

29th Annual Report 2014-2015

ENGINEERING
CONVERGENCE
SOLUTIONS FOR
A LEAN WORLD



HI - TECH GEARS LTD.

ENGINEERING
MANUFACTURING
ROBOTICS

passion to succeed



passion | innovation | technology

Vision

Be A global footprint Company and a benchmark for world class manufacturing systems

Mission

We will be the preferred partner in delivering engineering products and design solution through lean philosophy with a focus on:

- Building a customer centric Organization
- Rapid development of products and innovative solutions
- Ensuring cost effectiveness
- Developing competent and committed people

Forward Looking Statement & Disclaimer

In our report we have disclosed forward looking information so that investor can better understand the Company's future prospects and make informed decisions. This Annual report and other written and oral statements that we make from time to time, contain such forward looking statements that set out anticipated results based on management's plans and assumptions. We have tried, wherever possible, to identify such statements by using words such as 'anticipate', 'estimate', 'expect', 'projects', 'intends', 'plans', 'believes', and words and terms of similar substance in connection with any discussion of future operating or financial performance. We cannot guarantee that any forward looking statement will be realized, although we believe we have been prudent in our plans and assumptions. Achievement of future results is subject to risks, uncertainties and inaccurate assumptions. Should known or unknown risks or uncertainties materialize, or should underlying assumptions prove inaccurate assumptions, should underlying assumptions prove inaccurate, actual results could vary materially from those anticipated, estimated or projected. Investors should bear this in mind as they consider forward-looking statements. We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise.

Sources of information: we have consulted RBI, SIAM, ACMA, industry associations, fellow industry members, Industry Journals and various authorities, ministries & institutions sites for the information set in this Report. We have tried, wherever possible, to identify and authenticate the such information, however we undertake no obligation for its correctness and its updates.

Contents

Milestones	2
Chairman's Message	4
Managing Director's Message	7
Directors' Report	10
Management Discussion & Analysis	32
Corporate Governance Report	37
Shareholder's Information	51
Auditors' Report	52
Balance Sheet	56
Statement of Profit & Loss	57
Cash Flow Statement	58
Notes to Financial Statement	60
Notice	83

Corporate Office

14th Floor, Tower – B,
Unitech's Millennium Plaza,
Sushant Lok – 1, Sector – 27,
Gurgaon,
Haryana – 122002
Tel : (0124) 4715100,
Fax : (0124) 2806085,
Email : secretarial@hitechgears.com

Registered Office & Works

A-589, Industrial Complex,
Bhiwadi – 301019,
Dist. Alwar, (Rajasthan),
Tel: (01493) 665000/641227

Plant II:

Plot No. 24, 25 & 26,
Sector -7, IMT Manesar, Gurgaon,
Haryana – 122050,
Tel: (0124) 4715200,

Plant III:

SPL – 146,
Industrial Complex,
Bhiwadi – 301019,
Dist. Alwar, (Rajasthan)

Bankers

DBS Bank Ltd.
ICICI Bank Ltd.
Citi Bank N.A.
Standard Chartered Bank
State Bank of India
State Bank of Bikaner & Jaipur

Registrar & Transfer Agent

MAS Services Limited
(Unit: Hi-Tech Gears Limited)
T-34, 2nd Floor Okhla Industrial Area,
Phase-II, New Delhi – 110020
Tel : (011) 26387281, 82, 83
Fax: (011) 26387384

Cost Auditors

M/s Kabra & Associates
Cost Accountants
552/1B, Arjun Street, Main Vishwas Road,
Vishwas Nagar, Delhi-110032

Secretarial Auditor

M/s Grover Ahuja & Associates
Company Secretaries
8/33, 3rd Floor, Satbhraha School Marg,
W.E.A., Karol Bagh, New Delhi – 110005
Tel: +91 11 42773662, 45091596

Board of Directors

Mr. Deep Kapuria
Executive Chairman

Mr. Anil Kumar Khanna
Independent Director

Mr. Pranav Kapuria
Managing Director

Mr. Sandeep Dinodia
Independent Director

Mr. P.C. Mathew
Independent Director

Mr. Vinit Taneja
Independent Director

Mr. Anuj Kapuria
Executive Director

Mr. Prosad Dasgupta
Independent Director

Mr. Krishan Chandra Verma
Independent Director

Mr. Ramesh Chandra Jain
Director

Ms. Malini Sud
Additional Director & Independent Director

Key Managerial Personnel

Mr. Alok Agarwal
Chief Financial Officer

Mr. S. K. Khatri
Company Secretary

Senior Executive

Mr. Vijay Mathur,
Sr. General Manager (Finance)

Statutory Auditors

M/s Gupta Vigg & Co.
Chartered Accountants
E – 61, Lower Ground Floor,
Kalkaji, New Delhi – 110019.

