



Steering Success with Safety

26th

Annual Report

2005 - 2006

Report  junction.com



ZF STEERING GEAR (INDIA) LIMITED





Report  junction.com

CONTENTS

General information	1
Notice	2-3
Director's Report	4-8
Corporate Governance	9-13
and Shareholder Information	
Auditor's Report	14-15
Balance Sheet	16
Profit & Loss Account	17
Schedules A to P	18-23
Schedule Q - Notes to Accounts	24-28



BOARD OF DIRECTORS

Chairman

A. H. Firodia

Managing Director

Dinesh Munot

Jt. Managing Director

Jinendra Munot

Non-executive Directors

B. N. Deshmukh

D. S. Bomrah

Dr. Wolfgang Zeitz

Abhay Firodia

Manish Motwani

Dr. Dinesh Bothra

Walter Salvason

Ludwig Rapp

Sushen Gupta

Audit Committee

Manish Motwani (Chairman)

D. S. Bomrah

Dr. Dinesh Bothra

Shareholders' Grievance Committee

Dr. Dinesh Bothra

Remuneration Committee

D. S. Bomrah (Chairman)

Manish Motwani

AUDITORS

M/s N. F. Karnavat & Co.

Chartered Accountants

Pune.

BANKERS

Bank of Maharashtra

Canara Bank

ABN-Amro Bank N. V.

HDFC Bank Ltd.

REGISTERED OFFICE & WORKS

Gat Nos. 1242 & 1244

Village Vadu Budruk,

Taluka Shirur, Dist. Pune-412 216

Maharashtra.

CORPORATE OFFICE

Eden Hall, 6th floor,

Near Deep Bungalow Chowk,

Shivajinagar, Pune- 411 016

Telephones: 020-25663271-74

Fax : 020 - 25663275

E-mail : satish.mehta@zfindia.com

SHARE TRANSFER AGENTS

M/s. Intime Spectrum Registry Ltd.,

C-13, Pannalal Silk Mills Compound,

LBS Marg, Bhandup (West)

Mumbai- 400 078

Telephone: 022-25963838

Fax: 022- 25946979

E-mail: isrl@vsnl.com

COMPANY SECRETARY

Satish Mehta



NOTICE

Notice is hereby given that the **Twenty-Sixth Annual General Meeting** of the Members of **ZF STEERING GEAR (INDIA) LIMITED** will be held as scheduled below:

Day : Friday

Date : July 28, 2006

Time : 4.00 p.m.

Place : Registered Office of the Company
Gat Nos. 1242/44, Village Vadu Budruk,
Tal. Shirur, Dist. Pune- 412 216.

The Agenda for the Meeting will be as under:

ORDINARY BUSINESS :

1. To receive and adopt the Directors' Report and Audited Balance Sheet and Profit and Loss Account for the year ended March 31, 2006 together with the Auditors' Report thereon.
2. To declare a dividend.
3. To appoint a Director in place of Mr. D. S. Bomrah, who retires by rotation, and is eligible for re-appointment.
4. To appoint a Director in place of Mr. Walter Salvasohn, who retires by rotation, and is eligible for re-appointment.
5. To appoint a Director in place of Mr. Manish Motwani, who retires by rotation, and is eligible for re-appointment.
6. To appoint Auditors and to authorise the Audit Committee of Directors to fix their remuneration.

By Order of the Board of Directors
For ZF Steering Gear (India) Ltd.

