



FUELLING A TRAIL OF EXCELLENCE...

UCAL Fuel Systems Limited
Annual Report
2011 - 12



Board of Directors

Mr. Jayakar Krishnamurthy	Chairman and Managing Director
Mr. P.P.R. Rao	Executive Director (upto 25.9.2011)
Mr. R. Sundararaman	Joint Managing Director (Director w.e.f. 27.8.2011 and Joint Managing Director w.e.f. 8.9.2011)
Mr. S. Muthukrishnan	Director
Mr. S. Natarajan	Director
Dr. M.S. Ananth	Director
Dr. V. Sumantran	Director
Mr. R.W. Khanna	Nominee Director (w.e.f. 30.6.2011)

Audit Committee

Mr. S. Natarajan	Chairman
Dr. M.S. Ananth	Member
Mr. Jayakar Krishnamurthy	Member (w.e.f. 30.6.2011)

Chief Financial Officer

Mr. Jayakar Krishnamurthy	(upto 8.05.2012)
Mr. N. Gnanasambandan	(w.e.f. 8.05.2012)

Company Secretary

Ms. Rekha Raghunathan

Statutory Auditor

M/s. G. Balu Associates
No. 4A Venkatesa Agraharam Road
Mylapore
Chennai - 600 004

Bankers

State Bank of India
Export Import Bank of India
IDBI Bank Limited
Central Bank of India
Corporation Bank
Indian Bank
Bank of India

Registered Office

"Raheja Towers", Delta Wing – Unit 705
177 Anna Salai
Chennai - 600 002
Tel : 044 - 42208111; Fax : 044 - 28605020
E-mail : investor@ucalfuel.co.in

Manufacturing Plants

Tamil Nadu, Pondicherry and Haryana

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DIRECTORS' REPORT

The Directors have pleasure in presenting the Twenty Sixth Annual Report together with the audited accounts of the company for the year ended 31st March 2012.

FINANCIAL HIGHLIGHTS

The performance of the company for the year ended 31st March 2012 is as follows:

(₹ in lakhs)

Particulars	For the year ended		
	31.03.2012	31.03.2011	% Change
Gross Revenue	57,905	52,600	10
Net Revenue (excluding Excise Duty)	52,502	48,154	9
Total Expenditure	44,139	40,069	10
Operating Income	8,363	8,085	3
Other Income	210	85	147
Profit before Interest, Tax & Depreciation	8,573	8,170	5
Interest	3,018	2,725	11
Deferred Revenue Expenses	417	417	–
Depreciation	2,144	2,357	(9)
Profit before Tax & Exceptional item	2,994	2,671	12
Tax Expense	726	450	–
Profit after Tax/Net Profit	2,268	2,221	2
Balance of profit brought forward from last year	7,476	6,698	12
Amount Available for Appropriations	9,744	8,919	–
Appropriations:			
Transfer to General Reserve	400	415	(4)
Dividend	885	885	–
Tax on Dividend	143	143	–
Balance Carried to Balance Sheet	8,316	7,476	–

DIVIDEND

The Board is pleased to recommend a dividend of 40% i.e. Rs.4 per equity share, aggregating to Rs. 885 lakhs (exclusive of tax on dividend) for the financial year ended 2011-2012.

TRANSFER TO GENERAL RESERVE

A sum of Rs.400 lakhs has been transferred to the general reserve of the company for the financial year 2011-2012.

PERFORMANCE

The turnover of the company during the financial year 2011-2012 increased to Rs.52,502 lakhs from Rs.48,154 lakhs in the previous financial year thereby recording an increase of 9%. The Earnings before Interest, Tax and Depreciation (EBITDA) increased by 5% to touch a level of Rs.8,573 lakhs from that of Rs.8,170 lakhs of the previous financial year. The increase in EBITDA has been much lower than expected due to various reasons like increased input cost especially that of steel and aluminum, inability to pass the increased cost to the customer, increased labour cost due to attrition, increased power cost and increased finance cost due to enhancement of interest rates and availment of further borrowings to meet the capital expenditure. The company's earning per share was Rs.10.26 during the financial year 2011-2012. The exports reduced to Rs.3,734 lakhs during financial year 2011-2012 from Rs.5,189 lakhs in the previous financial year. This decrease was due to the reduced off take by the customer. After market sales of the company during the financial year 2011-2012 was Rs.1,091 lakhs as against that of Rs.1,103 lakhs in the previous year. The company has despite certain adverse factors been able to maintain the Profit after Tax (PAT) at the same level as that of the previous financial year mainly because of its efforts at

