

TIMKEN

REPORT AND ACCOUNTS 2000-2001



TIMKEN INDIA LIMITED

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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-700 071 to Bara, P.O. Agrico, Jamshedpur-831 009. All correspondence meant for the Registered Office of the Company may therefore please be sent to the new address.

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.

TIMKEN INDIA LIMITED
BOARD OF DIRECTORS

(As on 9th June, 2001)

| | |
|------------------------|-------------------------------|
| MR G W ROBINSON | - Chairman |
| MR S K SINHA | - Dy. Managing Director |
| DR J J IRANI | |
| MR M SONDHI | |
| DRT MUKHERJEE | |
| MR JT ELSASSER | |
| MR S A SCHERFF | |
| MR V K DASARI | |
| MR J S PATHAK | - Alternate to Mr S A Scherff |
| MR P S DASGUPTA | - Alternate to Mr V K Dasari |

COMMITTEES OF THE BOARD

(As on 9th June, 2001)

AUDIT COMMITTEE

| | |
|----------------------|------------|
| MR M SONDHI | - Chairman |
| DRT MUKHERJEE | |
| MR J S PATHAK | |

INVESTORS RELATIONS & GRIEVANCE COMMITTEE

| | |
|----------------------|------------|
| DRT MUKHERJEE | - Chairman |
| MR S K SINHA | |
| MR J S PATHAK | |

MANAGEMENT TEAM

| | |
|-----------------------|---|
| MR S K SINHA | - Dy. Managing Director |
| MR A K SINHA | - Director (HR & Purchase) |
| MR M W HAPPACH | - Director (Sales & Marketing) |
| MR K STHANPATI | - Asst. Director (Projects) |
| MR I KUMAR | - Asst. Director (Business Development) |
| MR A K DAS | - Asst. Director (Manufacturing) |

Company Secretary

Soumitra Hazra

Bankers

State Bank of India
Bank of Baroda

Auditors

S R Batliboi & Co.
36, Ganesh Chandra Avenue
Calcutta-700 013

Registered Office

Bara P. O. Agrico
Jamshedpur - 831 009
Ph. No. (0657) 210119
Fax No. (0657) 210290



NOTICE TO MEMBERS

Notice is hereby given that the Fourteenth Annual General Meeting of Timken India Limited will be held at Tata Steel Management Development Centre, Circuit House Area (East), XLRI Campus, Jamshedpur – 831 001 on Friday, July 20, 2001 at 4.00 P. M. to transact the following business :

1. To receive and adopt the Profit and Loss Account for the year ended March 31, 2001 and the Balance Sheet as on that date and the Reports of the Directors and the Auditors.
2. To declare a dividend on 9% Cumulative Redeemable Preference Shares.
3. To appoint a Director in place of Dr. J. J. Irani who retires by rotation and being eligible offers himself for reappointment.
4. To appoint a Director in place of Mr. Jon T. Elsasser who retires by rotation and being eligible offers himself for reappointment.
5. To appoint Auditors of the Company and to fix their remuneration.

SPECIAL BUSINESS

6. Alternate Director holding office or place of profit

To consider and if thought fit, to pass with or without modification, the following resolution as a Special Resolution :

“RESOLVED THAT pursuant to Section 314 of the Companies Act, 1956 and such other applicable provisions and subject to such approvals as may be necessary, consent of the Company be and is hereby accorded to Mr. Shyamal Kumar Sinha, who was appointed as Alternate Director to Mr. Jon T. Elsasser, holding office or place of profit under the Company as an ordinary employee of the Company under the designation “Director (Finance & Systems)” from the effective date of such appointment to June 7, 2001.”

7. Appointment of Mr. Shyamal Kumar Sinha as a Director of the Company

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

“RESOLVED THAT Mr. Shyamal Kumar Sinha, in whose respect notice has been received from a Member under Section 257 of the Companies Act, 1956 be and is hereby appointed as a Director of the Company.”