Pune
May 11, 2006

Satish Mehta
Company Secretary

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 A PROXY NEED NOT BE A MEMBER OF THE COMPANY.
- 2) Profiles of the Directors being appointed/ re-appointed, as required by the Corporate Governance Code (Clause 49 VI A of the Listing Agreement entered into with the Stock Exchange), are annexed to the Notice.
- 3) The Register of Members and Share Transfer Books of the Company will remain closed from July 22, 2006 to July 28, 2006 (both days inclusive), for payment of dividend. In respect of shares held in electronic form, the dividend will be paid on the basis of beneficial ownership as per details furnished by the Depositories for this purpose.
- 4) Members desirous of obtaining any information concerning the accounts and operations of the Company are requested to address their questions to the Company so as to reach it at least ten days before the date of the Meeting, so that information can be made available at the Meeting.
- 5) Members holding shares in physical form are requested to intimate the changes, if any, in their registered addresses, to the Company's Registrar & Share Transfer Agents M/s. Intime Spectrum Registry Ltd., C-13, Pannalal Silk Mills Compound, L. B. S. Marg, Bhandup - West, Mumbai - 400 078 or to their respective **Depository Participants in case of shares held in electronic form.**
- 6) Members holding shares in physical form may inform the Company's Registrars & Share Transfer Agents M/s. Intime Spectrum Registry Ltd., C-13, Pannalal Silk Mills Compound, L. B. S. Marg, Bhandup- West, Mumbai- 400 078, their bank details for printing on the dividend warrants, while Members holding shares in electronic form may give instructions regarding bank accounts, in which they wish to receive their dividend, to their respective Depository Participants.
- 7) Members are advised that respective bank details and address as furnished by them or by NSDL/ CDSL to the Company, for shares held in physical form and in the dematerialized form respectively, will be printed on their dividend warrants so as to protect against fraudulent encashment.



- 8) Pursuant to provisions of Section 205 of the Companies Act, 1956, all unclaimed / unpaid dividend up to and including the financial year 1994-95, has been transferred to the General Revenue Account of the Central Government. Members who have not yet en-cashed their dividend warrants for the said period, are requested to forward their claims in the prescribed Form II of the Companies Unpaid Dividend (Transfer to the General Revenue Account of the Central Government) Rules, 1978 to Registrar of Companies, Maharashtra, PMT Building, Deccan Gymkhana, Pune- 411 004.
- 9) Pursuant to provisions of Section 205A and 205 C of the Companies Act, 1956, the amount of dividend remaining unpaid or unclaimed for a period of seven years from the date of transfer to the unpaid dividend account, is required to be transferred to the Investor Education and Protection Fund of the Central Government. Accordingly, unclaimed dividend for the financial year 1997-98 has been transferred to the Investor Education and Protection Fund of the Central Government. Unclaimed dividend for financial years 1998-99 and thereafter is still lying with the Company. Shareholders who have not yet en-cashed the dividend warrants for financial years 1998-99 and thereafter are requested to contact the Company at the earliest since no claim shall lie against the Company or the Investor Education and Protection Fund after transfer as mentioned above.
- ■ ■
- (b) **Mr. Walter Salvasohn**, 48, Nominee- Director from ZF Germany, the foreign collaborator, holds an Engineering degree. He joined ZF Germany in 1986 and held many senior positions including Managing Director of ZF-Malaysia and also worked at Japan and Korea. Presently he is 'Manager-Corporate Development / International Co-ordination' at ZF Lenksysteme SchwabischGmund.
- He is not holding Directorship in any other Company.
- Mr. Walter Salvasohn does not hold any shares in ZF India.
- (c) **Mr. Manish Motwani**, 39, holds Master's Degree in Computer Engineering from University of Hawaii at Manoa and Bachelor of Engineering in Electronics and Communication from Osmania University. He has also received Stanford Certificate in Engineering Management Sciences (EMS) from Stanford University. He has worked with Intergraph Corp., U.S.A. & Sun Microsystems, U.S.A. Currently, he is holding the position of Managing Director in Kinetic Communications Ltd. and JHS Taigene Electrical Co. Pvt. Ltd. He is associated with ZF India since 1998.

Directorship held in other companies are:

Kinetic Communications Limited	Managing Director
JHS Taigene Electrical Co. Pvt. Limited	Managing Director
Kinetic Marketing & Services Limited	Director
Kinetic Escalator & Elevator Limited	Director
Kinetic E-Biz Pvt. Limited	Director
Jaya Hind Sciaky Limited	Director

Mr. Manish Motwani does not hold any shares in ZF India.