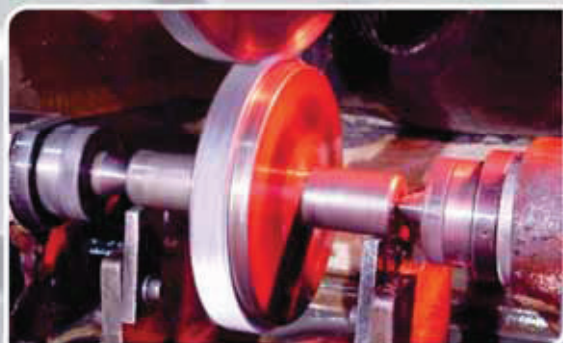
Internal Auditors

M/s BDO India, LLP
Office No. 1032, 1033 & 1034,
Level 10, Tower A, Spaze 1-Tech Park,
Sector 49, Sohna Road
Gurgaon – 122018, INDIA
Tel: +91-124-4518350

MILESTONES 1986 Down the years 2015



- 1986 Incorporated as a Public Limited Company
- 1988 Production commencement single source supplier to Hero Honda
- 1989 Product Indigenisation
- 1992 Technical Tie-up with Kyush Musashi, a subsidiary of Honda Motors, Japan



- 1993 Backward Integration into Precision Forgings
- 1995 Selected as single source supplier to Honda Power, Tata Cummins Ltd.
- 1996 Technology Agreement with GETRAG, US
- 1996 Certified as ISO 9002
- 1996 BPR Launched
- 1997 Selected as a global Source to Cummins, US
- 1998 Certified as QS 9000
- 1999 Separate Division to handle high-end design and CAD Services established, under the name of Hi-Tech eSoft.



- 2002 Launched initiative of Lean Manufacturing
- 2003 Certified for Integrated Quality Management Systems
- 2003 Certified for TS 16949
- 2003 Environment Certification ISO 4001
- 2003 Occupational Health & Safety Certification OHSAS 18001 : 1999
- 2004 Establishment of HI-Tech Robotic Systemz
- 2004 Prototyping/Productionising Precision Components for Robert Bosch, GM, Volvo and Daimler Chrysler



- 2005 State-of-the-art Manufacturing Facility set up at Manesar
- 2007 Hi-Tech eSoft (Division of HGL) certified for ISO 9001 : 2000
- 2008 ACMA Export Award 2006-07
- 2008 Setup of Pune Office
- 2009 Excellence Award for Manufacturing and Export
- 2010 TPM Excellence Awards Category A & Shingo Silver Medallion
- 2011 New State of Art "ECOFAC" Plant setup in Bhiwadi
- 2012 Award for Excellence in consistent TPM Commitment.
- 2013 ACMA Export Award
- 2014 ACMA Export Award (Large Category)

CUSTOMERS





Chairman's Message



Dear Shareholders,

The global economy continues to struggle with moderate growth in 2014. Europe remains a concern because of issues around the Greek economy. Events such as the uncertainty related to the Russia-Ukraine crisis, the Middle-East and the economic slowdown in China have further added to the woes of the global economy. The rapid decline in oil prices and quick adjustments in exchange rates, the appreciation of US dollar and weakening of most other currencies, notably the euro have had a major impact on global trade flows. But contrary to what is happening around the world, FY 2014-15 has been a good one for the Indian economy. The Indian economy has been successfully placed on growth track on the back of strong policies and a new optimism and it grew in excess of 7% for the first time since the FY 2010-11

Global and Domestic Economic Affairs

2014 was a year of mixed fortunes for the world economy. While advanced economies reflected a pick-up in growth relative to the previous year, emerging market & developing economies witnessed a slowdown. As per the International Monetary Fund (IMF), advanced economies grew by 1.8% in 2014 compared to 1.4% in 2013, while emerging market & developing economies growth reduced from 5% to 4.6%. The growth in advanced economies is projected to strengthen to 2.1% in 2015, but in emerging market and developing economies it is expected to be weaker. For emerging and developing economies except India, the IMF has projected a weaker pace of growth from 4.6% in 2014 to 4.2% in 2015. The slowdown reflects the dampening impact of lower commodity prices and tighter external financial conditions. In 2016, growth in emerging market and developing economies is expected to pick up to 4.7 %, largely on account of the projected improvement in economic conditions in a number of distressed economies, including Russia and some economies in the Middle East and North Africa.

