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UCAL FUEL SYSTEMS LIMITED

REPORT OF THE DIRECTORS

The Directors have pleasure in presenting the TWENTY FOURTH ANNUAL REPORT together with the Audited Accounts of the Company for the year ended 31st March 2010.

1. FINANCIAL HIGHLIGHTS

The performance of the Company for the year ended 31st March 2010 is presented below:

Particulars	(Rs. in lakhs)		% Change
	For the year ended		
	31.03.2010	31.03.2009	
Gross Revenue	42,613	34,216	25
Net Revenue (excluding Excise Duty)	39,366	30,026	31
Total Expenditure	33,239	25,626	30
Operating Income	6,127	4,400	39
Other Income	93	312	(70)
Profit before Interest, Tax & Depreciation	6,220	4,712	32
Interest	2,852	2,528	13
Deferred Revenue Expenses	418	156	168
Depreciation	2,376	1,848	29
Profit before Tax & Exceptional item	574	180	219
Tax Expense	(189)	142	(233)
Profit after Tax / Net Profit	763	38	1,908
Prior period Adjustments	(6)	(34)	(82)
Balance of profit brought forward from last year	6,199	5,920	5
Amount Available for Appropriations	6,956	5,924	17
<u>Appropriations:</u>			
Transfer to General Reserve	-	-	-
Dividend	221	-	-
Tax on Dividend	37	-	-
Balance Carried to Balance Sheet	6,698	5,924	11
Earnings per Share	4.23	0.27	1,467

2. DIVIDEND

The Board has recommended a dividend of 10% for the financial year 2009-10.

3. PERFORMANCE OF OPERATIONS

The sales turnover of the Company has increased during the year from Rs.300.26 Cr to Rs.393.66 Cr thus recording an overall growth of 31.1 % over the previous year. The turnover has increased as a result of robust revival of demand starting from the second quarter of the financial year 2009-10. As a result of increase in turnover coupled with control on costs, operating income has recorded a jump of 39%. Further, consequent to

restructuring of loans, the interest cost has decreased from 8.42% of sales in 2008-09 to 7.24% of sales in 2009-10. The depreciation is also higher due to additional investments in fixed assets necessitated by technological advancements. The net profit after tax for the year 2009-10 was higher at Rs.7.62 Cr as against Rs.0.38 Cr in 2008-09.

4. DIRECTORS

At the Board meeting held on 30th April 2010, Mr.S. Muthukrishnan stepped down as the Chairman of the Company and Mr.Jayakar Krishnamurthy, who was Vice Chairman and Managing Director assumed the Chairmanship of the Company. He was also appointed as Chief Financial Officer of the Company w.e.f. 30th April 2010. Mr. S. Muthukrishnan continues as a Director on the Board. The Board wishes to place on record its appreciation for the contribution made by Mr. S.Muthukrishnan during his tenure as Chairman of the Company.

As already reported in the last AGM, Mr.V.Narayanan and Mr.M.R.Sivaraman ceased to be Directors w.e.f. 29th September 2009. EXIM Bank nominated Mr.K.Muthukumaran as a Director on the Board of the Company w.e.f. 9th September 2009 in place of Mr Mukul Sarkar. The Board wishes to place on record its appreciation for the excellent services rendered by the outgoing Directors during their tenure.

In accordance with the Articles of Association of the Company, Mr.S.Natarajan and Dr.M.S.Ananth, retire by rotation at the ensuing Annual General Meeting and are eligible for reappointment.

5. AUDITORS

M/s. G Balu Associates, Chartered Accounts, Auditors of the Company retire at the ensuing Annual General Meeting and are eligible for reappointment.

6. PREFERENTIAL ALLOTMENT

During the year, with the approval of the shareholders and Securities and Exchange Board of India (SEBI), the paid up capital of the Company was increased from Rs. 13,89,60,000 to Rs. 22,11,36,250 by allotment of 82,17,625 Equity shares of Rs.10/- each at a premium of Rs. 26.35 per share, on a Preferential basis to the Promoters / Persons acting in concert group.