improving operational efficiency. In 2012-2013 further improvements are being attempted to increase EBITDA through reduced levels of inventory, rationalization of vendors and continuous value engineering of the products. All leading automobile manufacturers have either set up a base in India or expanded their existing operations in India in the recent years in spite of a general slowdown and the company hopes to take advantage of this development in the future years.

PROJECTS

The company has invested Rs 4,601 lakhs in capital expenditure during the financial year 2011-2012 as compared to that of Rs 4,216 lakhs during the financial year 2010-2011. The manufacturing facility at Bawal is almost complete and most of the operations at the Gurgaon facility have been shifted to Bawal, Haryana. It is proposed to make Bawal, the company's headquarters in North India. The company has introduced fully automated manufacturing lines at Bawal for the very first time and machinery and equipment are in the process of being procured for which substantial capital expenditure is to be incurred in the current financial year 2012-2013. The first phase of construction is also complete at the facility in Mahindra City, Chengalpattu and operations have commenced on a small scale. The company is in the process of securing export orders .

DIRECTORS

Mr. P.P.R. Rao completed his term of three years as Executive Director on 25.9.2011 and ceased to be a director from that day onwards. The Board wishes to place on record its appreciation and gratitude for the excellent services rendered by Mr. P.P.R. Rao during his 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 being eligible offer themselves for reappointment. Brief Resume/details of the directors who are to be reappointed as mentioned herein have been furnished along with the explanatory statement in the Notice convening the Annual General Meeting.

Padma Vibhushan Dr. V. Krishnamurthy continues to guide the Board in all major policy decisions and the Board is grateful to him for his support.

AUDITORS

M/s. G Balu Associates, Chartered Accountants, Chennai, Auditors of the company will retire at the conclusion of the ensuing Annual General Meeting and being eligible offer themselves for reappointment. The company has received a certificate from the auditors to the effect that their reappointment if made will be in accordance with the provisions of Section 224(1B) of the Companies Act 1956. The auditors have also confirmed that they hold a Peer Review Certificate issued by the Peer Review Board of the Institute of Chartered Accountants of India. Mr. V. Kalyanaraman has been appointed as cost auditor of the company for the financial year 2012-2013.

CHIEF FINANCIAL OFFICER

Mr. Jayakar Krishnamurthy relinquished his additional portfolio as Chief Financial Officer of the company with the appointment of Mr.N. Gnanasambandan, Vice President - Finance, as the Chief Financial Officer of the company with effect from 8th May 2012.

AUDIT COMMITTEE

Mr. S.Natarajan, Dr. M.S. Ananth and Mr. Jayakar Krishnamurthy continue to be the members of the Audit Committee. Mr. S.Natarajan continues as Chairman of the Audit committee.

SUBSIDIARY COMPANIES

The company has two wholly owned subsidiaries.

Ucal Polymer Industries Limited (UPIL) — The operations of UPIL continue to be steady. The turnover for the financial year 2011-2012 was Rs.2,347 lakhs up by 34% compared to that of Rs.1,750 lakhs of the previous financial year. The net profit after tax was higher at Rs.159 lakhs recording a growth of 81% as against Rs.88 lakhs of the previous financial year. A dividend of 10% has been declared by UPIL. UPIL is actively working to enhance its customer base and go beyond UCAL Fuel Systems Limited.

Amtec Precision Products Inc, USA (Amtec) — The turnover of the company was Rs.15,716 lakhs during the financial year 2011-2012 up from Rs.13,265 lakhs of the previous financial year thereby recording an increase of 18%. Amtec has earned a cash profit of Rs. 684 lakhs during the current financial year.

CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements for the year ended 31st March 2012 of the company and its subsidiaries together with the auditor's report thereon is enclosed. The statement pursuant to Section 212 of the Companies Act, 1956 relating to the subsidiary companies forms a part of the accounts. A summary of the key financials of the company's subsidiaries is also included in the Annual Report.