8. Appointment of Mr. Shyamal Kumar Sinha as the Dy. Managing Director

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

“RESOLVED THAT pursuant to Sections 269, 309 and other applicable provisions if any, of the Companies Act, 1956 and subject to such approvals as may be necessary, Mr. Shyamal Kumar Sinha (‘Mr. Sinha’) be and is hereby appointed as the Dy. Managing Director with effect from the close of business on June 8, 2001 on the terms and conditions set out in an Agreement to be entered into between the Company and Mr. Sinha in terms of the draft placed before the meeting and initialled by the Chairman for the purpose of identification and that the Board of Directors of the Company be and is hereby authorized to take all such steps in this regard as may be necessary, proper and expedient, including but not restricted to entering into an Agreement on behalf of the Company with Mr. Sinha in terms of the said draft.”

9. Contribution to Charitable and other funds in excess of the limits laid down in Section 293(1)(e) of the Companies Act, 1956

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

“RESOLVED THAT pursuant to the provisions of Section 293(1)(e) of the Companies Act, 1956 (“the Act”),



the Board of Directors of the Company be and is hereby authorized to contribute on behalf of the Company, in case of natural calamities of unprecedented scale or such other causes of national importance for which majority of Company employees may elect to voluntarily contribute, to charitable and other funds not directly relating to the business of the Company or the welfare of its employees, any amount the aggregate of which will in any financial year exceed Rs. 50,000/- or 5% of the Company's average net profits as determined in accordance with the provisions of Sections 349 and 350 of the Act, during the three financial years immediately preceding, whichever is greater, subject to a maximum of the aggregate of the amounts of contributions voluntarily made by the employees of the Company for the purpose."

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 Nos. 6 to 9 is annexed hereto.
3. The Register of Members and the Share Transfer Books of the Company will remain closed from July 6, 2001 to July 20, 2001 both days inclusive.

Registered Office :
Bara, P.O. Agrico
Jamshedpur - 831 009
June 13, 2001

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. 6

Mr. Shyamal Kumar Sinha ('Mr. Sinha') was appointed by the Board of Directors of the Company as Alternate Director to Mr. Jon T. Elsasser. At the time of appointment, Mr. Sinha has also been working as an ordinary employee of the Company under the designation - Director (Finance & Systems). As an ordinary employee of the Company, Mr. Sinha has been entitled to, as per terms of his appointment as Director (Finance & Systems), remuneration and perquisites as listed under the following heads:

1. Salary including Allowances as per Rules of the Company.
2. Performance Incentive as per Rules of the Company.
3. Furnished residential accommodation.
4. Free electricity, water at house limited to 10% of Basic salary.
5. Free use by Mr. Sinha of Company's car for the purpose of the Company's business and telephone facility at his residence, which shall not be considered as perquisite/benefit, but the use of car for private purpose and personal long distance calls on telephone shall be billed by the Company to Mr. Sinha.
6. Subscription of one Club.
7. Leave Travel Concession as per Rules of the Company.

The total amount of remuneration drawn by Mr. Sinha during 2000-2001 was Rs.10,08,882/-.

Mr. Sinha has since resigned as an Alternate Director to Mr. Jon T. Elsasser with effect from June 7, 2001.

Under the provisions of Section 314 of the Companies Act, 1956, approval of the Members by a Special Resolution is required for Mr. Sinha holding such office or place of profit under the Company.



The Board of Directors recommends that the Special Resolution set out under Item no. 6 of the Notice be passed.

No Director of the Company, except Mr. Sinha is concerned or interested in the above Resolution.

Item No. 7

Mr. Shyamal Kumar Sinha has been appointed as an Additional Director of the Company under the provisions of Section 260 of the Companies Act, 1956 ('the Act') with effect from June 8, 2001. Notice has been received from a Member of the Company pursuant to the provisions of Section 257 of the Act proposing the appointment of Mr. Sinha as a Director of the Company. The Board recommends the resolution relating to his appointment as a Director of the Company be passed.