INFORMATION REQUIRED TO BE FURNISHED UNDER THE CORPORATE GOVERNANCE CODE

Re-appointment of Directors

At the ensuing Annual General Meeting, Mr. D.S. Bomrah, Mr. Walter Salvasohn, and Mr. Manish Motwani, retire by rotation and are eligible for re-appointment. The information/ details to be provided for the aforesaid Directors under the Corporate Governance Code are as under:

- (a) **Mr. D. S. Bomrah**, 70, is a Mechanical Engineer. He is the member of the Society of Engineers- U.K, and SAE International. He has vast knowledge and experience in Automobile Engineering. He has held Senior Positions in well known Indian Industry like Telco, Hindustan Motors, Machine Tools India, Jayahind Sciaky, Kinetic Engineering, Kinetic Motor Company.
- Mr. Bomrah is also the Chairman in Ravjeet Engineering Specialities Pvt. Ltd.
- Mr. Bomrah does not hold any shares in ZF India.

By Order of the Board of Directors
For ZF Steering Gear (India) Ltd.

Pune
May 11, 2006

Satish Mehta
Company Secretary

■ ■ ■



Directors' Report

To the Members,

The Directors are pleased to present the Twenty Sixth Annual Report and Audited Accounts for the year ended March 31, 2006.

FINANCIAL RESULTS

(Rs. in Million)

	2005-2006	2004-2005
Sales (net) and other Income	1964.1	1,793.6
Profit before depreciation and tax	432.2	399.9
Depreciation	99.4	89.1
Provision for tax	106.8	105.9
Net Profit	226.0	204.9
Balance Brought Forward from Previous year	16.8	19.1
Amount available for appropriation	<u>242.8</u>	<u>224.0</u>

APPROPRIATIONS

General Reserve	160.0	142.5
Proposed Dividend	56.7	56.7
Corporate Dividend Tax thereon	8.0	8.0
Balance Carried Forward	<u>18.1</u>	<u>16.8</u>
	<u>242.8</u>	<u>224.0</u>

Dividend

The Directors are pleased to recommend a dividend of Rs. 6.25 per Equity Share (62.50%) on the enhanced paid-up share capital (after Bonus shares in the ratio of 1:1) for the year ended March 31, 2006.

Management Discussion and Analysis Report

After clocking a 7.5% growth in 2004-05, India's GDP is expected to register a growth-rate of 8.1% for 2005-06. Within the sectors, manufacturing sector has grown at 9.4% and agricultural growth has bounced back to 2.3%. Among infrastructure sectors, transport and communications have achieved an impressive performance. Most of the other sectors are performing quite satisfactorily. All this has been achieved despite natural calamities faced by the country during the year.

Indian economy has achieved three years of 7.5% plus growth and this robust growth-rate can easily be sustained because of sheer population and favorable demographic structure. This is a huge demand driver.

Developing infrastructure is the key for this, which is on the top of the agenda of the Government.

Your Company is into the manufacture and marketing of steering gears for commercial vehicles and tractor industry.

The Commercial Vehicles industry recorded a growth of 10.5%, producing 391,078 vehicles during 2005-06

compared to 353,703 vehicles in the previous year. Production of Tractors recorded 265,806 numbers during the period from April 2005 to February 2006 against 225,253 in the corresponding period in 2004-05, a 18% increase.

Review of Operations

The year 2005-06 was an average year for the Company. Although, your Company posted higher turnover and profits, due to competition from cheaper Chinese products, the Company could not repeat its previous year's performance in terms of growth in sales.

During the year under the review, your Company sold 102,019 **Power Steering Gears** (PSG) and 79,876 **Mechanical Steering Gears** (MSG) compared to 87,149 PSG and 76,791 MSG in the previous year.

Operating Results of the Company

Sales

The total sales (including Excise) amounted to Rs.2214 million as against Rs. 2018 million in the previous year. The Company was able to register a growth of 10% in Sales.

Other Income

With rise in investment-income and favorable exchange-variation, Other Income registered a rise of 14% to Rs. 47 million from Rs. 41 million.

Profitability

Profit Before Tax for the year improved to Rs. 332.8 million from Rs.310.8 million in the previous year. Despite rising metal prices, mainly of steel, the costs were kept in control with the help of import-substitution of some critical components.

