

#### **DIRECTORS**

Anand G. Mahindra

Chairman

Hemant Luthra

V. K. Chanana

Fali P. Mama

Mohit Burman

R. R. Krishnan

Zhooben Bhiwandiwala

Nikhilesh Panchal

Harald Korte

Sankaran Ravindran

Managing Director

### CHIEF FINANCIAL OFFICER

Manoj Jain

## **COMPANY SECRETARY & GM-LEGAL**

Krishnan Shankar

# REGISTERED OFFICE

Mahindra Towers, P. K. Kurne Chowk Worli, Mumbai - 400 018.

### **FACTORY**

Gat No. 856 to 860 Chakan Ambethan Road

Tal. Khed, Dist. Pune - 410 501.

### **COMMITTEES OF BOARD**

#### **Audit Committee**

V. K. Chanana

Fali P. Mama

Mohit Burman

R. R. Krishnan

Nikhilesh Panchal

# **Remuneration / Compensation Committee**

Mohit Burman

Anand G. Mahindra

Hemant Luthra

V. K. Chanana

Nikhilesh Panchal

# Share Transfer and Shareholders' / Investors' Grievance Committee

R. R. Krishnan

V. K. Chanana

Fali P. Mama

# **AUDITORS**

B. K. Khare & Co. Chartered Accountants 706/708, Sharda Chambers Mumbai - 400 020

# **BANKERS**

State Bank of India UTI Bank Limited HDFC Bank Limited

## **REGISTRAR AND SHARE TRANSFER AGENTS**

Karvy Computershare Private Limited
Karvy House , 46, Avenue 4
Street No. 1, Banjara Hills
Hyderabad - 500 034

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# DIRECTORS' REPORT TO THE SHAREHOLDERS

#### To The Members, Mahindra Forgings Limited

Your Directors have pleasure in presenting the 8th Annual Report of the Company together with the audited statement of accounts of your Company for the year ended 31st March, 2007.

#### Financial Highlights

| · · · · · · · · · · · · · · · · · · ·                              |           |                |
|--|-----------|----------------|
|  |           | (Rs. in Lakhs) |
|  | 2006-2007 | 2005-2006      |
| Gross Income   | 21,701    | 20,426         |
| Profit before Interest, Depreciation, Goodwill Contingency and tax | 2,390     | 1,143          |
| Less: Depreciation   | 841       | 535            |
| Profit before Interest, Goodwill, Contingency and tax              | 1,549     | 608            |
| Less : Interest and Finance cost                                   | 753       | 872            |
| Profit/(Loss) before Goodwill, Contingency and tax                 | 796       | (264)          |
| Less : Goodwill  | 1,739     | ·              |
| Less: Contingency provision  | . 45      | 919            |
| Loss before tax & before prior period expenses                     | 988       | 1,183          |
| Less: Provision for tax including FBT and Deferred Tax             | . 230     | 12             |
| Loss after tax & before prior period expenses                      | 1,218     | 1,195          |
| Less: Prior Period Expenses  | 35        | _              |
| Loss for the year  | 1,253     | 1,195          |
| Add: Brought forward losses from earlier years                     | 1,195     |                |
| Loss carried to Balance Sheet                                      | 2,448     | 1,195          |

## Change of Name

With a view to signify the true character and nature of business activity undertaken by the Company, the name of the Company was changed from 'Mahindra Automotive Steels Limited' to 'Mahindra Forgings Limited' with effect from 26<sup>th</sup> September, 2006.

#### **Operations**

During the year under review, your Company registered a total income of Rs.21,701 Lakhs and an operating profit of Rs.2,390 Lakhs. The net loss before taxes stood at Rs.988 Lakhs. The non operating expenses during the year include amortisation of Goodwill of Rs.1,739 Lakhs and amortisation of non compete fees of Rs.50 Lakhs paid to Amforge Industries Limited and its Promoters.

The gross income of the Company has grown by 6.24% over previous year with export revenue witnessing a growth of 55% and operating profit growing by 109%. This was achieved through value engineering, increased export, optimisation of plant capacity utilisation and cost competitiveness.

The Company received a prestigious award from Benteler AG for being the 'Best Supplier' for Castings and Forgings components for the year 2006.

#### Management Discussion and Analysis

A detailed analysis of the Company's performance is contained in the Management Discussion and Analysis Report which forms part of the Annual Report.

### Dividend

Your Directors have not recommended a dividend in view of net loss during the year.

#### **Shareholding**

Pursuant to the order of the Hon'ble High Court of Judicature at Bombay approving the Scheme of Arrangement with Amforge Industries Limited and its shareholders, the Company allotted 1,48,20,206 Equity Shares of Rs. 10 each and 1,48,20,206, 4%

Non-Cumulative, Redeemable, Non-Convertible Preference Shares of Rs. 31/- each to the shareholders of Amforge Industries Limited and also allotted 49,78,444 Equity Shares of Rs. 10/- each at a premium of Rs. 87.42 per share to Mahindra & Mahindra Limited (M&M). Consequent upon allotment of equity shares by the Company the shareholding of M & M now stands at 47.11% of the Company's enlarged equity capital. The Company as a result ceased to be subsidiary of M & M.

During the year, the Company redeemed 1,48,20,206, 4% Non-Cumulative Redeemable Non-Convertible Preference Shares of Rs.31/- each out of the proceeds of the fresh issue of shares to M&M.

#### **Directors' Responsibility Statement**

Pursuant to section 217(2AA) of the Companies Act, 1956, your Directors, based on the representation received from the Operating Management, and after due enquiry, confirm that:

- in the preparation of the annual accounts, the applicable accounting standards have been followed;
- (ii) they have, in the selection of the accounting policies, consulted the Statutory Auditors and these have been applied consistently and reasonable and prudent judgments and estimates have been made so as to give a true and fair view of the state of affairs of the Company as at 31st March, 2007 and of the loss of the Company for the year ended on that date;
- (iii) proper and sufficient care has been taken 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;
- (iv) the annual accounts have been prepared on a going concern hasis.

#### **Directors**

Mr. Romesh Kaul resigned as a Director of the Company with effect from 27th July, 2006. The Board has placed on record its appreciation of the services rendered by Mr. Romesh Kaul during his tenure as the Director of the Company.

Mr. Sankaran Ravindran was appointed as an Additional Director at the Meeting of the Board of Directors held on 27<sup>th</sup> July, 2006. He holds office up to the date of the forthcoming Annual General Meeting. A Notice has been duly received from a Member proposing the candidature of Mr. Ravindran for the office of Director at the said Meeting.

Mr. Ravindran was also appointed as Managing Director of the

Company with effect from 27th July, 2006 for a period of 3 years, subject to approval of the members of the Company.

Mr. Harald Korte has been appointed as an Additional Director at the Meeting of the Board of Directors held on 26<sup>th</sup> April, 2007. He holds office up to the date of the forthcoming Annual General Meeting. A Notice has been duly received from a Member proposing the candidature of Mr. Korte for the office of Director at the said Meeting.

Mr. Anand G. Mahindra, Mr. Mohit Burman and Mr. R. R. Krishnan, Directors of the Company, retire by rotation and, being eligible, offer themselves for re-appointment.

#### **Auditors**

Messrs. B. K. Khare & Co., Chartered Accountants retire as Auditors of the Company at the forthcoming Annual General Meeting and have given their consent for re-appointment. The shareholders will be required to elect Auditors for the current year and fix their remuneration.

As required under the provisions of section 224(1B) of the Companies Act, 1956, the Company has obtained a written certificate from Messrs. B. K. Khare & Co., Chartered Accountants to the effect that their re-appointment, if made, would be in conformity with the limits specified in the said section.

#### **Industrial Relations**

Industrial Relations remained cordial during the year under review.

#### Safety, Health and Environment Performance

The Company has undertaken various initiatives on safety, health and environmental issues to ensure optimum safety of the employees and plant & equipment of the Company. The Company has also taken steps for imparting training to employees, carrying out safety audits of the various facilities of the Company, conducting regular medical checkups for its employees and promoting eco-friendly activities.