The consolidated results of the company and its subsidiaries show that a net profit after tax of Rs.2,392 lakhs has been achieved during the financial year 2011-2012 as against Rs.1,926 lakhs in the previous financial year. This can be attributed to an improvement in the operations of both the subsidiaries.

The Ministry of Corporate Affairs vide its General Circular No. 2/2011 dated February 8, 2011 has granted a general exemption subject to certain conditions to holding companies from complying with the provisions of Section 212(1) of the Act which requires the attaching of the balance sheet, profit & loss account and other documents of its subsidiary companies to its Annual Report. The Board in its meeting held on 10th August 2012 passed the necessary resolution for complying with all the conditions regarding the circulation of the Annual Report of the company without attaching all the documents of the subsidiary companies referred to in Section 212(1) of the Act. Accordingly, the said documents are not being included in this Annual Report. The annual accounts, reports and other documents of the subsidiary companies will be available for inspection during business hours, by any shareholder of the company at the registered office of the company and also at the registered office of the concerned subsidiary. The annual accounts, reports and other documents of the subsidiary companies will be dispatched to the shareholders upon receipt of a request from them.

DIRECTORS' RESPONSIBILITY STATEMENT

Pursuant to the requirement of Section 217(2AA) of the Companies Act, 1956, the Directors confirm that,

In the preparation of the annual accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures;

Such accounting policies have been selected and applied consistently and such judgments and estimates have been made that 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 2012 and of the profit of the company for the year ended 31st March 2012;

Proper and sufficient care has been taken for the maintenance of adequate accounting records in accordance with the provisions of Companies Act, 1956 for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities;

The annual accounts have been prepared on a "going concern" basis.

FIXED DEPOSITS

The company has not accepted any fixed deposits from the public during the financial year 2011-2012 and there is no outstanding fixed deposit as on date.

PERSONNEL

Particulars of employees as required under sub-section (2A) of Section 217 of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975 form a part of this report. In terms of section 219(1)(b)(iv) of the Companies Act 1956, the Annual Report and accounts are being sent to the shareholders of the company excluding the statement of particulars of employees under section 217(2A) of the Companies Act 1956. The statement will be available for inspection by the shareholders at the registered office of the company during business hours. Any shareholder interested in obtaining such statement may write to the Company Secretary at the registered office of the company.

ENERGY, TECHNOLOGY AND FOREIGN EXCHANGE

Information required under Section 217(1) (e) of the Companies Act 1956 read with the Companies (Disclosure of Particulars in the report of the Board of Directors) rules 1988, on energy conservation, technology absorption, foreign exchange earnings and outgo, is given in Annexure-A and forms an integral part of this report.

CORPORATE GOVERNANCE

The Company adheres to all the requirements of the code of corporate governance as stipulated in Clause 49 of the listing agreement with the stock exchanges as well as to the standards set by the Securities and Exchange Board of India. A Report on corporate governance along with certification of the Chairman and Managing Director and the Chief Financial Officer is attached in Annexure-B. 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-C. The Management Discussion & Analysis Report is attached in Annexure-D.

ACKNOWLEDGEMENT

The Board acknowledges with sincere gratitude the cooperation and assistance of all its stakeholders: – the customers, for their continued patronage, 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 in the company.

For and on behalf of the Board

Place : Chennai
Date : 30.08.2012

JAYAKAR KRISHNAMURTHY
Chairman and Managing Director

ANNEXURE-A TO THE DIRECTORS' REPORT

A. CONSERVATION OF ENERGY

a. Energy conservation measures undertaken

The Company continues to optimize the energy utilization through introduction of energy efficient machine tools, in-built circuits to switch off Machines, Hydraulic Pumps, Coolant Pumps, Fresh air blowers, Machine Lights & Fans. Provisions have been made for replacing the traditional lights with energy efficient CFL lamps. Compressor plant room temperature has been reduced from 52 degrees to 46 degrees by modifying the compressor exhaust ducting systems. Compressed air leakages are being identified and arrested on a routine basis. The company has introduced reservoirs for air and vacuum line and closed loop systems has been provided for air line headers. The company has restored to purchase of private power instead of generating power through diesel generators to address the power cut situation prevailing in Tamilnadu. The company's wind mills continue to operate efficiently and generate power. In the plant at Bawal, the company has introduced bulk melting system by using Diesel fired furnaces.