Except Mr. Sinha, no other Director is concerned or interested in the resolution set out under Item no. 7.

Item No. 8

At its meeting held on June 8, 2001, the Board of Directors has appointed Mr. Shyamal Kumar Sinha as an Additional Director of the Company and also as the Dy. Managing Director on the terms and conditions contained in the draft of an Agreement, an abstract of which is set out as follows :

- | | | |
|-----------------------------------|---|---|
| Salary including other allowances | : | Rs. 50,000/- per month |
| Performance Incentive | : | As per rules of the Company |
| Perquisites | : | <ul style="list-style-type: none"> i) Company leased accommodation along with free furnishing. However the Company will recover 10% of Basic Salary of Mr. Sinha or actual rent whichever is lower. ii) Free electricity, water at house limited to 10% of Basic salary. iii) Free use of telephone facility at his residence which shall not be considered as perquisite/benefit but personal long distance calls on telephone shall be billed by the Company to Mr. Sinha. iv) Free use of Company car with driver for the purpose of Company's business which shall not be considered as perquisite/benefit. But the use of car for private purpose shall be billed by the Company to Mr. Sinha. v) Medical facilities as per rules of the Company. vi) Club Subscription as per rules of the Company. vii) Leave – accrual and encashment – as per rules of the Company. viii) Leave Travel Concession as per rules of the Company. ix) Company's contribution to Provident Fund/Pension Fund/ Employee Deposit Linked Insurance/Group Insurance/ Superannuation Fund etc. x) Gratuity as per rules of the Company. |

Minimum Remuneration

The remuneration including the benefits and amenities aforesaid shall nevertheless be paid and allowed as the minimum remuneration for any year in the event of absence or inadequacy of profits for such year.

Duties and Conditions

- i) Mr. Shyamal Kumar Sinha will perform the duties and exercise the powers, which from time to time may be assigned to or vested in him by the Board of Directors of the Company.



- ii) The appointment may be terminated by either party by giving three months notice in writing to that effect unless termination at a shorter notice is mutually agreed by both Mr. Sinha and the Board of Directors.
- iii) Mr. Shyamal Kumar Sinha shall not be entitled to any Sitting Fees for attending any meetings of the Board or any Committee thereof.
- iv) Mr. Shyamal Kumar Sinha shall be entitled to be reimbursed of all expenses incurred by him for the purpose of business of the Company.

The said appointment of Mr. Sinha including his remuneration as referred to above is subject to and requires the approval of the Company in General Meeting.

Mr. Sinha is a Commerce Graduate and is also a member of the Institute of Cost and Works Accountants of India. He has got a working experience of about 29 years. Before joining the Company in September 1995, Mr. Sinha was working with The Tata Iron & Steel Co. Ltd. in the Bearings Division as the Divisional Manager.- Accounts.

The Board recommends that the resolution set out under Item No. 8 be passed in the interest of the Company.

The draft of the Agreement as referred to above may be inspected by any Member of the Company at the Registered Office of the Company at Bara, P.O. Agrico, Jamshedpur on any working day prior to the date of the meeting between the hours of 11.00 A.M. and 1.00 P.M. and will also be available for inspection from 3.00 P.M. at the place and date of the Annual General Meeting.

Except Mr. Sinha, no other Director of the Company has any interest or concern in the aforesaid resolution.

This may be treated as an Abstract of the terms and Memorandum of Interest and also as an Abstract of the Agreement between the Company and Mr. Sinha pursuant to Section 302 of the Companies Act, 1956.

Item No. 9

In terms of the provisions of Section 293(1)(e) of the Companies Act, 1956 ("the Act"), the Board of Directors of the Company is in a position to contribute to charitable and other funds not relating to the business of the Company or the welfare of its employees up to a limit of Rs.50,000/- or 5% of its average annual net profits over a period of three financial years immediately preceding, computed in the manner laid down in Sections 349 and 350 of the Act, whichever is greater. Contributions beyond this limit require consent of the Company in General Meeting.