The requirements relating to various environment legislations and environment protection have been duly complied with by the Company.

#### Public Deposits and Loans/Advances

The Company has not accepted any deposits from the public or its employees during the year under review.

The Company has not made any loans/advances which are required to be disclosed in the Annual Accounts of the Company pursuant to Clause 32 of the Listing Agreement.

#### Corporate Governance

Pursuant to Clause 49 of the Listing Agreement with the Stock Exchange, Corporate Governance Report form part of the Annual Report.

#### Scheme of Arrangement

Your Company has been identified as the vehicle to pursue the Mahindra Group's vision to become a global forgings major. In its meeting held on 26th April, 2007, the Board of Directors of the Company considered a proposal to amalgamate Mahindra Stokes Holding Company Limited ('MSHCL') (which owns 99.8% stake of Stokes Group Limited), Mahindra Forgings Overseas Limited ('MFOL') (which ultimately owns 100% stake of JECO Holding AG) and Mahindra Forging Mauritius Limited ('MFML') (which ultimately owns 100% stake (90.47% voting power) in Schoneweiss & Co. GmbH) with your Company. Your Board has taken preparatory steps which inter alia include appointment of valuers, legal experts and investment banker to assist in determining the share swap ratio and preparation of a Scheme of Arrangement.

# Conservation of Energy & Technology Absorption and Foreign Exchange Earnings and Outgo.

The particulars relating to energy conservation, technology absorption, foreign exchange earnings and outgo, as required under Section 217(1)(e) of the Companies Act, 1956 read with the Companies

(Disclosures of Particulars in the Report of Board of Directors) Rules, 1988 are provided in the Annexure I to this Report.

#### Particulars of Employees

As required under section 217 (2A) of the Companies Act, 1956 and Rules thereunder a statement containing particulars of Company's employees who are in receipt of remuneration not less than Rs.24,00,000/- during the year ended 31st March, 2007 or not less than Rs.2,00,000/- per month during any part of the said year is given in the Annexure II to this report.

#### Acknowledgement

Your Directors wish to place on record their sincere appreciation to the financial institutions and consortium of banks led by State Bank of India and Company's customers, vendors and investors for their continued support during the year.

The Directors also wish to place on record their appreciation for the dedication and contribution made by employees at all levels and look forward to their support in future as well.

For and on behalf of the Board

Anand G. Mahindra Chairman

## ANNEXURE I TO DIRECTORS' REPORT

PARTICULARS AS PER THE COMPANIES (DISCLOSURE OF PARTICULARS IN THE REPORT OF BOARD OF DIRECTORS) RULES, 1988 AND FORMING PART OF THE DIRECTORS' REPORT FOR THE YEAR ENDED 31ST MARCH, 2007.

#### A. Conservation of Energy

- (a) During the year, the Company has taken the following initiatives for conservation of energy: Electrical Energy
  - 1. Centralised Air Management.
  - 2. Installing Energy efficient screw compressors in place of existing ones.
  - 3. Different coil for different diameter installed for low power consumption.
  - 4. Ircon temperature controller installed for optimum power consumption.
  - 5. Control on continuous running of DM water pump and fast extraction motor installed for power saving.
  - 6. Auto start arrangement for heat treatment agitation pump motor for power saving.
  - 7. Auto switch off for equipments when not in use.
  - Energy conservation team is formed, identified the potential for further energy saving, various corrective measures have been worked out and actions are in process.
- (b) Additional investments and proposals, if any, being implemented for reduction of consumption of energy:
  - a) Replacing old shot blasting machines with new Rosler shot blasting machine from Germany.
  - b) Underground flash conveyer.
  - c) Overhead conveyer to transfer forging from press shop to heat treatment shop. No forklift movement diesel saving.
  - d) Energy efficient 3T gas fired heat treatment furnace is planned and in process.
- (c) Impact of the measures taken / to be taken at (a) & (b) above for reduction of energy consumption and consequent impact on the cost of production of goods:

The measures taken as mentioned in (a) & (b) above have resulted in lower energy consumption.

(d) Total energy consumption and energy consumption per unit of production as per Form-A of the Annexure to the Rules in respect of Industries specified in the Schedule.

Power & Fuel consumption

|   |                                    |         | 2006-07  | 2005-06  |
|---|------------------------------------|---------|----------|----------|
| 1 | Electricity Purchased              |         |          |          |
|   | Quantity (KWH in Lakhs)            |         | 289.55   | 272.99   |
|   | Total Amount (Rs. in Lakhs)        |         | 1336.81  | 1016.02  |
|   | Average Rate Per Unit (Rs.)        |         | 4.62     | 3.72     |
| 2 | Furnace Oil*                       |         |          |          |
|   | Quantity (Lakhs of Litres)         |         | 0.99     | 1.12     |
|   | Total Amount (Rs. in Lakhs)        |         | 19.34    | 22.27    |
|   | Average Rate per Litre (Rs.)       |         | 19.57    | 19.94    |
|   | * used for part of the year.       |         |          |          |
| 3 | Light Diesel Oil                   |         |          |          |
|   | Quantity (KL.)                     |         | 2115.55  | 2209.47  |
|   | Total Amount (Rs. in Lakhs)        |         | 627.09   | 597.21   |
|   | Average Rate per KL.(Rs.)          |         | 29641.94 | 27030.00 |
| 4 | Consumption per unit of Production |         |          |          |
|   | Production (Tons)                  |         | 23674    | 23761    |
|   | Fuei Used                          | Units   |          |          |
|   | Electricity                        | KWH/Ton | 1223.08  | 1149.00  |
|   | Furnace Oil                        | Lit/Ton | 4.17     | 13.60    |
|   | Light Diesel Oil                   | Lit/Ton | 89.36    | 94.81    |

#### **B. TECHNOLOGY ABSORPTION**

I Research & Development:

#### Areas in which Research & Development is carried out :

- · Control cooling conveyor installed for micro alloy forging for all units.
- Implementing of H11/H14 dies for better die life.
- · Eddy current inspection for material sorting.

#### II Benefits derived as a result of the above efforts:

- Better quality of dies / increased no. of Forged parts per Die is ensured.
- Bend free forgings, customer satisfaction and better productivity.

#### III Future plan of action:

- Understanding better technology like flashless forging for better yield product and more die life.
- Automation of Production process.
- Better product-mix.
- Pollution free gas fired HT furnace.

#### IV Expenditure on R&D:

| (a) | Capital   | Nil |
|-----|---|-----|
| (b) | Recurring   | Nil |
| (c) | Total   | Nil |
| (d) | Total R&D expenditure as a percentage of total turnover | Nil |

#### V Technology absorption, adaptation and innovation :

Fully automated line for crankshaft having descaler, auto transfer system, robots and vertical cooling systems.

## VI Imported Technology for the last 5 years :

NIL

#### C. FOREIGN EXCHANGE EARNINGS AND OUTGO:

(Rs. in Lakhs)

|                               | 2006 07 |
|-------------------------------|---------|
| Total Foreign Exchange earned | 687.87  |
| Total Foreign Exchange used   | 975.47  |

For and on behalf of the Board

Anand G. Mahindra

Chairman

Mumbai, 26th April, 2007

### ANNEXURE II TO THE DIRECTORS' REPORT

ADDITIONAL INFORMATION AS REQUIRED UNDER SECTION 217 (2A) OF THE COMPANIES ACT, 1956 READ WITH COMPANIES (PARTICULARS OF EMPLOYEES) RULES, 1975 AND FORMING PART OF THE DIRECTORS' REPORT FOR THE YEAR ENDED 31<sup>ST</sup> MARCH, 2007

| Name                 | Designation                   | Qualification      | Date of<br>Commencement<br>of Employment | Age/<br>(Experience)<br>in years | Remuneration<br>(Subject to tax) | Last Employment<br>held (Designation /<br>Organisation)                                     |
|----------------------|-------------------------------|--------------------|--|----------------------------------|----------------------------------|---|
| Mr. S. Ravindran     | Managing<br>Director          | BE &<br>PGDBM      | 27th July, 2006                          | 59 (37)                          | Rs.45,22,222                     | Managing Director/<br>GKN Driveline Limited   |
| * Mr. V. V. Raghavan | Chief<br>Operating<br>Officer | BE<br>(Mechanical) | 1 <sup>st</sup> April, 2005              | 60 (41)                          | Rs.4,77,459                      | Vice President -<br>Order Management/<br>Mahindra & Mahindra<br>Limited (Automotive Sector) |

<sup>\*</sup> employed for part of the year.