b. Additional investments and proposals if any being implemented for energy conservation

The company is proposing to resort to gas in place of electric power wherever possible. Up gradation of windmills is also proposed. Replacement of old machines with energy efficient new ones is also in progress. In respect of the plant at Maraimalainagar, the company proposes to replace the FRP Cooling tower to new natural draft cooling Tower. A comprehensive productivity improvement action plan is in the process of preparation to reduce the energy cost.

c. Impact of the measures at (a) and (b) above for reduction of energy consumption And consequent impact on the cost of production of goods

The Measures under taken to conserve energy have resulted in annual savings of Rs. 80 Lakhs. The proposed measures are estimated to result in an annual savings of Rs. 125 Lakhs.

d. Total Energy consumption and energy consumption per unit of production.

Not applicable

B. TECHNOLOGY ABSORPTION

RESEARCH AND DEVELOPMENT

1. Specific areas in which R&D is carried out by the company

- Development of products for new vehicles and engine upgrades of customer, new product launches using current technologies. Examples: development of carburettors and secondary air valves for new vehicles and upgrades of customers.
- Development of new products using new technologies for existing customers and new customers. Example: Oil pump, Vacuum pump for the Diesel Engine applications.
- Development of new technologies for the organization in Engine Management System for 2-Wheelers.
- Technology upgradation and value engineering efforts to improve performance of existing products.
- Computer Aided Engineering (CAE) focusing on the virtual simulation capability to propose a design to the customers and support in future technologies.
- Reducing the import content in components

2. Benefits derived out of R&D

- Development of products for more applications and for new customers.
- Capability to be ready with new technologies for the organization.
- Cost reduction of the products through VA/VE and alternate sourcing.
- CAE capability has resulted in generation of new development opportunities.
- Recognising the R&D efforts of the company the customers are approaching the company for new developments and new products.

3. Future Plans

- To keep track of the future emission regulations, market trends and develop products in fuel management system and engine controls and offer solutions to the customers.
- To study the requirements in product improvement and formulate new designs for better fuel economy such as Variable Flow Oil Pump, non-parasitic Vacuum Pump.
- To work on products for the future needs of Engine Management Systems.

4. Expenditure on R&D

Particulars	Rs in Lakhs
a. Capital	13.85
b. Revenue (Recurring) (includes amount transferred to Deferred revenue expenses)	957.83
c. Total	971.68
d. Total R&D expenditure as a percentage of total turnover	1.85%

TECHNOLOGY ABSORPTION, ADAPTION AND INNOVATION**1. Efforts made in brief towards technology absorption, adaption and innovation**

The fact that the company has not lost any of its customers since the parting of its joint venture partner is indication enough that the company has reached self-reliance in technologies in its sphere of activities. Infact the products developed by the company have found acceptance with many new customers. The new developments through domestic efforts include

- A new Constant Depression (CD) carburettor for India's largest premium segment motorcycle company.
- A new Variable Depression (VD) carburettor for utility motor cycle segment for Indian and export market.
- A Variable Depression (VD) carburettor for a premium segment which is powered by a liquid cooled 150cc engine for export market.
- A Variable Depression (VD) carburettor for 110 cc engine for a scooter for export market.
- A new Oil pump for 1.3 L 75 ~ 90 BHP diesel engine. This design was optimized to use the minimum power without compromising its performance to enhance the fuel efficiency of the engine.
- An Oil pump for diesel engine used in a popular 1.5T Light Commercial Vehicle.
- A new Vacuum pump for the braking system used in the vehicle powered by 1.3L diesel engine for Indian market and development of a library of Vacuum pumps.