Opportunities/ Outlook for the Company

The implementation of infrastructure projects will have a positive impact on the demand for commercial vehicles and utility vehicles. Buoyant economy, higher industrial growth, infrastructure investment etc. are expected to trigger the demand for commercial vehicles. The demand for Power Steering Gears should grow in line with growth in commercial vehicles segment.

During the year, the Company has established the necessary facilities for the first phase - assembly and testing of Rack & Pinion Power Steering for small passenger cars. The Company expects to commence dispatches of Rack & Pinion Gears in next few months. The contribution, from Rack & Pinion Power Steering Gears, to the revenue will not be significant in first few years, as stated in our previous report.

The Tractor industry is expected to grow at around 18-20% and accordingly the demand for Mechanical Steering Gears of the Company.



Expansion and Capital Expenditure

The Company has expanded its installed capacity of Power Steering Gears from 120,000 to 150,000 per annum during 2005-06. This expansion was funded from the internal accruals.

Threats, Risks and Concerns the Management perceive

- The rise in crude prices may slow down the demand for commercial vehicles.
- Competition from imported steering gears, particularly from China, may further erode the Company's margins and volumes.
- Cost increase for basic materials like steel/ pig-iron etc. has a major impact on the Company's input costs.
- Availability of components, in right quality and at right time from the vendors is a constant cause of concern.
- Preference towards multi-axle/ higher tonnage commercial vehicles restricts the numerical growth of commercial vehicles.
- Customers' preference shifting from mere product supply to integrated system supplies.

Internal Control System

The Company has an adequate system of internal controls commensurate with its size and nature of business to ensure adequate protection of the Company's resources, efficiency of operations, check on cost structure and compliance with the legal obligations and the Company policies and procedures.

Human Resource Development

The Company assigns considerable importance to the development of its employees. Various steps have been taken for improving the performance of employees. During the year, 25 training programs (15 external and 10 internal) covering over 650 Training man-days were covered. The effects of training are being felt and have resulted in higher morale and motivation. We expect to continue the customized development programmes to individual employees during the year as well.

Industrial relations continued to be cordial. The total number of employees as on March 31, 2006 was 616.

Cautionary statement

The Management Discussion and Analysis Report is a forward looking Statement based on the Company's projections, estimates and perceptions. These statements reflect the Company's current views with respect to the future events and are subject to risks and uncertainties. Actual results may vary materially from those projected here.

Bonus Shares

As approved by the members in the last Annual General Meeting, the Company has allotted 4,536,650 Equity shares as fully paid-up Bonus Shares in the ratio of one share for every share held (1:1) on September 5, 2005. The said shares have been listed at Bombay Stock Exchange within the stipulated time.

Fixed Deposits

Your Company has not accepted any fixed deposit from public.

Conservation of Energy, Research And Development, Technology Absorption And Innovation, Foreign Exchange Earnings And Outgo:

The details as required under the Companies (Disclosure of particulars in the Report of Board of Directors) Rules, 1988 are given in Annexure II to this Report.

Transfer to Investor Education and Protection Fund

Pursuant to the provisions of Section 205A and 205C of the Companies Act, 1956, the amount of dividend lying with the Company as unpaid or unclaimed for a period of seven years from the date they became due for payment, is required to be transferred to the Investor Education and Protection Fund set up by the Central Government. Accordingly, a sum of Rs. 34,210 was transferred during the year ended March 31, 2006 to the Investor Education and Protection Fund of the Central Government in respect of dividend lying with the Company as unclaimed.

Directors

Mr. D. S. Bomrah, Mr. Walter Salvason and Mr. Manish Motwani, Directors of the Company, retire by rotation at the ensuing Annual General Meeting and are eligible for re-appointment.

The brief resume of Mr. D. S. Bomrah, Mr. Walter Salvason and Mr. Manish Motwani, Directors as required by Clause 49 of the Listing Agreement with the Stock Exchange, is provided in the Notice convening the Annual General Meeting of the Company.