#### Notes:

- 1. Nature of employment is contractual, subject to termination on one month's notice on either side.
- 2. None of the above employees is related to any Director of the Company.
- 3. Gross remuneration received as shown in the statement includes salary, house rent allowance or value of perquisites for accommodation, car perquisite value/allowance, as applicable, employers' contribution to Provident Fund, Leave Travel facility, reimbursement of medical expenses, performance pay and all other allowances/perquisites and terminal benefits.
- 4. No employee holds by himself or alongwith his spouse and dependent children 2% or more of the equity shares of the Company.
- 5. Terms and conditions are as per the Company's rules.

For and on behalf of the Board

Anand G. Mahindra

Chairman

# **MANAGEMENT DISCUSSION & ANALYSIS**

#### Overview

The management of Mahindra & Mahindra's (M&M's) SysTech Sector had enunciated a vision of creating one of the leading forging companies in the world by 2010. That ambitious goal seems to be within reach earlier than had been anticipated.

There have been two remarkably distinctive phases in the affairs of Mahindra Forgings Limited ('Mahindra Forgings', 'MFL' or 'the Company'). With effect from 1<sup>st</sup> April, 2005, Mahindra Automotive Steels Limited — which subsequently became Mahindra Forgings Limited, acquired the Chakan unit of Amforge Industries Limited with all its assets and liabilities. For the financial year which ended on 31\* March, 2007, MFL with a single forgings plant at Chakan (Maharashtra) had net sales of Rs.2,114 million and operating profit of under Rs.239 million.

In the second phase, as part of its quest to become a global automotive forgings player, M&M, through its SysTech division began a process of systematic international acquisitions. The focus was on acquiring companies that had excellent manufacturing facilities, high technological content, complementary product portfolios, strong management, healthy order books especially from marquee clients and a track record of consistent growth.

With these objectives in mind, M&M first acquired a 98.6% stake in the Stokes group in UK in January 2006 which was subsequently increased to 99.5%. Stokes manufactures ring gears, pinions, hubs / wheel blanks, focuses on the passenger car segment, and sells to major global OEMs and Tier 1 suppliers. For 2006-07, Stokes had turnover of around £27 million.

The second acquisition occurred in November 2006, when M&M, through its closely held subsidiaries, bought out a 67.9% stake in JECO Holding AG, a forging company in Germany JECO enjoys lasting partnerships with all the German OEMs. It has a highly diversified product and customer base and caters to the truck market. Over 15% of JECO's turnover comes from exports. More significantly, 20% of JECO's sales comprise non-automotive products and more than 50% of its production is machined. For the calendar year ended December 2006, JECO's turnover was around €190 million.

A month later, in December 2006, M&M acquired a 90.47% stake

in Schöneweiss Co. & GmbH, another forging unit in Germany. Schöneweiss also enjoys excellent relationships with German OEMs; caters to both the truck and automobile segments; and specialises in suspensions, power trains and engine parts. This is a highly technological driven company which regularly partners with its OEMs in developing automotive products right from the design stage to final testing, validation and commercial manufacture. Interestingly, almost a fifth of the world's front axles for commercial vehicles are supplied by Schöneweiss. For the calendar year ended December 2006, Schoneweiss's turnover was £94 million.

MFL has been identified as the vehicle to pursue the Mahindra Group's vision to become a global forgings major. In its meeting held on 26th April, 2007, the Board of Directors of the Company considered a proposal to amalgamate Mahindra Stokes Holding Company Limited ('MSHCL') (which owns 99.8% stake of Stokes Group Limited), Mahindra Forgings Overseas Limited ('MFOL') (which ultimately owns 100% stake (90.47% voting power) of JECO Holding AG) and Mahindra Forging Mauritius Limited ('MFML') (which ultimately owns 100% stake in Schoneweiss & Co. GmbH) with your Company. Your Board has taken preparatory steps which inter alia includes appointment of valuers, legal experts and investment banker to assist in determining the share-swap ratios and preparation of a Scheme of Arrangement to be approved by the Board of Directors.

We begin with the performance of Mahindra Forgings as a standalone Company for the year 2006-07. Thereafter, we shall elaborate the plans for MFL as a consolidated global player in the forging space.

#### **Industry Structure and Industry Development**

The period between 2005-06 and 2006-07 has seen very impressive growth in the domestic sales of both passenger and commercial vehicles. The former has grown at an average 13% per year over the last three years; while the latter has grown at more than 22% per annum over the same period. In fact, the automobile industry witnessed a significant growth spurt in 2006-07 over the previous year. The number of passenger vehicles sold in India increased by 18% to 1.54 million; and sales of commercial vehicles grew by 33% to 520,000. Table 1 below gives the data.

Table 1: Growth of automobiles in India (in numbers)

| ν.                        |           |           |           | Gro     | wth     |
|---------------------------|-----------|-----------|-----------|---------|---------|
| Category                  | 2004-05   | 2005-06   | 2006-07   | 2005-06 | 2006-07 |
| Passenger Cars            | 960,487   | 1,046.133 | 1,238,032 | 8.9%    | 18.3%   |
| Utility Vehicles          | 182,018   | 196,506   | 222,111   | 8.0%    | 13.0%   |
| MPVs                      | 67,371    | 66,661    | 84,707    | -1.1%   | 27.1%   |
| Total Passenger Vehicles  | 1,209,876 | 1,309,300 | 1,544,850 | 8.2%    | 18.0%   |
| M&HCVs                    | 214,807   | 219,295   | 294,266   | 2.1%    | 34.2%   |
| LCVs                      | 138,896   | 171,788   | 225,734   | 23.7%   | 31.4%   |
| Total Commercial Vehicles | 353,703   | 391,083   | 520,000   | 10.6%   | 33.0%   |

mpacted the growth of commercial vehicle segment but the overall demand for automobiles, especially passenger vehicles, is expected to remain robust over the next few years and expected to grow between 10-13%.

The growth of forgings has far outstripped that of automobiles. This is mainly due to a significant growth in exports — driven by both the technological capabilities of Indian companies and competitive cost advantages. According to a McKinsey study, production of forgings in India grew by an average of over 25% per annum, from 600,000 metric tons (MT) in 2003-04 to 929,000 MT in 2005-06. The study estimates that by 2009-10 total forgings production in India will be 1.85 million MT, of which over 40% will be slated for exports. Chart below plots the data from the McKinsey study.

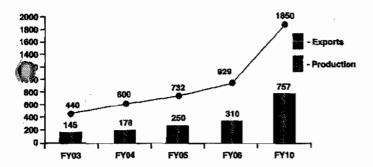


Chart: Growth of Indian forgings production & exports ('000 MT)

One of the key drivers of MFL growth will be exports. The Company is exporting to Germany and Italy and has large order from a European Auto Major. In fact, in its very first year of supply of engine parts to one of the leading Tier I suppliers in Europe , MFL has received a prestigious award from them recognising MFL as Best in Class in the Castings and Forgings Category for the Year 2006.

Going forward, the Company is working towards substantially increasing its machining capacities for crankshafts and axle parts, with the objective of increasing the share of exports of these high value added items.

For the year under review, the Company's exports were 3.3% of net sales. However, considering current order position, Mahindra Forgings expects the exports to rise to 10% in 2007-08.

### **Opportunities and Threats**

MFL's Chakan plant produces mainly light weight forgings of three broad types. The first is crankshafts for cars, multi-utility vehicles (MUVs), tractors and light commercial vehicles (LCVs). The second main product category is stub axles, which are supplied to manufacturers of MUVs, LCVs and HCVs. The third category of products constitutes steering knuckle, which are sold to OEMs that manufacture MUVs.