The self reliant stage in its existing products is also evidenced by the capability of the R&D

- To modify and constantly reinnovate an existing product to suit a customers varying requirement,
- To keep making innovations in the carburettor to keep it cost effective.
- To improve the existing products for achieving better fuel economy

2. Benefits derived as a result of the above efforts

- Customer satisfaction due to ability to meet their objective of fuel efficiency due to constant innovation in existing product and due to ability to offer the customer a range of new products
- Penetration into newer markets
- Entry into new areas other than carburettors and increase in product range

3. In case of imported technology (imported during the last five years reckoned from the beginning of the financial year) the following information may be furnished

- Technology imported- technology has been imported in the areas of pumps carburettors and direct injection systems
- Year of import 2006–2007 to 2009–2010
- Has technology been fully absorbed - Yes
- If not fully absorbed areas where it has not taken place, reasons therefor and future plan of action–Not applicable

C. FOREIGN EXCHANGE EARNINGS AND OUTGO

The earnings of foreign exchange were on account of export of carburettors, MPFI parts and secondary air valves during the year. The foreign exchange outgo was mainly on account of purchase of components, capital goods, foreign travel and royalty. During the financial year 2011-2012, the total foreign exchange outgo was Rs.6,304 Lakhs while the foreign exchange earned was Rs.3,912 Lakhs resulting in a net foreign exchange outgo of Rs.2,392 Lakhs.

For and on behalf of the Board

Place : Chennai
Date : 30.08.2012

JAYAKAR KRISHNAMURTHY
Chairman and Managing Director

ANNEXURE-B TO THE DIRECTORS' REPORT

REPORT ON CORPORATE GOVERNANCE

CORPORATE GOVERNANCE PHILOSOPHY

The company is committed to ensure high standards of transparency and, accountability in all its activities. The best management practices and high levels of integrity in decision making are followed to ensure long term wealth generation and creation of value for all the stakeholders. The company follows all the principles of corporate governance in its true spirit and at all times.

1. BOARD OF DIRECTORS

a) Composition

The Board consists of seven Directors as on 31st March 2012. The Board has an Executive Chairman i.e. Mr. Jayakar Krishnamurthy who is Chairman and Managing Director and hence as per the Clause 49 of the listing agreement fifty percent of its Directors are non-executive and independent Directors. The day-to-day management of the company was carried on by the two Executive Directors of the company.

Chairman and Managing Director	Mr. Jayakar Krishnamurthy
Executive Director	P.P.R. Rao (upto 25.9.2011)
Joint Managing Director	Mr. R. Sundararaman (appointed Additional Director w.e.f. 27.08.2011 and Joint Managing Director w.e.f. 8.09.2011)
Non Executive Director	Mr. S. Muthukrishnan
Non-Executive and Independent directors	Mr. S. Natarajan Dr. V. Sumantran Dr. M.S. Ananth Mr. K. Muthukumaran (Nominee of EXIM Bank upto 30.6.2011) Mr. R.W. Khanna (Nominee of EXIM Bank w.e.f. 30.6.2011)

All independent directors possess the requisite qualifications and are very experienced in their own fields. All Directors except the Chairman and Managing Director, Joint Managing Director and Nominee Director are liable to retire by rotation. None of the directors are members of more than ten committees or Chairman of more than five committees in public limited companies in which they are directors. Necessary disclosures have been obtained from all the directors regarding their directorship and has been taken on record by the Board.

The names of the Directors and the details of other Chairmanship / Directorship / Committee Membership of each Director as on 31st March 2012 is given below:

Name of Director	Category	No. of Directorships in other companies		No. of Committee Memberships in other companies	
		Chairman	Member	Chairman	Member
Mr. Jayakar Krishnamurthy Chairman and Managing Director	Executive	-	2	-	1
Mr. R. Sundararaman Joint Managing Director	Executive	-	-	-	-
Mr. S. Muthukrishnan	Non-Executive	-	1	-	-
Mr. S. Natarajan	Non-Executive & Independent	-	8	-	1
Dr. M.S. Ananth	Non-Executive & Independent	-	1	-	-
Dr. V. Sumantran	Non-Executive & Independent	3	5	2	2
Mr. R.W. Khanna Nominee of Exim Bank	Non-Executive & Independent	-	2	-	-

Mr. Jayakar Krishnamurthy and Mr. S. Muthukrishnan are relatives as defined in Section 6 (c) of the Companies Act, 1956.
Notes:

- Other Directorships exclude foreign companies, private limited companies and alternate directorships.
- Only membership in Audit Committees and Shareholders'/Investors' Grievance Committees have been reckoned for other committee memberships