In view of the accumulated losses till 1999-2000, the Company is in a position at present to contribute upto a sum of Rs. 50,000/- only in absence of a specific consent by the shareholders to the Board of Directors to contribute a sum greater than Rs. 50,000/-.

Subsequent to the devastating earthquake in Gujarat, the employees of the Company contributed at least one day's salary for the relief of the earthquake victims and the Company wanted to make a matching contribution. In absence of any authority to the Board to contribute a sum in excess of Rs. 50,000/-, the said contribution could not be made.

Resolution as set out under Item no.9 of the accompanying Notice is to be considered in the above context. The Board recommends that the said resolution be passed.

No Director of the Company is concerned or interested in the said resolution.

Registered Office :
Bara, P.O. Agrico
Jamshedpur - 831 009
June 13, 2001

By Order of the Board

Soumitra Hazra
Company Secretary



CHAIRMAN'S STATEMENT

Dear Shareholders,

While writing to you last year, I expressed my conviction that the Company would be able to overcome all hurdles to step into the new millennium with improved performance. I am thankful to all our associates, suppliers, customers and various government agencies for working together to make that happen. The new millennium has started on a very encouraging note with Profit after Tax (PAT) for the year 2000-2001 showing significant improvement.

I consider this performance to be highly commendable because the Indian economy has shown a slowdown last year and the medium and heavy commercial vehicle sector had seen a drop in production by around 18%.

Right now, the situation in the domestic market does not look too positive. The slowdown in the Indian economy needs to be reversed and I am certain that it has the strength to return to the growth path. The export expectation of the Company may also be affected by the slowdown in the US economy.

The need of the hour for the Company is not only to continue its ongoing improvements in costs and quality but also to strengthen it to match international competition.

The Timken Company, USA is passing through a transformation exercise of its worldwide operations. Timken India being the Indian arm is also expected to contribute in the said process. This will enable the Company to get further exposure in the international environment.

Such an exposure will reinforce the Company's need to commit itself to improvements in quality and costs. The degree of competition in the international market is especially intense and only a high performance Company can succeed.

I am certain that the Company will build on its past strong performance and will be successful in this endeavour as well.

Environment always remains an area for concern in Timken. During last year, the Company has undertaken a project to achieve ISO 14001 Certification. Associates drawn from various functional areas are involved in this project. It is expected that the project will be completed shortly.

I hope that the new industrial policy of the Government of the new State of Jharkhand will create a positive environment to achieve our goals. I look forward to receiving a wholehearted support from all our Associates, Suppliers, Customers, Bankers, Investors and all the Government Agencies in our effort to shape up our future course of action.

Thank you.

Yours sincerely,



Mumbai
June 8, 2001

Gordon William Robinson
Chairman



DIRECTORS' REPORT

TO THE MEMBERS

The Directors have pleasure in presenting the Fourteenth Annual Report on the business and operations of the Company together with the Financial Results for the year ended 31st March 2001.

FINANCIAL RESULTS

| | Current year (Rs. in Lacs) | Previous year (Rs. in Lacs) |
|---|---------------------------------------|--|
| a) Gross Profit | 3642 | 3192 |
| b) Less : Depreciation | 1201 | 1124 |
| c) Earnings before Interest & Tax (EBIT) | <u>2441</u> | <u>2068</u> |
| d) Less : Interest | 227 | 305 |
| e) Profit before Tax (PBT) | 2214 | 1763 |
| f) Less : Taxes | 173 | 243 |
| g) Profit after Tax (PAT) | 2041 | 1520 |
| h) Add : Profit / (Loss) brought forward from previous year | 110 | (1269) |
| i) Add : Debenture Redemption Reserve Written-back | Nil | 650 |
| j) Profit available for appropriation | <u>2151</u> | <u>901</u> |
| k) Less : Proposed Dividend on Preference Shares | 258 | 791 |
| l) Balance carried forward | <u>1893</u> | <u>110</u> |