Mahindra Forgings has very close association with leading Indian passenger car manufacturers, and is the single source supplier for several of them. Because of its building strong and lasting relationships, the Company enjoys the largest market share for passenger crankshafts in India. With the Indian economy attaining a higher growth trajectory, the growth in the automobile sector is expected to remain healthy and drive domestic demand. As we start delivering the new export orders, the increased exposure and global brand presence is expected to open up several opportunities to provide cost effective forgings solutions in the international markets.

While focusing on developing these opportunities, we are conscious of the threats facing the Company. First, is the threat of overdependence on a particular customer, product group or geography. Consequently, we are consciously working on a de-risked business model that stresses on diversification. The stress on exports and growing our international presence is also a step in this direction. Another example of our de-risked business strategy is with regard to our dealings with M&M. While MFL clearly benefits from the demand generated by M&M, there has been a conscious decision to maintain arms length relationship with group companies to ensure the highest standards of Corporate Governance. As Mahindra Forgings grows organically and through the M&A process, we expect that its dependence on business from M&M will be even less than the current level of 20% of total sales.

The Company operates in a very competitive market. There is stiff competition from other Indian forging companies and from companies with manufacturing facilities in other low cost countries like China. MFL has been stressing on enhancing customer care, meeting delivery schedules, continuous commitment to quality and constant endeavour to reducing costs in order to meet competition.

The pressure on costs primarily due to competition from China in particular, remains a threat. But the acquisition of Jeco, Schoneweiss and Stokes provides us access to technology, markets and in each case more than a hundred years of trust and mutual interdependence with key customers. Therefore we are optimistic of staving off such threats particularly with the access to the skills and experience of these companies. This allows us to accelerate the process of rationalising costs and creating customised cost effective solutions through a process of continuous and periodic interaction with inhouse subject matter experts. We expect to achieve operational excellence in Chakan by transplanting best practices from Germany and England in the areas of productivity enhancement through automation, adoption of improved technology and manpower training and skill up-gradation. As Chakan unit develops into a world class facility that matches with the quality of European shops, product rationalisation across locations should enhance value.

#### **Risks and Concerns**

The Company is already exporting Forged components and weakening of dollar could be a risk. However the Company is taking appropriate steps to hedge currency exposure thus limiting the impact of risk. Rising input costs are also a concern. The steep increase in the cost of major inputs like power and fuel, steel etc. are major areas of concern faced by the Industry.

#### **Operations**

When MFL fully acquired the Chakan plant from Amforge Industries Limited, the facilities needed considerable scaling up and upgrading. Most of the Company's operational efforts in 2006-07 therefore has been directed to achieving these twin objectives, so as to bring Chakan unit up to global standards.

Our next step is to enhance the installed capacity. In addition to existing four presses, MFL is in the process of adding three more: One 6,300 MT press and two 4,000 MT presses. These presses are expected to be installed by December, 2007 and should become operational by end of fourth quarter of 2007-08. Once that happens, the effective capacity of the Chakan Plant will double to 60,000 MT. In addition, the Company has invested on key balancing equipment, such as an imported automated cutting facility and a state-of-theart shot blasting machine. For the finishing stage, it is setting up an environmental friendly LNG-fired heat treatment facility. To improve the quality of forgings, MFL has already installed an ultrasonic testing facility and a magnetic particle inspection (magnaflux) machine. This will result in better quality controls.

The secret of successful forging lies in making continuous improvements in die manufacturing and usage. Keeping this in mind, Mahindra Forgings is in the process of setting up a world-class tool room and die shop, where it will be installing 12 high speed die cutting machines manufactured by Haas in Germany. In addition, it

has designed a modern layout for its tool room and die storage facilities.

To concentrate on higher value machine components, the Company has already installed a separate machining facility. This has an optimum mix of new refurbished machining equipment which has been engineered to deliver a greater supply of fault free value added products at globally competitive unit costs. The focus is on increasing the production of machines, crankshafts and axle parts. Today, the effective capacity of the machine shop is more than adequate to meet the demands of both those customers that have placed production orders on us as well as those who are at the PPAP stage. With successful trials behind us ,we expect to ramp up and triple capacity by 2008-09.

2006-07 saw significant cost improvements, though more is on the cards. Despite sharp increases in power tariffs and diesel oil prices, there were distinct improvements in operating cost. Moreover, through enhanced supply chain management, the Company succeeded in reducing material costs from 63.2% of net sales in 2005-06 to 59.6% in 2006-07. Cost savings and higher productivity contributed to a rise in the operating profit ratio.

Mahindra Forgings passionately believes in quality. To this end it has formally adopted 5S namely, Seiri (tidiness), Seiton (orderliness), Seiso (systemised cleanliness), Seiketsu (standards), Shitsuke (sustaining discipline) in its shop floor at Chakan. 5S is a mnemonic for a philosophy and a way of organising and managing the workspace.

Going forward, as 5S stabilises and becomes a part of the shop-floor DNA, Chakan will move to formally adopting Total Quality Management (TQM) and Total Productive Maintenance (TPM) practices.

At Mahindra Forgings, we believe that the environment matters: Therefore, we are setting up an effluent treatment plant for dealid with oil, scales and sludge from the forging and machining shops. The treated water will then be used for gardening 1 million tree planting program, which is the commitment of Chakan Unit to M&M who has undertaken this as a part of its Employee Social Opportunity Program (ESOP).

We realise that considerable additional effort is required to improve the quality, environment and safety systems to the next level. Therefore, we aim to start work on getting the ISO 14001 (environment) and OHSAS 18001 (health, environment and safety) certifications by 2008-09.

When MFL bought Chakan unit, the plant had little in terms of an IT and ERP software. Appreciating that a top class enterprise-wide IT system was a must to secure competitive advantages, during 2006-07 the Company installed all modules of SAP-ECC 6.0 across the plant and the offices. Implementation started in November 2006, and MFL went live on 1st April, 2007. In addition, Mahindra Forgings has installed full network connectivity with a dedicated server at M&M's data centre site at Kandivli, Mumbai.

# Material Development in Human Resources / Industrial Relations.

With the objective of achieving optimal resource effectiveness, the Company has been focusing on four major HR levers: organisation structures, performance management system, a reward and recognition system and communication.

Regarding human resources, 2006-07 saw two major developments. The first was that Mahindra Forgings successfully completed a wage settlement with its workmen up to March 2009. This has linked emoluments to productivity and will ensure wage cost competitiveness

while adequately rewarding the workforce. The second has been the institutionalising of structured training programmes for all employees of MFL. These programmes makes it obligatory for everyone in the Company to go through training in technical, behavioural and organisation development skills.

Industrial relations during the year were cordial. The Company has also taken initiative to enhance employee involvement through training and development.

The permanent employee strength of the Company as on 31st March, 2007 was 557.

#### Financial performance with respect to operational performance:

### Table 2 : gives the standalone profit and loss account for Mahindra Forgings for 2005-06 and 2006-07.

(Rs. in Millions)

|  | 2006-07 | 2005-06 | Growth  |
|--|---------|---------|---------|
| Income   |         |         |         |
| Gross Sales  | 2,458.8 | 2,316.0 | 6.2%    |
| Less: Excise Duty  | 344.8   | 326.8   |         |
| Net Sales  | 2,114.0 | 1,989.2 | 6.3%    |
| Other Income   | 56.1    | 53.4    |         |
| Total Income   | 2,170.1 | 2,042.6 | 6.2%    |
| Expenditure  |         |         |         |
| Material Consumption   | 1,259.9 | 1,256.2 | 0.3%    |
| Personnel Expenses   | 103.5   | 82.8    | 25.0%   |
| Other Expenses   | 567.7   | 589.2   | 3.6%    |
| Total Expenditure  | 1931.1  | 1928.2  | 0.2%    |
| Fit before depreciation, interest and tax (PBDIT), and before Goodwill and           | 239.0   | 114.4   | 108.9%  |
| Contingency Provision  |         |         |         |
| Depreciation   | 84.1    | 53.5    | 57.2%   |
| Profit before interest and tax (PBIT), and before Goodwill and Contingency Provision | 154.8   | 60.9    | 154.2%  |
| Interest & Finance cost  | 75.3    | 87.2    | - 13.7% |
| Profit Before Goodwill, Contingency Provision and Tax                                | 79.6    | (26.3)  |         |
| Less: Goodwill Amortisation  | 173.9   | _       | -       |
| Contingency Provision  | 4.5     | 91.9    |         |
| Profit / (Loss) before Tax (PBT)   | (98.8)  | (118.2) |         |
| Less: Provision for Tax  |         |         |         |
| Current Tax  | 4.4     |         |         |
| Deferred Tax   | 17.7    | _       |         |
| Fringe Benefit Tax   | 1.0     | 1.2     |         |
| Profit / (Loss) after Tax (PAT)  | (121.8) | (119.5) |         |