The US economy performed comparatively well during 2014 due to factors such as improvement in domestic demand, advantage of drop in global oil prices and an accommodative monetary policy. However, during the first quarter of 2015, the US economy was confronted with sluggish conditions due to the harsh winter weather, port strikes, and downsizing in the energy sector.

The world economy grew at 3.4% in 2014 and is projected to grow at 3.3 % in 2015. A setback to activity is being felt in Greece and China and the impact has resulted in a downward revision in global growth to 3.3% for 2015 from earlier outlook of 3.5%. In 2016 however, growth is expected to strengthen to 3.8%.

Nevertheless, the underlying drivers for a gradual acceleration in economic activity in advanced economies i.e easy financial conditions, a more neutral fiscal policy in the euro area, lower fuel prices improving confidence and labor market conditions remain intact. In emerging market economies, the continued growth slowdown reflects several factors, including lower commodity prices and tighter external financial conditions, structural bottlenecks, rebalancing in China and economic distress related to geopolitical factors. A rebound

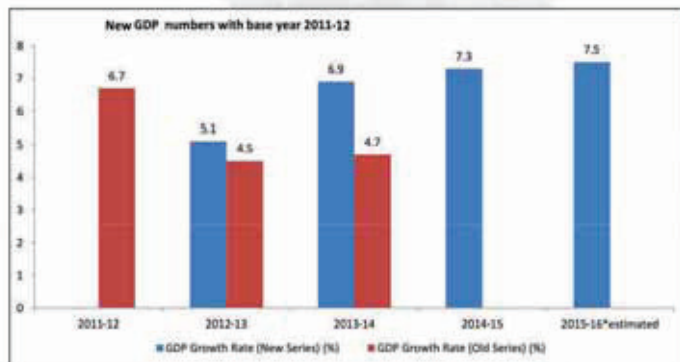


in activity in a number of distressed economies is expected to result in a pickup in growth in 2016. I believe the economic turnaround is underway but the recovery will be gradual and the world economy is still a few years away from attaining sustainable growth.

Contrary to growth outlook for the global economy, the financial year (FY) in India started with a 'good feel' factor of a new majority government and possibilities of external vulnerabilities on the wane. Coupled with continuing softening of oil prices since September 2014, it was projected as the year of revival.

India is set to emerge as the world's fastest-growing major economy by 2015 ahead of China, as per the report of The World Bank. The improvement in India's economic fundamentals has accelerated in the year 2015 with the combined impact of strong government reforms and RBI's inflation focus supported by benign global commodity prices. The year also witnessed lower volatility in the foreign exchange market with the rupee remaining relatively stable during 2014-15, as compared to 2013-14. It remained in the range of Rs. 60 to Rs. 63 per US Dollar during most part of the year. The Indian Rupee appreciated significantly against the other global currencies like the Euro and Japanese Yen during 2014-15.

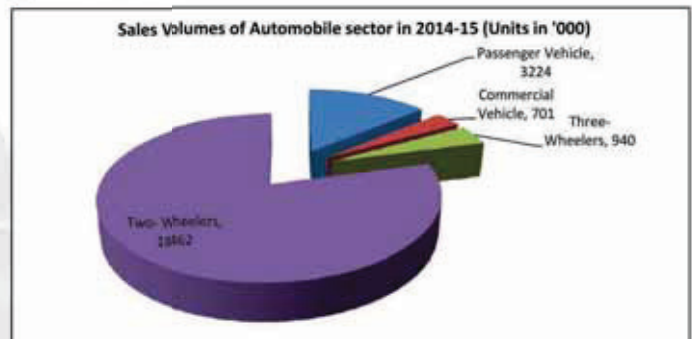
The Indian economy grew at 7.3% in 2014-15 as compared to 6.9% in 2013-14 as per the new series of national accounts with the base year of 2011-12. This growth came from improvement in the performance of both services as well as manufacturing sectors. The fourth quarter (January-March) of last fiscal saw the economy grow at 7.5 % which was better than the growth recorded by China.