7. MERGER

Merger of UCAL Machine Tools Limited with UCAL Fuel Systems Limited

Consequent to the Hon'able High Court of Madras approving the merger of UCAL Machine Tools Limited (UMTL) with UCAL Fuel Systems Limited (UFSL) effective from the appointed date i.e., 1.4.2009, vide its order dated 22nd June 2010 (received on 1st July 2010), UMTL stands merged with UFSL. Accordingly, the financial results of UCAL Fuel Systems Limited for the financial year 2009-10 are financial results of the merged entity.

8. SUBSIDIARY COMPANIES

Consequent to the merger of UMTL with UFSL, the Company now has two wholly owned subsidiaries.

UCAL Polymer Industries Limited has been functioning profitably and has declared a dividend of 10% for the financial year 2009-10. The Company is actively working to expand its customer base beyond UFSL.

UCAL FUEL SYSTEMS LIMITED

Financial year 2009-10 has been a breakthrough year for **Amtec Precision Products, Inc.**, USA. Amtec has avoided cash losses since October 2009 despite recession in the US economy. The infusion of funds into Amtec by the promoter / persons acting in concert group has greatly stabilized the operations of Amtec and has enabled it to sustain itself through the recession and achieve good results.

Statutory Requirements and Subsidiary Performance / Consolidated Financial Statements

The statement pursuant to Section 212 of the Companies Act, 1956, relating to Subsidiary Companies is attached to the accounts.

The Company has received exemption from the Central Government under Section 212(8) of the Companies Act, 1956 with regard to attaching of the Balance Sheet, Profit and Loss Account and other documents of the subsidiaries for the year ended 31st March 2010. Accordingly the accounts of the subsidiaries have not been attached. These documents will be available for inspection by any member of the Company at the registered office and also at the registered office of the concerned subsidiary. The accounts of the subsidiary companies and detailed information will be made available to the members upon receipt of request from them. The summary of the key financials of the Company's subsidiaries is included in this Annual Report.

9. FIXED DEPOSITS

The Company has not accepted public deposits during the year. Old deposits aggregating ' 64,000 remained outstanding as on 31st March 2010 as the matter is subjudice.

10. CORPORATE GOVERNANCE

The Company has complied with the requirements of the Code of Corporate Governance as stipulated by clause 49 of the listing agreement with the stock exchanges. A Report on Corporate Governance along with Certification by the Chairman & Managing Director and Chief Financial Officer is attached in Annexure-C.

A Certificate from the Auditors of the Company regarding compliance of the conditions of Corporate Governance as stipulated by clause 49 of the listing agreement is attached in Annexure-D.

The Management Discussion and Analysis Report is attached in Annexure-E.

11. PERSONNEL

Information in accordance with sub-section (2A) of Section 217 of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975, is furnished in Annexure-B.

12. DIRECTORS' RESPONSIBILITY STATEMENT

The Directors confirm that,

- a) In the preparation of the annual accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures;
- b) Such accounting policies have been selected and applied consistently and the judgments and estimates are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year 31st March 2010 profit of the Company for the year ended 31st March 2010;

- c) Proper and sufficient care has been taken for the maintenance of adequate accounting records in accordance with the provisions of Companies Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
- d) The annual accounts have been prepared on a going concern basis.

13. ENERGY, TECHNOLOGY & FOREIGN EXCHANGE

Information on energy conservation, technology absorption, foreign exchange earnings and outgo are given in Annexure-A.

14. ACKNOWLEDGEMENT

The Board places on record its appreciation of all its stakeholders: – the Customers for their continued support, the Bankers for their understanding and timely financial support, the Suppliers and Vendors for their continued association, the Governmental Agencies for their assistance, the Employees for their commitment and more importantly the Shareholders for continuously reposing their confidence on the Company.