Net sales grew by 6.3% to Rs.2,114 million in 2006-07. Total income increased by 6.2% to Rs.2,170 million. Despite increase in raw material, power and diesel oil costs, expenses on account of material consumption was more or less kept constant at 2005-06 level. Notwithstanding a 25% rise in personnel expenses because of commissioning of new machining division and reallocation of managerial resources, except for personnel expenses, the Company succeeded in reducing the total expenditure by 3.6%. It helped to raise PBD1T before goodwill and contingency by 108.9% and PBIT increased by 154.2%. PBD1T to net sales increased from 5.8% in 2005-06 to 11.3% in 2006-07. PBIT has increased from 3% to 7.3% over the same period. The Company standalone return on capital employed (ROCE) has grown by 400 basis points from 2.3% in 2005-06 to 6.3% in 2006-07.

#### Internal Control Systems and their Adequacy

The Company has a adequate internal audit and control systems to ensure that all transactions are authorised, recorded and reported correctly. The internal control systems comprise extensive internal and statutory audits. Under the supervision of M&M's Central Management Services (CMS) internal audit of the Chakan unit is conducted by leading independent Chartered Accountants firm. This provides reasonable assurance regarding the effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations. Details on the composition and functions of the Audit Committee can be found in the chapter on Corporate Governance of the Annual Report.

#### **Mahindra Forgings Global Strategy**

The long term strategy involved structured but rapid organic growth at Chakan; supplemented by inorganic opportunities — with a focus on facilities that had complementary product portfolios, high class engineering, technology and management talent, and strong order books from marguee clients.

In the first stage, the Company chose to focus on India and Europe. The former was for its relatively low cost base, manufacturing skills, and the ability to ramp up scale at globally competitive costs. The latter was for rapid market expansion, and access to both higher value added technology as well as a global clientele.

A brief on the proposed amalgamating entities is as under:

Stokes Forgings, whose facilities are located in West Midlands, UK, has expertise in small, precision net shape forgings with high capability in design and product development. It supplies a range of forged components for engine and power transmission that include diesel fuel rails and pump bodies, connecting rods, crankshafts, engine timing and valve stroke camshafts; and a full range of manual and automatic gearbox components, such as main shafts, lay shafts, gear clusters, gears, clutch hubs, converter input shafts, drive flanges and cordon/prop shaft components like yokes and collars. Its new products are machined hubs and outer rings, diesel injection system fuel rails and large camshafts.

The company is transforming itself from a forging company into a complete solution provider by setting up a £5 million facility for machining of hubs. For the year ended 31st March, 2007, Stokes had turnover of around £27 million.

JECO is a major European supplier of complex machined forging. A highly diversified entity, 20% of JECO's revenue base comes from non-auto parts — which can give MFL an entry into this major segment. Being diversified, it is sufficiently de-risked. JECO's top 22 customers account for only 50% of its total revenues. Its sales growth is backed by technological prowess. Each year, the company develops anywhere between 150 and 200 new parts; and over 15% of its annual sales constitutes newly developed products. Moreover, given its strong technological base, JECO often co-designs parts with its customers.

Focusing on the truck segment within auto, JECO specialises in a one-stop-shop sales strategy, especially with its key 0EM customers. For instance, a leading automobile manufacturer in Germany uses 220 steering levers for one of its trucks. JECO supplies them all. Because of this orientation towards supplying systems (instead of isolated components), the company has put in place processes that ensure exceptionally fast die change time — which in turn raises productivity by higher throughput.

JECO is spending an additional €10 million in 2007-08 to further ramp up its machining facility. For the year ended December 2006, its turnover was around €190 million.

Schöneweiss is one of the most respected forging units in Germany, with over 140 years of experience in the business. It produces axles, wheel trunks, knuckles, bearings, shafts, tunes, stubs, camshafts, guide racks, con-rods and steering arms and levers. Schöneweiss alone accounts for 20% of front axle beam production in the w. ... With a customer segment comprising trucks and automobile OEMs, it enjoys the reputation of being a key development partner of all major German automobile manufacturers.

Schöneweiss is presently setting up a 12,000 MT press to enhance its capacity of front axle beams, at a cost of 10 million. For the year ended December 2006, this company's turnover was 94 million.

MFL's rationale for international acquisition has been driven by four factors:

- 1. Acquiring management, technology and customer access.
- Cross-selling opportunities across Products and Geographies (given the parent SysTech's stake in multiple verticals of Forgings, Castings, Stampings, Gears, Composites and Engineering Services).
- 3. Sourcing synergies.
- Providing cost effective solutions to customers.

#### Outlook

Today, making acquisitions is believed to be relatively easy for any reasonably reputed Indian company. However MFL's strategy has not been driven by top line growth alone — MFL has focused on acquiring those entities and assets where there is room for maximum value add. In addition it has sold the vision of a Global Integrated giant to its constituents — created buy in and scrupulously avoided auctions to protect share holder value.

Integrating the acquisitions into a whole, whose value is considerably greater than some of its parts is now under way with first priority to create an integrated, commonly aligned international management team which can leverage all the synergies arising out of every single multi-shoring opportunities. The intent is to fully utilise the wide puct portfolio of Chakan, Stokes, JECO and Schöneweiss to secure larger orders from clients in different geographies and execute them in the most optimal, cost competitive manner. That involves many sub tasks such as cross selling, becoming an integrated full system supplier, using scale to secure cost efficiencies in sourcing raw material, and the like. The Company has already put in place systems and structures to meet these objectives. The results should become apparent in 2007-08 and thereafter.

The second task is technology creation, documentation, transfer and preparation of a repository of intellectual property. Since it is the intent of Mahindra Forgings to rapidly morph from being a component supplier to a technology driven solutions provider, each of its facilities must use best-in-class technology, and the Company must possess a large and growing arsenal of proprietary IPR.

Mahindra Forgings inherits such IPR from Jeco and Schoneweiss in particular and expects to build on that capability. It is identifying the facilities and products that embody best-in-class technologies; and is in the process of drafting a detailed and time bound plan to ensure the transfer and diffusion of such IPR across all locations. It is a continuous process whose outcome is being closely monitored by the Board .

The third task is systematic scaling up of capacity — and within it, successively greater emphasis on higher value added production. The management is in the process of carefully evaluating the product portfolio of all its businesses and choosing those that can be rapidly scaled up the value chain.

Achieving this target will certainly require full fledged attention to integration and getting the best return on the existing employed capital. It may also need one or more value enhancing strategic acquisitions. Through organic growth in efficiencies and inorganic acquisitions, the management of Mahindra Forgings is committed to meeting its vision for 2009-10.

#### **Cautionary Statement**

Statements in this Management Discussion and Analysis describing the Company's objectives, projections, estimates and expectations may be 'forward looking statements' within the meaning of applicable laws and regulations. Actual results might differ substantially or materially from those expressed or implied. Important developments that could affect the Company's operations include a downtrend in the automobile industry — global or domestic or both, significant changes in political and economic environment in India or key markets abroad, tax laws, litigation, labour relations, exchange rate fluctuations, interest and other costs.

# **CORPORATE GOVERNANCE**

#### **COMPANY'S PHILOSOPHY ON CORPORATE GOVERNANCE**

Corporate Governance is based on preserving core beliefs and ethical business conduct while maintaining a strong commitment to maximise long-term shareholder value. Your Company is focussed towards bringing transparency in all its dealings, adhering to well-defined corporate values and leveraging the corporate resources for long-term value creation.