OPERATIONS

The growth of the bearing industry is linked to the growth of the major bearing applications industry, i.e. automobiles/engineering/railways. According to the Economic Survey for 2000-2001, tabled in February 2001 in Parliament, the industrial growth after a turnaround in 1999-2000 has registered a slowdown during 2000-2001. The overall industrial growth of 5.7% during this period is lower than 6.4% during the corresponding period last year. The factors responsible for such slower growth include a lack of domestic demand for intermediate goods, low inventory demand for capital goods, high oil prices, existence of excess capacity in some sectors, business cycle, inherent adjustment lagging in industrial restructuring and infrastructural constraints. In addition, there was a high interest rate environment due to the continued fiscal deficit. As a result, the production in medium and heavy commercial vehicle segment registered a drop of around 18% during 2000-2001.

Against this backdrop, the Company has still been able to improve its performance in net sales by about 3%. The Expansion Project initiated by the Company in 1999-2000 has been completed well within the budgeted cost and also within the estimated timeframe. There has been an overall improvement in capacity utilization as indicated by a 3% increase in production in terms of equivalent bearings. The Company has also made a significant shift in capacity utilization towards more value added products.

The Company continued its endeavours to penetrate into the international markets and exports accounted for around 18% of the total sales during the year under review. FOB value of exports has increased significantly during this period.



A new concept in technical problem solving and Roll Shop Management has also been introduced during 2000-2001, drawing heavily from our expertise in Timken's Steel Rolling Mills as well as its strong base of knowledge in bearings. This service envisages round the clock management of our customer's Roll Shop and the associated chock and bearing maintenance. The Company has also been actively pursuing new business activities that enhance the value adding propositions of the Company's existing businesses. It has been decided by the Directors that most of the new investment required for these programmes will be met through internal funding.

DIVIDENDS

The Directors recommend payment of dividend on the paid-up 26,00,000 9% Cumulative Redeemable Preference Shares of Rs.100/- each aggregating Rs. 26 crores for the year 1998-99 @ Rs. 9/- per share amounting to Rs. 2.58 crores (inclusive of dividend tax at appropriate rates) so as to clear a part of dividends in arrears on these Shares.

Payment of no other dividend is recommended.

FINANCE

The entire 13% Unsecured Redeemable Non-Convertible Debentures were redeemed during the year. The endeavour of the Company to keep the incidence of interest in check continued during the year under review resulting in reduction of interest charge by about 26%.

ICRA retained the A1+ rating to the Rs.10 crore Commercial Paper Programme of the Company. This rating indicates highest safety.

CORPORATE GOVERNANCE

In terms of the implementation schedule stated under Clause 49 of the Listing Agreement, the Company is required to implement the requirements of Clause 49 in 2001-2002, i.e. within March 31, 2002. The Directors are pleased to report that most of the mandatory requirements have been implemented by the Company in the year 2000-2001 itself.

1) Board of Directors

The present strength of the Board is eight Directors comprising one Executive and seven Non-Executive Directors. In addition, two Alternate Directors have also been appointed. The Chairman of the Board is a Non-Executive Director and out of seven Non-Executive Directors, three Directors are considered as Independent Directors. The composition of the Board complies with the requirements of Clause 49 of the Listing Agreement.

2) Audit Committee

An Audit Committee of the Board has been set up in 1991 in compliance with the terms of a Loan Agreement with Industrial Development Bank of India. Even after repayment of the loan, the Audit Committee has been continuing to function under the Chairmanship of Mr. Mantosh Sondhi with Dr. T. Mukherjee and Mr. Jai S. Pathak as the other two members. All of them are Non-Executive Directors and Mr. Mantosh Sondhi and Dr. T. Mukherjee are considered as Independent Directors.

3) Investors Relation and Grievance Committee

Dr. T. Mukherjee, a Non-Executive, Independent Director heads this Committee while Mr. Shyamal Kumar Sinha and Mr. Jai S. Pathak are the other two members. This Committee has been set up to authorize, *inter alia*, registration of transfers and also to look into redressal of investors' grievances.