Indian Automobile market and our Future Outlook

The Indian automotive market is full of tremendous opportunities and is capable of scaling to greater heights. The Indian automotive industry has experienced healthy sequential growth during 2014-15. The overall sales during April-March 2015 registered a growth of 8.32%.

The total sales (including exports) of Passenger Vehicles during April-March 2015 were at 3,223,581 as against 3,099,651 in the previous period and registered a positive growth of 4.00%. However, sales of Commercial Vehicles stood at 700,743 against 709,901 and registered a negative growth of 1.29%.



The sales of Two Wheelers stood at 18,462,178 against 16,890,778 in previous year, thereby registering a growth of over 9.30%. Within the Two-wheeler segment, scooters and motorcycles grew at 27.19% and 4.26% respectively.

The growth in 2014-15 can be attributed to factors such as strong buoyancy in the end-user industry, recovery of the global economy, improved consumer sentiment and return of adequate liquidity in the financial system, fiscal stimulus programme of the government etc.

From the ground level, three powerful forces are impacting the auto industry: shifts in consumer demand, stricter regulatory requirements for safety and fuel economy, and the increased availability of data and information. Although this is not likely to have a major impact on sales volume, it is affecting how much people are willing to pay for automobiles.

Since coming to power last year the new government's main concern has been the revival of growth in the Indian economy and crucially enough, it has chosen to give the Industrial sector a structural push to achieve its goal. The government announced the 'Make in India' initiative, which intends to make manufacturing the engine of growth and also generate employment. Under the initiative there would be increased focus on new processes, new infrastructure, new sectors and creating a new mindset in order to increase the share of manufacturing in GDP to 25% from the current 17%. The focus of Make in India Programme is on 25 sectors out of which one of the important sectors is Automobiles.

Over the last decade countries in our neighborhood like China and other East Asian countries had developed strong economic models that relied more on exports to develop their automotive industry as well as pave the way for their rapid economic growth. Our government's latest initiative also aims to follow a similar path.



However, very recent events towards the end of August 2015, caused by the devaluation in the Chinese Yuan, have resulted in a steep volatility in the BSE Sensex and NSE and have also led to a significant loss in the value of the INR vs. the USD to levels of Rs.66 – 68. This uncertainty will impact the RBI's policies and reduction in interest rates may be further deferred. India's GDP growth in FY 15 -16 could therefore be held back to 7 % levels, instead of rising to 8 % +. This is an area of concern for all of us and especially to the manufacturing sector. The significant monsoon deficit could also be a constraint for such growth targets, with its negative impact on agricultural production and rural purchasing power for manufactured products.

Company Performance and Strategy

You will be glad to know that there are very few Companies in the world which supply to OEMs manufacturing two wheelers to truck and your Company is one out of those few and caters to the needs of major , two wheeler, Commercial Vehicles, Tractor and Off-road vehicle manufacturers in India and overseas. . The Company's principle products include two wheeler transmission components, engine and transmission components for commercial and passenger vehicles, precision forgings etc.

I am pleased to inform you that the financial year 2014-15 was an encouraging year for your Company and your Company's turnover has crossed the Rs. 400 crore mark in 2014-15 & touched Rs. 432 crores as compared to Rs. 361 crores in the previous year (net of excise duty). The profit before tax and after tax was Rs. 26.30 crores and Rs. 18.42 crores respectively, compared to Rs. 22.06 crores and Rs. 15.93 crores in the previous year. I am further pleased to inform you that in order to share our gains with you. Your Board of Directors had declared an Interim Dividend of 10% and further recommends a final dividend of 15% for your approval. Your company will continue to explore opportunities for growth in the years ahead. Though there will be challenges on many fronts but I am confident that together we will be successful in the endeavour to scale up operations so as to achieve long term sustenance and growth.

We have enough experience in our portfolio as manufacturers and suppliers of gears and transmission equipments. Now, we will be called as a full fledged 'Assembly' supplier. We are proud to say that we have started supplies of counter shafts, main shafts and kick starters assemblies to the major OEM customer in Two wheeler segment to their satisfaction. The benefit of being an 'Assembly' supplier is not only the additional value add, but will also ensure the growth of business at higher levels.

Approaching our goals with discipline and focus has been essential to our approach. Each time we look at a growth horizon, we look at how we can improve and add value to our business; how we can make a difference in the markets that we operate in, make our offerings more expansive and deliver on our mission to create healthier communities globally.