The promoters of the Company are committed to moulding corporate governance practices in line with the Mahindra Group's core values, beliefs and ethics. Following the Mahindra Group's philosophy, your Company believes in attainment of highest levels of transparency in all facets of its operations and maintains an unwavering focus on imbibing good corporate governance practices.

In India, Corporate Governance standards for listed companies are regulated by the Securities and Exchange Board of India (SEBI) through Clause 49 of the Listing Agreement of the Stock Exchanges. As a Company which believes in implementing corporate governance practices that go beyond meeting the letter of law, your Company has comprehensively adopted practices mandated in the new Clause 49.

This chapter, along with the chapters on Management Discussion and Analysis and Additional Shareholders Information, reports the Company's compliance with the new Clause 49.

#### **BOARD OF DIRECTORS**

The composition of the Board is in conformity with Clause 49 of the Listing Agreement. The Company has a non-executive Chairman and more than one-third of the Board comprises of independent Directors. The number of non-executive Directors is more than half of the total number of Directors.

The management of the Company is entrusted in the hands of Key Management Personnel and is headed by the Managing Director, who operates under the supervision and control of the Board. The Board reviews and approves strategy and oversees the results of management to ensure that the long term objectives of enhancing stakeholder value are met.

Mr. Anand G. Mahindra, Chairman of the Company, Mr. Hemant Luthra and Mr. Zhooben Bhiwandiwala, non-executive Directors of the Company, are in whole time employment of the Promoter Company, Mahindra & Mahindra Limited (M&M) and draw remuneration from it.

Mr. R. R. Krishnan, a non-executive Director of your Company, is a consultant with M&M and draws remuneration from it.

Apart from reimbursement of expenses incurred in the discharge of their duties, the remuneration that these Directors would be entitled to under the Companies Act, 1956 as non-executive Directors and the remuneration that some of the Directors may receive for profes, had services rendered to the Company either in individual capacity or through a firm in which one of them is a partner, none of these Directors has any other material pecuniary relationships or transactions with the Company, its Promoters, its Directors, its Senior Management which in their judgment would affect their independence. Messrs. Khaitam & Co., Advocates & Solicitors, in which Mr. Nikhilesh Panchal, non-executive Director is a partner, received professional fees of Rs.14.79 Lakhs.

The Senior Management have made disclosures to the Board confirming that there are no material, financial and/or commercial transactions between them and the Company which could have potential conflict of interest with the Company at large.

#### **COMPOSITION OF THE BOARD**

As on 31st March, 2007 the Company's Board comprises of nine Directors. The Chairman is a mon-executive Director and is a professional Director in his individual capacity. The Company has a Managing Director. There are four Non-Independent Non-Executive Directors, including the Chairman. The remaining four Non-Executive Directors are Independent Directors and professionals, with expertise and experience in technical, general corporate management, finance, banking, legal and other allied fields.

It may be noted that at the Board meeting held on 26th April, 2007, Mr. Harald Korte was appointed as an additional Director of the Company.

The names and categories of Directors, the number of Directorships and Committee positions held by them in the companies are given below. None of the Directors on the Board is a Member of more than 10 Committees and Chairman of more than 5 Committees (as specified in Clause 49 of the Listing Agreement), across all the Companies in which he is a Director. The details are presented in table 1.

Table 1: Composition of the Board of Directors

| Directors :              | Category          | Total number of Committee memberships + of public companies as on 31* March, 2007 | Total number of<br>Chairmanships<br>of Committees +<br>of public companies<br>as on 31st March, 2007 | Total number of<br>Directorships* of<br>public companies<br>as on 31* March, 2007 |
|--------------------------|-------------------|---|--|---|
| NON - EXECUTIVE          |                   |   |  |   |
| Mr. Anand G. Mahindra    | Non-Independent   | 1   | Nil  | 12  |
| Mr. Hemant Luthra        | Non-Independent   | 3   | Nil  | 10  |
| Mr. R. R. Krishnan       | Non-Independent   | 3   | 1  | 3   |
| Mr. Zhooben Bhiwandiwala | Non-Independent   | 2   | Nil  | 7   |
| Mr. Mohit Burman         | Independent       | 2   | Nil  | 6   |
| Mr. V. K. Chanana        | Independent       | 2   | 1  | 1   |
| Mr. Nikhilesh Panchal    | Independent       | 1   | Nil  | 1   |
| Mr. Fali P. Mama         | Independent       | 3   | Nil  | 2   |
| Mr. Harald Korte **      | Non- Independent  | Nil   | Nil  | 1   |
| EXECUTIVE                |                   |   |  |   |
| Mr. S. Ravindran @       | Managing Director | Nil   | Nil  | 1   |

<sup>\*</sup> excludes Directorships in private limited companies, foreign companies, Section 25 companies, government bodies and alternate Directorships but includes Directorship in Mahindra Forgings Limited.

#### **BOARD PROCEDURE**

A detailed agenda folder is sent to each Director in advance of Board and Committee meetings. To enable the Board to discharge its responsibilities effectively, the Managing Director briefs the Board at every meeting on the overall performance of the Company, followed by presentations by the other senior executives of the Company. The Board also inter alia reviews strategy and business plans, annual operating and capital expenditure budgets, investment and exposure limits, compliance reports of all laws applicable to the Company, as well as steps taken by the Company to rectify instances of non-compliances, review of major legal issues, adoption of quarterly/half-yearly/annual results, significant labour issues, transactions pertaining to purchase / disposal of property, major accounting provisions and write-offs, corporate restructuring, minutes of meetings of the Audit and other Committees of the Board, information on recruitment of officers just below the Board level, including the Compliance Officer.

# UMBER OF BOARD MEETINGS, ATTENDANCE RECORD OF THE DIRECTORS AT MEETINGS OF THE BOARD AND AT THE LAST ANNUAL GENERAL METING.

The Board of Directors met four times during the year on 28th April, 2006, 27th July, 2006, 20th October, 2006, and 25th January, 2007. The gap between two meetings was not more than four months.

The seventh Annual General Meeting (AGM) was held on 19th May, 2006.

Attendance of the Directors at these meetings is presented in table 2.

Table 2 : Number of Meetings and Attendance

| Director                 | No. of Board Meetings Attended | Attendance at the AGM |
|--------------------------|--------------------------------|-----------------------|
| Mr. Anand G. Mahindra    | Nil                            | No                    |
| Mr. Hemant Luthra        | 4                              | Yes                   |
| Mr. R. R. Krishnan       | 4                              | No                    |
| Mr. Zhooben Bhiwandiwala | 2                              | Yes                   |
| Mr. Mohit Burman         | 2                              | No                    |
| Mr. V. K. Chanana        | 3                              | No                    |
| Mr. Nikhilesh Panchal    | 3                              | No No                 |
| Mr. Fali P. Mama         | 4                              | No                    |
| Mr. Romesh Kaul (1)      | 2                              | No                    |
| Mr. S. Ravindran (2)     | 3                              | N.A                   |

<sup>(1)</sup> Resigned as Director with effect from 27th July, 2006.

<sup>+</sup> Committees considered are Audit Committee and Shareholders/Investors Grievance Committee, including in Mahindra Forgings Limited.

<sup>@</sup> Appointed as an Additional Director and the Managing Director with effect from 27th July, 2006.

<sup>\*\*</sup> Appointed as an Additional Director with effect from 26th April, 2007.

<sup>(2)</sup> Appointed as Managing Director with effect from 27th July, 2006.

### DIRECTORS SEEKING APPOINTMENT / RE-APPOINTMENT

Mr. Anand G. Mahindra, Mr. Mohit Burman and Mr. R. R. Krishnan retire by rotation and being eligible have offered themselves for re-appointment.

Mr. S. Ravindran and Mr. Harald Korte were appointed as Additional Directors on the Board of the Company with effect from 27th July, 2006 and 26th April, 2007 respectively. They hold office up to the date of the forthcoming Annual General Meeting. A Notice has been received from a Member proposing their candidature for the office of Directors at the said Meeting.