Directors' Responsibility Statement

Pursuant to the requirement under Section 217 (2AA) of the Companies Act, 1956 with respect to Directors' Responsibility Statement, it is hereby confirmed:

- i) That in the preparation of the accounts for the financial year ended March 31, 2006 the applicable Accounting Standards have been followed along with proper explanation relating to material departures;
- ii) That the Directors have selected such Accounting Policies and applied them consistently and made judgments and estimates that were reasonable and prudent so as to give a true and fair view of the state of affairs of the Company as at March 31, 2006 and of the profit of the Company for the year ended on that date.
- iii) That the Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities; and
- iv) That the Directors have prepared the accounts for the financial year ended March 31, 2006 on a 'going concern' basis.

Corporate Governance Report

Pursuant to Clause 49 of the listing agreement, a detailed report on Corporate Governance is given in Annexure - III along with the Auditors' Certificate on its compliance, which forms part of this report.

Auditors

You are requested to appoint auditors for the current year. M/s N.F Karnavat & Co., Chartered Accountants, Auditors of the Company, who retire at the ensuing Annual General Meeting, are eligible for re-appointment.

Particulars of Employees

Information as required under Section 217(2A) of the Companies Act, 1956 and the Rules framed there under is attached as Annexure I.

Acknowledgement

The Board of Directors takes this opportunity to express their sincere appreciation for the assistance and co-operation received from ZF Lenksysteme- the Collaborators, Banks, Government Authorities, Customers, Suppliers, Members and other Business Associates.

For and on behalf of the Board of Directors

Pune
May 11, 2006

A. H. Firodia
Chairman

■ ■ ■



Annexure I to the Directors' Report 2005-2006

Particulars of Employees u/s 217 (2A)

Information as per Section 217 (2A) of the Companies Act, 1956, read with Companies (Particulars of Employees) Rules, 1975, as amended, and forming part of the Directors' Report for the year ended on March 31, 2006.

A. Name of the employees employed throughout the financial year and who were in receipt of remuneration for the year which, in the aggregate, was not less than Rs. 2,400,000 in terms of Section 217 (2A) (a) (i):

Name	Age (Years)	Designation Nature of duties	Total Remuneration received (Rs.)	Qualification	Date of Commencement of employment	Experience (Years)	Last Employment held	
							Name of the Company	Designation
Mr. Dinesh Munot	58	Managing Director	12,403,755	B.E.(Ele.) M.I.E.	01.07.1984	32	Kinetic Engg. Ltd.	Executive Director
Mr. Jinendra Munot	54	Jt. Managing Director	10,386,796	B.E.(Mech.) M.S.(Mech.) U.S.A AMIE (India)	01.02.1986	27	Bajaj Tempo Ltd.	Senior Manager (Projects)

B. Name of the employees employed for the part of the financial year and who were in receipt of remuneration for the year which, in the aggregate, was not less than Rs. 200,000 p.m. in terms of Section 217 (2A) (a) (i): **NIL.**

Notes:

1. All appointments are contractual. Other terms and conditions are as per the Rules of the Company.
2. Remuneration above includes salary, commission, medical expenses, allowances, perquisites (valued as per Income Tax Rules) and Company's contribution to Provident and Superannuation Fund.
3. The employees are also entitled to gratuity, in addition to the above remuneration.
4. Experience includes number of services both within the Company and elsewhere, wherever applicable.
5. Mr. Dinesh Munot and Mr. Jinendra Munot are related to each other.

■ ■ ■

Annexure II to the Directors' Report 2005-2006

Conservation of Energy, Technology Absorption, Companies (Disclosure of particulars in the Report of Board of Directors) Rules, 1988.

A. Conservation of Energy

- Machines' electrical circuits modified to reduce electrical power consumption.
- Wind energy operated ventilators are fitted on the roof to improve air circulation, which will save on energy used electrical fans.
- Replacement of old Air Compressor with energy efficient one which has resulted into higher output and lower power consumption.
- Installation of Automatic Voltage Controller to ensure better efficiency and uniform voltage to the plant.
- Replacement of conventional tube rods and chokes with energy efficient ones and electronic chokes.

Wind Power Project

3 windmills of aggregate 1.7 MW capacity which were installed earlier, generated 2.5 million units of electricity during the year under review.

Power generated by the windmills is fed into the MSEB grid and the units thus credited are adjusted against the monthly electricity bills for the Company's plant. This covers 37 % of the current annual power requirement of the Company.