Your Company's strategy has been to focus on four pathways: leveraging our core strengths, improving the efficiency of our operations, optimising our resources and enriching the capabilities of our people as we move on to a higher growth trajectory.

As I conclude, I, on my behalf and on behalf of my colleagues on the Board would like to thank and record our sincere gratitude to all our stakeholders for the confidence & trust reposed upon us and our deep appreciation to all employees of the Company for their hard work, commitment and whole hearted support for achieving company's goals and targets. I further thank all our customers, our supply chain partners and our bankers for reposing their confidence & support in us. As we step into a new phase, there are many reasons to be excited about the future of our business. There will be more opportunities to deliver something meaningful and purposeful as we race ahead with our plans for your Company's future in the years to come. I am confident that together we will chart the road map of the Company for continuous growth & profitability and will steer the Company to greater heights.

Deep Kapuria
Chairman



Managing Director's Message



Dear Shareholders,

I am happy as always to connect with you to reflect on the performance of your company in the year that went by and share with you our ambition for the future.

The last year has been a comparatively good one for the Indian economy with a positive change in the macroeconomic parameters. A sustainable turnaround appears more probable now. At a time when concerns have been raised about global growth prospects, the Indian economy has marched on and has in fact entered a sweet spot. Government data shows that GDP had grown by 7.3% in the FY15 against 6.9% in FY2014. There is a real sense that a new set of reforms and the enthusiasm in the markets can lead India towards another prosperous era of high growth.

Macro Economic update

The Global Economy continued to face challenges of volatility in 2014 led by upheavals in the global financial markets, uncertainty on global oil prices over the long run as well as low inflation and stagnation. The global economy grew at 3.4% in 2014, reflecting a pickup in growth in advanced economies relative to the previous year and a slowdown in emerging market and developing economies. Growth in emerging markets & developing economies is projected to slow down further in 2015 because of the dampening impact of lower commodity prices and tighter external financial conditions but in 2016 growth in emerging market and developing economies is expected to pick up, largely on account of the projected improvement in economic conditions in a number of distressed economies, including Russia and some economies in the Middle East and North Africa.

Global growth is projected at 3.3 % in 2015, marginally lower than in 2014, with a gradual pickup in advanced economies and a slowdown in emerging market and developing economies. In 2016, growth is expected to strengthen to 3.8 %.

The Indian economy grew the fastest since 2011 and is almost in line with the advance estimates. But the main number to get prominence was that the economy grew by 7.5% in Q4 FY2014-15 which was better than the growth recorded by China.

In view of the positive indications emanating from the Government's commitment to reforms, favorable situation on account of the reduced international prices of oil and benign inflationary outlook which could provide room to RBI for easing the monetary policy, the prospects for growth in 2015-16 appear bright. Previous months saw reduction in the bank rate and repo rate by the Reserve Bank of India (RBI) on account of easing inflationary pressures in the economy. In the coming period the RBI may further reduce the rates, provided the favourable conditions continue.

Certain recent global events towards the end of August 2015 such as the devaluation of the Chinese currency and its consequent negative impact on the Indian Rupee and the Indian Stock Markets are a cause for concern and may restrict the RBI from lowering interest rates. Relatively fewer monsoons may also negatively impact rural income levels and their power to purchase manufactured products. These are factors that we have to keep in mind as we move towards the second half of the current financial year FY 16 and take necessary actions within our control to minimize the impact of such macro economic and environmental factors.

The latest policy initiative of the Indian Government "Make in India" is a welcome move and a step in the right direction for the Indian Manufacturing Industry. The Government of India, under the Make in India initiative, is trying to give a boost to the contribution made by the manufacturing sector and aims to take it up to 25% of the GDP. We believe the economic recovery, which is already in place, will gather momentum in the coming



years and in due course see India returning to a high growth trajectory.