A brief resume of these Directors is presented below:

#### (i) Mr. Anand G. Mahindra

Mr. Anand G. Mahindra is the Chairman of the Company. Mr. Mahindra is Vice Chairman and Managing Director of Mahindra & Mahindra Limited. After graduating from Harvard College and earning an MBA degree from the Harvard Business School, he returned to India and joined Mahindra Ugine Steel Company Ltd (MUSCO), the country's foremost producer of specialty steel, as Executive Assistant to the Finance Director. He rose to become President and Deputy Managing Director of MUSCO in 1989. During his stint at MUSCO, he initiated the Mahindra Group's diversification into the new business areas of real estate development and hospitality management. In 1991, he was appointed Deputy Managing Director of Mahindra & Mahindra Ltd., the flagship company of the Mahindra Group, and the country's dominant producer of off-road vehicles and agricultural tractors. In April 1997, he was appointed Managing Director of Mahindra & Mahindra & Mahindra Ltd and in January 2001 given the additional responsibility of Vice Chairman. His focus in Mahindra and Mahindra has been to drive a comprehensive change programme that has transformed the company and the Group into an efficient and aggressive competitor in the new liberalised economic environment in India.

Mr. Anand Mahindra is a Past President of the Confederation of Indian Industry, and of the Automotive Research Association of India (ARAI). He is also on the Board of the National Stock Exchange of India Limited. Mr. Anand Mahindra is the Co-Chairman of the International Council of the Asia Society, New York, and a member of the 2nd India Advisory Panel of International Enterprise Singapore. He is a member of the Board of Dean's Advisors of Harvard Business School, and also serves on the Advisory Committee of the Harvard University Asia Centre. Mr. Mahindra takes a keen interest in education in India and is on the Governing Board of several educational institutes.

Mr. Anand Mahindra is the recipient of numerous national and international awards, including the 'Knight of the Order of Merit' by the President of the French Republic, the Rajiv Gandhi Award for outstanding contribution in the business field, the 2005 Leadership Award from the American India Foundation, Person of the Year 2005 by Auto Monitor, CEO of the Year from India Brand Summit 2006, and CNBC Asia Business Leader Award and India Business Leader Award for the year 2006.

Mr. Mahindra is on the Boards of Mahindra & Mahindra Limited, Mahindra Ugine Steel Company Limited, Mahindra & Mahindra Financial Services Limited, Mahindra Sona Limited, Tech Mahindra Limited, Mahindra Gesco Developers Limited, Mahindra International Limited, National Stock Exchange of India Limited, Mahindra Holdings & Finance Limited, Kotak Mahindra Bank Limited, Automartindia Limited, Tech Mahindra (Americas) Inc., Bristlecone Limited, Cayman Islands, Avion Aerosols Private Limited, M.W.Com India Private Limited, M.A.R.K. Hotels Private Limited, Angular Constructions Private Limited, Prana Holdings Inc., Tech Mahindra Foundation and Mahindra (China )Tractor Company Limited.

Mr. Anand G. Mahindra is a member of the following Board Committees:

| Sr. No. | Name of the Companies                          | Name of the Committee  | Position held |
|---------|--|--|---------------|
| 1.      | Mahindra & Mahindra Limited                    | Share Transfer and Shareholders / Investors<br>Grievance Committee | Member        |
| 2.      | Mahindra & Mahindra Limited                    | Research & Development Committee                                   | Member        |
| 3.      | Mahindra & Mahindra Limited                    | Loans & Investment Committee                                       | Member        |
| 4.      | Mahindra Ugine Steel Company Limited           | Remuneration Committee   | Member        |
| 5.      | Mahindra & Mahindra Financial Services Limited | Remuneration / Compensation Committee                              | Member        |
| 6.      | Kotak Mahindra Baлk Limited                    | Compensation Committee   | Member        |
| 7.      | Mahindra International Limited                 | Remuneration Committee   | Chairman      |
| 8,      | Mahindra Forgings Limited                      | Remuneration / Compensation Committee                              | Member        |

Mr. Anand G. Mahindra does not hold any equity shares in the Company.

#### (ii) Mr. Mohit Burman

Mr. Mohit Burman has a Master's Degree in Business Administration. Mr. Burman started his career in 1989 in Welbeck Property Partnership in London, England. Since then he has held senior positions in Dabur Finance Ltd. and helped in developing Dabur Group's financial services business into Asset Management, Life Insurance and Pension with UK's largest insurance Company CGNU by setting up Aviva Life Insurance Company and was later responsible for Dabur Group's acquisition of Balsara Home Products Ltd. He is presently responsible for Finance and Accounts functions of Dabur group and liasoning with Banks and Financial Institutions.

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Mr. Burman is on the Board of ABN Amro Securities (India) Pvt. Ltd., Cavendish Hotels Pvt. Ltd., Dabur Investment Corporation Ltd., Dabur Securities Pvt. Ltd., Dabur Finance Ltd., Vertex Broadcasting Company Pvt. Ltd., Amit Laboratories Pvt. Ltd., Acee Enterprises, Vic Enterprises Pvt. Ltd., Puran Associates Pvt. Ltd., Malhotras Trading Co. Pvt. Ltd., Dabur Ayurvedic Specialities Ltd., Prayag Commercial Pvt. Ltd., Excellent (India) Pvt. Ltd., Moonlight Ranch Pvt. Ltd., Interx Laboratories Pvt. Ltd., Procam Sports Pvt. Ltd., KBC India Pvt. Ltd., Maneswari Trading Co., Milky Investment Ltd., Shree Investments Limited, Sunshine India Pvt. Ltd., Newage Capital Services Pvt. Ltd., Dabur International Pvt. Ltd., Universal Sompo General Insurance Company Limited, Vansh Holdings Pvt. Ltd., Bonjour Investment Company Pvt. Ltd., Promethean India Finance Pvt. Ltd and Promethean India Advisors Pvt. Ltd.

Mr. Mohit Burman is a member of the following Board Committees:

| Sr. No. | Name of the Companies     | Name of the Committee                 | Position held |
|---------|---------------------------|---------------------------------------|---------------|
| 1.      | Mahindra Forgings Limited | Audit Committee                       | Member        |
| 2.      | Mahindra Forgings Limited | Remuneration / Compensation Committee | Chairman      |
| 3.      | Dabur Finance Limited     | Audit Committee                       | Member        |

Mr. Mohit Burman holds 15,000 equity shares and his relatives hold 60,250 equity shares of Rs. 10/- each in the Company.

# 📦iii) Mr. R. R. Krishnan

Mr. Krishnan is an Honours graduate in Mathematics from University of Delhi and has also done his GPMD course from Michigan business school.

Mr. Krishnan has been with the Mahindra Group for close to 45 years and has held several senior positions during his stint with Mahindra Group. He has been a member of the Group Management Board of Mahindra & Mahindra Limited until March' 05 and has also held the position of Managing Director of Mahindra Intertrade Limited and Mahindra Steel Service Centre Limited (MSSCL). Mr. Krishnan is presently a senior advisor in Mahindra & Mahindra Limited.

Mr. Krishnan is on the Board of Mahindra Composites Limited, Mahindra Ugine Steel Company Limited and Mahindra Forgings Limited.

Mr. Krishnan is a member of the following Board Committees:

| Sr. No. | Name of the Companies                | Name of the Committee  | Position held |
|---------|--------------------------------------|--|---------------|
| 1.      | Mahindra Forgings Limited            | Share Transfer and Shareholders'/Investors'<br>Grievance Committee | Chairman      |
| 2.      | Mahindra Forgings Limited            | Audit Committee  | Member        |
| 3.      | Mahindra Ugine Steel Company Limited | Audit Committee  | Member        |

Mr. Krishnan does not hold any equity shares in the Company.

#### iv) Mr. S. Ravindran

Mr. Ravindran is a Graduate in Mechanical Engineering from the University of Madras and a Post Graduate in Management from the Indian Institute of Management, Ahmedabad.