For and on behalf of the Board

Place : Chennai
Date : 31.08.2010

JAYAKAR KRISHNAMURTHY
CHAIRMAN & MANAGING DIRECTOR
AND CHIEF FINANCIAL OFFICER

ANNEXURE-A TO THE REPORT OF THE DIRECTORS

A. ENERGY CONSERVATION MEASURES UNDERTAKEN AND CONSEQUENT SAVINGS

1. Installation of *timer control in coolant pump and hydraulic pump*
2. Implementation of *Impregnation plant vacuum pump cooling water recycling*
3. Auto off Controller provided for 25 HP Compressor thereby reducing the *idle working of loads*
4. Increase in the efficiency of the compressor by *reduction of heat from the compressor room*

B. ENERGY CONSERVATION PROPOSAL

1. Introduction of energy efficient LED lamps in street lights and Compact Florescent Lamp (CFL) in Machine Shop
2. Introduction of Natural lighting pipe
3. Solid State Relay (SSR) to be tried out in the PDC furnaces to control the temperature optimally
4. Transvector nozzle to be tried out in the air jet and washing machine
5. Automatic On/Off control to be provided for Mercury vapour lamp in PDC
6. Providing of the auto cut off controller for hydraulic pump and cooling tower fan motor
7. Replacing of the mono block water pump with submersible pump
8. Conversion of the pneumatic cylinder to Hydro pneumatic cylinder
9. Optimizing the Heater Capacity in solenoid oven by changing flat type heater into U-type heater
10. Introduction of lighting energy saver for lighting load
11. Introduction of auto valve for incoming air line of the machine (Valve is Open when the Machine is Switch ON)

C. RESEARCH AND DEVELOPMENT

Specific areas in which R&D is carried out by the Company:

- ❖ Development of Carburetors and Secondary Air Valves for 2-Wheelers & 3-Wheelers
- ❖ Development of Oil Pump for Passenger Cars & Commercial Vehicles
- ❖ Development of Vacuum Pump for Diesel engine Passenger Cars
- ❖ Development of Water Pump for Petrol & Diesel engine applications
- ❖ Electronic Engine Management System for 2-Wheelers
- ❖ Electronic Exhaust Gas Recirculation (EGR) controller
- ❖ Computer Aided Engineering (CAE) focusing on developing the required theoretical, design, technologies and simulation capability as related to our product range and future technologies
- ❖ Focused Value Engineering and Value Analysis activities for standardization and cost reduction

Benefits derived out of R&D

- ❖ Capability to address market needs through Indigenous product development by way of faster turn around of products and its variants, support to the customer
 - Offerings based on the current range of products to existing and new customers
 - Development of new products to existing / new customers
- ❖ Development of Indigenous technology and building a technology repository
- ❖ Building knowledge capital within the organization
 - We were successful in demonstrating our CAE capability for Oil Pump to General Motors
- ❖ Reduction in cost through Value Engineering / value Analysis
- ❖ Import substitution / alternate sourcing of critical parts completed as per plan
- ❖ Design guidelines have been documented for all our products to help the design activities

Future Plans

Developing new technologies which can be used for developing products for our existing customers as well as new customers such as:

- ❖ Electronic Throttle Valve for Gasoline engines
- ❖ 4 Stroke Port Injection system for 2-Wheelers
- ❖ Water Pump
- ❖ Develop a library of Vacuum Pump with higher capacity to meet future needs.
- ❖ Variable Flow Oil Pump

Expenditure on R&D

Particulars	Rs. in Lakhs
Capital	20.69
Revenue	885.31
Total	906.00
% of turnover	2.31%

D. TECHNOLOGY ABSORPTION, ADAPTATION AND INNOVATION

We have reached a technologically self reliant stage, as evidenced by the following:

- ❖ We are able to design products to the changing needs of the customers through our in-house R&D efforts. Example: 32mm throttle bore size carburetor for Pulsar 220 Motorcycle, so far largest in our range.
- ❖ Identification of suitable substitutes for materials and processes to meet ELV (End of Life Vehicle)

requirement and to use Ethanol blended petrol as required by some of the customers / applications.

- ❖ Re-designing our products to meet the requirements of the customers. Example: Re-designing the Vacuum Pump to meet the reverse rotation requirement.
- ❖ Innovative features have been incorporated in the carburetor – Throttle Position Sensor, Solenoid operated starter for cold starting.
- ❖ We are able to develop products to meet the customer targets in terms of fuel economy, emission levels. Example: New models and the variants launched by our customers with our carburetors are meeting the Emission norms, effective from April 2010.