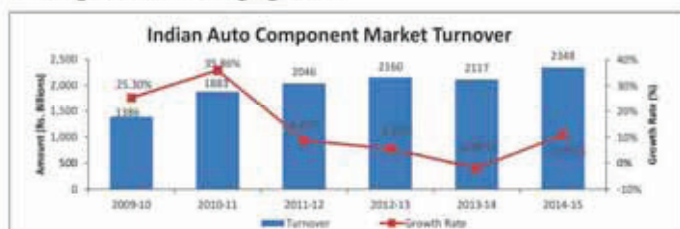
Automotive Business

After seeing challenging times, the Indian automobile industry finally saw an uptick in sales for the first time in three years in FY 2014-15. Although the revival is slow but all the vehicle categories except Commercial Vehicles (CVs) are in positive territory in FY 2014-15. Total Automotive production increased by 8.68% compared to FY 2013-14 by registering the total production to 23,366,246 units, and this higher growth is attributed largely to the hopes of an economic revival after a new government took charge in the country and the renewed business scenario. Further, the major attraction for the previous year remain the Two Wheeler Segment, which produced 18,499,970 units and sold 18,462,178 units against 16,833,049 units and 16,890,778 units in the same period in previous year. The continuation of the excise duty benefit till December 2014, correction in fuel prices and an increase in replacement demand with easing financing cost has contributed to increased demand. This is the first time in three years that passenger vehicle sales have recorded positive growth. High fuel and interest costs coupled with slowdown in economic activity had dented automobile sales earlier which seem to be in control now. The Indian auto industry has entered the new fiscal on an optimistic note after reporting a 7.22% increase in overall domestic vehicle sales in 2014-15, ending two years of sales fall, on the back of rising demand for passenger vehicles, two wheelers and medium and heavy commercial vehicles.

India to emerge as the destination of choice in the world for design and manufacture of automobiles and auto components and now can expect double-digit growth in sales in this fiscal on improving macro-economic sentiments, stable commodity prices, re-start of mining activity and infra projects, and higher industrial activity with an improved investment climate. An array of new product launches and a possible vehicle fleet modernisation programme that would go a long way to solve the environmental issue, too, are expected to generate significant incremental sales.

In fact, it is also interesting to note that while India's total exports stagnated, the Indian auto component industry exports grew by 11.4% to Rs 68,500 crore (USD 11.2 billion) from Rs 61,400 crore (USD 10.2 billion) in 2013-14. The key export items include engine parts, transmission parts, brake system & components, body parts, exhaust systems, turbochargers etc. Consistent growth in the auto component exports is an indication of growing credibility of 'India made' components. Similarly, the aftermarket for auto components in FY 2014-15 also grew by 12% to Rs. 39,875 crores.

The industry's focus on exports, quality and various cost saving initiatives has helped it weather the weak business environment leading to a double-digit growth.



Performance of the company

2014-15 was a year in which we made continued progress in many areas. The sales turnover of the Company increased to Rs.431.92 crores (net of excise duty) from Rs. 361.02 crores in the previous year, registering a significant increase of 19.64%. Profit before tax was Rs. 26.30 crores and profit after tax stood at Rs. 18.42 crores compared to Rs. 22.06 crores and Rs. 15.93 crores during the same period in the previous year. Earnings per Share (EPS) of the Company increased to Rs. 9.81 from Rs. 8.49 in the previous year.



The Company recorded an export turnover of Rs. 93.17 Crores, in 2014-15, compared to Rs. 83.34 Crores in the previous year, thus recording an increase of 11.80 %. We at Hi-Tech strongly believe that we will achieve the lost ground of sales in 2011-12, in a very short period.

Recognising the importance of sharing the gains with the shareholders who have placed their funds and trust in the Company at all times, an amount of Rs. 4.69 Crores is being paid out by way of dividends.

A journey of excellence is an ongoing one where there is continuous improvement and learning. This is also important if Quality has to become a way of life. The three signposts which guide us in our journey towards quality excellence are technology, training and sustainability. While technology opens the door to scientific data management and improved controls, continuous training helps us create the right focus and environment in the workplace. Continuous improvement is the key to sustaining and consistently delivering on quality parameters.

Your Company has not confined itself to the Indian markets but has made its presence felt globally. Your Company understands that the exposure to the global environment can lead to strong developmental opportunities. In coming times your Company wants to expand its Global presence further and succeed in the new areas. Many of your company's major customers (like: Cummins, Daimler, JCB etc.) are globally located. It confronts your company with tough contractual terms because even minor discrepancies are not acceptable in case of global contracts. OEMs are continuously acknowledging the quality and competitiveness of your company and have conferred several awards upon your company. These awards are of great significance and value to your company as they reflect your company's commitment to quality and customer focus. Your Company will continue to leverage its positioning and also rely on building its relationships and product development plans to grow.