present with the assistance of Timken technology. Accordingly, it has been decided to obtain, subject to requisite approvals from Government of India/Reserve Bank of India, a new technology license from The Timken Company, USA, to manufacture and service 25 additional bearing designs with the use of Timken's proprietary Technical Information.

The duration of the existing Technology License Agreement dated 20th March, 1990 with The Timken Company, USA is expiring on 16th July, 1998. The process of absorption of Timken technology is ongoing in the areas of machining, heat treatment and finishing and it is felt that further technical assistance will be necessary to make further improvements in the manufacturing process, product quality and production output. In view of this, your Directors have decided, subject to your approval at the Eleventh Annual General Meeting and subject

also to the approval of Government of India/Reserve Bank, to extend the duration of the said Technology License Agreement by a further period of six years from 16th July, 1998. Accordingly, the aforesaid extension of the duration of the Technology License Agreement for a further period of six years is being proposed as an Ordinary Resolution at the Eleventh Annual General Meeting in accordance with the provisions of Section 61 of the Companies Act, 1956, for your approval.

DEPARTURES

Mr. Ratan N Tata resigned from the Board with effect from 10th March, 1998. The Board placed on record its deep appreciation of the valuable contribution made by Mr. Ratan N Tata during his tenure as a Director of the Company.

Dr. J J Irani and Mr. Jon T Elsasser retire by rotation and being eligible, offer themselves for reappointment.

AUDITORS

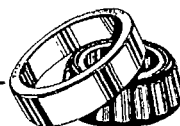
M/s S B Billimoria & Co., Chartered Accountants, Auditors of the Company, retire and offer themselves for reappointment. They have furnished a Certificate of their eligibility for reappointment.

FINANCIAL ASSISTANCE

During the year, both State Bank of India and Bank of Baroda, who constitute the Consortium of Bankers for Cash Credit facilities of the Company, had sanctioned term loans of Rs. 15 crores each for the Expansion Project, out of which, your Company has decided to avail Rs. 7.50 crores from each of them. During the year, your Company was given the highest safety rating of A1+ by the credit rating agency ICRA for the proposed issue of Commercial Paper of Rs. 10 crores.

INDUSTRIAL RELATIONS

The Company feels proud of the Railway business team who won The Timken Company's coveted award of "Dedication to Excellence". This award is given to one team worldwide as recognition of the dedication to achieve excellence leading to outstanding customer satisfaction and shareholder value.



The Company continued to maintain cordial relations with the employees. The performance of the Company during the previous year as reflected in the attached accounts could be made possible only with the positive response from all the Associates. The Directors expressed their appreciation for the very good co-operation received from all sections of the Associates/Officers of the Company.

SOCIAL RESPONSIBILITY

As part of the constant endeavour of the Company to improve the environment and maintain clean Steel City, the Company had installed a Pilot Membrane System for treatment of oily waste fluid. After successful testing of this system, the Company has placed order for the complete waste treatment plant.

Further, the Company has been actively participating in the promotion of education and social welfare activities of the community in the industrial town of Jamshedpur.

PARTICULARS OF EMPLOYEES

A statement pursuant to Section 217(2A) of the Companies Act, 1956, and the Rules framed thereunder is given in Annexure to the Directors' Report.

CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION & FOREIGN EXCHANGE

All the new machineries installed during the year are energy efficient. Significant cost saving on cutting fluids has also been achieved by machine modifications and use of longer lasting coolant. Regarding absorption of foreign technology, the process is ongoing in the areas of machining, heat treatment and finishing. The Company has now achieved full indigenisation of all components for Standard Bearings and substantial indigenisation for AP Bearings. It is the intention of the Company to proceed with the process of indigenisation further.

Other details are given in the Annexure which also forms part of this Report.

For and on behalf of the Board of Directors

Dr Jamshed J Irani
Chairman

Gordon William Robinson
Managing Director

Mumbai, June 23, 1998