Benefits derived as a result of the above efforts

- ❖ The Company has been able to develop new products meeting the customer timelines and price targets.
- ❖ The Company has been able to expand into new domains like Pumps – Oil Pump, Vacuum Pump & Water Pump.
- ❖ The Company has been able to approach new customers with our offerings by demonstrating our design capabilities.
- ❖ Our R&D center continues to enjoy the recognition of Department of Scientific & Industrial Research (DSIR).
- ❖ Our R&D engineers have presented 6 papers in National and International conferences.

E. FOREIGN EXCHANGE EARNINGS AND OUTGO

The earnings of foreign exchange were on account of export of Carburetors, MPFI parts and Secondary Air Valves during the year. The foreign exchange outgo was mainly on account of components, capital goods, foreign travel, royalty and technical know-how fee. During the financial year ended 31st March 2010, the total FE Outgo was **Rs. 5,581.37** Lakhs while the FE earned was **Rs. 1,973.44** Lakhs resulting in a net FE outgo of **Rs. 3,607.93** Lakhs.

For and on behalf of the Board

Place : Chennai
Date : 31.08.2010

JAYAKAR KRISHNAMURTHY
CHAIRMAN & MANAGING DIRECTOR
AND CHIEF FINANCIAL OFFICER

ANNEXURE-B TO THE REPORT OF THE DIRECTORS

Information in accordance with sub-section (2A) of Section 217 of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975

Sl. No.	Name	Age (yrs)	Date of Commencement of employment	Designation	Remuneration (Rs.)	Qualification	Total Experience (Years)	Previous Employment	
								Employer	Designation
1	Mr.P.P.R.Rao	63	26.09.2008	Executive Director	75,00,000	B.E.	40	Bizworth India Pvt.Ltd	C.E.O.
2	Mr.T.K.Sivasubramaniam	59	01.09.1989	President	28,35,580	B.E.	38.6	Carburettors Limited	Assistant Manager
3	Mr.Pramod Kumar Gupta	51	11.01.2006	Senior General Manager	24,56,320	DME, MBA	28.5	M/s. Sterling Tools limited	Senior General Manager

Note:

1. Years of experience include the experience prior to joining this Company also.
2. Remuneration comprises of salary, medical reimbursement, Company's contribution to Provident Fund and Superannuation Fund, LTC and value of other Perquisites evaluated on Cost to Company basis.
3. Remuneration does not include Company's contribution to Gratuity
4. In the case of Mr.P.P.R.Rao, the terms of employment are contractual
5. None of the employees are related to any Director of the Company

ANNEXURE-C TO THE REPORT OF THE DIRECTORS

REPORT ON CORPORATE GOVERNANCE

CORPORATE GOVERNANCE PHILOSOPHY

Corporate Governance, key feature of well managed enterprises should ensure high standards of transparency, accountability, ethical operating practices and professional management. Practice of good Corporate Governance principles benefits the stakeholders in particular and the society in general. The Company strongly believes and practises the principles of Corporate Governance.

1. BOARD OF DIRECTORS

(a) Composition

The Board consisted of the following directors as on 31st March 2010.

Non Executive Chairman	Mr. S. Muthukrishnan
Whole-time Directors	Mr. Jayakar Krishnamurthy, Vice Chairman & Managing Director Mr. P.P.R. Rao, Executive Director
Non Executive and Independent Directors	Dr. V. Sumantran Dr. M.S. Ananth Mr. S. Natarajan Mr. K. Muthukumaran (EXIM Bank Nominee)

The day-to-day management of the Company was carried on by the two Whole-time Directors of the Company.

The names of the Directors and the details of other Chairmanship / Directorship / Committee Membership of each Director are given below:

Name of Director	Category	No. of other Directorship	No. of Membership of other Board Committees	No. of Committee Chairmanship
Mr. Jayakar Krishnamurthy Vice Chairman & Managing Director	Executive	9	—	—
Mr. P.P.R. Rao Executive Director	Executive	—	—	—
Mr. S. Muthukrishnan Chairman	Non-Executive	10	—	—
Dr. V. Sumantran	Non-Executive & Independent	8	3	1
Dr. M.S. Ananth	Non-Executive & Independent	3	—	—
Mr. S. Natarajan	Non-Executive & Independent	6	—	—
Mr. K. Muthukumaran Nominee of EXIM Bank	Non-Executive & Independent	3	—	—