Mr. Ravindran has experience of over 35 years, out of which 27 years of experience is in auto components sector where he held various strategic positions such as head of Clutch and Brake Division of API, Executive Director in Standard Motors, independent consultant in India to Yamaha Motors, Japan, Chief Executive Officer of the start up joint venture of Tata Johnson Control. Prior to his appointment in the Company since May 2006, he was in employment with GKN Driveline Limited and held various strategic positions in India and Singapore as Operations Director and thereafter as Managing Director.

Mr. Ravindran does not hold any equity shares in the Company.

Mr. Ravindran is not a Director of any other company and also not a member of any Committee.

#### (v) Mr. Harald Korte

Mr. Harald Korte is an engineer of the Technical High School, Hagen.

Mr. Korte joined Daimler Benz Stuttgart in 1957 and worked in their Forge shop until 1960. Thereafter in 1960 he joined Hesterberg & Sohne, Ennepetal where he was responsible for production, planning and quality control. He has undergone a training program from 1967 to 1968 in SIFCO, USA and Brazil. Since 1968 he is with Schonewesiss & Co. GmbH and after handling various assignments and positions, he became Managing Director in 1971. He was responsible for the complete operational areas, sales and finance. In 1995 he became Chairman of Schonewesiss & Co. GmbH.

Mr. Korte does not hold any equity shares in the Company.

Mr. Korte is not a Director of any other Company and also not a member of any Committee.

#### REMUNERATION/COMPENSATION POLICY

While deciding on the remuneration for Directors, the Board, Remuneration/Compensation Committee (Committee) considers the performance of the Company, the current trends in industry, the qualification of the appointee(s), their experience, past performance and other relevant factors. The Board / Committee regularly keeps track of the market trends in terms of compensation levels and practices in relevant industries through participation in structured surveys. This information is used to review the Company's remuneration policies.

#### REMUNERATION/COMPENSATION PAID TO DIRECTORS

Non-executive Directors are paid sitting fee of Rs.2500/- for every meeting of the Board, Audit Committee, Remuneration/Compensation Committee, Share Transfer and Shareholders'/Investors' Grievance Committee attended. The details are presented in table 3.

Table 3: Details of remuneration paid to Directors including Managing Director for 2006-07

(Rs.)

| Name of the Director                   | Sitting<br>Fees | Salary and<br>Perquisites | Contribution to<br>Provident and<br>Other Funds | Performance<br>Linked<br>Incentive | Total     |
|--|-----------------|---------------------------|---|------------------------------------|-----------|
| Mr. Anand G. Mahindra                  | NA              | NA                        | NA  | NA                                 | NA        |
| Mr. Hemant Luthra                      | 17,500          | NA                        | NA  | NA                                 | 17,500    |
| Mr. R. R. Krishnan                     | 30,000          | NA                        | NA  | NA                                 | 30,000    |
| Mr. Zhooben Bhiwandiwala               | 10,000          | NA                        | NA  | NA                                 | 10,000    |
| Mr. Mohit Burman                       | 15,000          | NA                        | NA  | NA                                 | 15,000    |
| Mr. V. K. Chanana                      | 22,500          | NA                        | NA  | NA                                 | 22,500    |
| Mr. Nikhilesh Panchal                  | 25,000          | NA                        | NA  | NA                                 | 25,000    |
| Mr. Fali P. Mama                       | 20,000          | NA                        | NA  | NA                                 | 20,000    |
| Mr. Romesh Kaul *                      | 10,000          | NA                        | NA  | NA                                 | 10,000    |
| Mr. S. Ravindran (Managing Director)** | NA              | 26,98,769                 | 1,95,370  | 16,28,083                          | 45,22,222 |

<sup>\*</sup> Resigned as Director with effect from 27th July, 2006.

During 2006-07, the Company did not issue any stock options neither did it advance loans to any of its Directors. The contract of the Managing Director is for a period of three years with effect from 27<sup>th</sup> July, 2006 to 26<sup>th</sup> July, 2009. The notice period for the Managing Director is one month.

#### **CODE OF CONDUCT**

The Board has laid down two separate Codes of Conduct - one for Board members and other for designated Senior Management and Employees of the Company. These Codes have been posted on the Company's website www.mahindraforgings.com. All Board Members and Senior Management Personnel have affirmed compliance with the Codes of Conduct. A declaration signed by the Managing Director to this effect is enclosed at the end of this report.

#### **RISK MANAGEMENT**

Your Company follows well-established and detailed risk assessment and minimisation procedures. The risk assessment and mitigation procedures are reviewed by the Board periodically.

#### **COMMITTEES OF THE BOARD**

Your Company has constituted Board-level Committees to delegate particular matters that require greater and more focussed attention in the affairs of the Company. These Committees prepare the ground-work for decision making and report to the Board.

All decisions pertaining to the constitution of Committees, appointment of members and fixing of terms of service for Committee members is taken by the Board of Directors. Details on the role and composition of these Committees, including the number of meetings held during the financial year and the related attendance, are provided below:

#### a) Audit Committee

The Audit Committee was constituted by the Board of Directors at its meeting held on 28th April, 2006 and presently comprises the following non-executive Directors, Mr. V. K. Chanana, Mr. Mohit Burman, Mr. R. R. Krishnan, Mr. Nikhilesh Panchal and Mr. Fali P. Mama. Except Mr. R. R. Krishnan, rest of the Directors are independent. Mr. V. K. Chanana is the Chairman of the Committee. The terms of reference of this Committee are very wide.

The Committee acts as a link between the Statutory, the Internal Auditors and the Board of Directors of the Company. It is authorised to select and establish accounting policies, review reports of the Statutory and the Internal Auditors. The Committee is empowered to

<sup>\*\*</sup>Appointed as Managing Director with effect from 27th July, 2006.

review the remuneration payable to Statutory Auditors and to recommend a change in Auditors, if felt necessary. It is also empowered to inter alia review Financial Statements, Management Discussion & Analysis, material individual transactions with related parties not in normal course of business or which are not on an arm's length basis. Generally all items listed in Clause 49 II D of the Listing Agreement are covered in the terms of reference. The Audit Committee has been granted powers as prescribed under Clause 49 II C of the Listing Agreement.

The meetings of the Audit Committee were also attended by the Managing Director, Chief Financial Officer, Company Secretary & GM-Legal, the Statutory Auditors and the Internal Auditors.

The Committee held 4 meetings during the year 2006-07 on 28th April, 2006, 27th July, 2006, 20th October, 2006 and 25th January, 2007. The time gap between two meetings was less than four months. The details are presented in table 4.

Table 4: Attendance record of Audit Committee

| Name of the Member    | Position               | Status   | No. of Meetings Attended |  |
|-----------------------|------------------------|----------|--------------------------|--|
| Mr. V. K. Chanana     | Independent Director   | Chairman | 3                        |  |
| Mr. Mohit Burman      | Independent Director   | Member   | 2                        |  |
| Mr. R. R. Krishnan    | Non-executive Director | Member   | . 4                      |  |
| Mr. Nikhilesh Panchal | Independent Director   | Member   | 4                        |  |
| Mr. Fali P. Mama *    | Independent Director   | Member   | Nil                      |  |

<sup>\*</sup> Appointed with effect from 25th January, 2007.

Mr. Krishnan Shankar, Company Secretary & GM - Legal, acts as a Secretary to the Audit Committee.

All the members of the Audit Committee have strong accounting knowledge and expertise in financial management .

#### b) Remuneration/Compensation Committee

The function of the Remuneration/Compensation Committee is to look into the entire gamut of remuneration package for Managing Director / Executive Directors. The Committee also has powers to formulate Employees Stock Option Scheme and attend to such other matters as may be prescribed from time to time.

The Remuneration/Compensation Committee was constituted by the Board of Directors at its meeting held on 28th April, 2006 and presently comprises of Mr. Anand G. Mahindra, Mr. Hemant Luthra, Mr. V. K. Chanana, Mr. Mohit Burman and Mr. Nikhilesh Panchal. Mr. Mohit Burman is the Chairman of the Committee.

The Committee held 3 meetings during 2006-07 on 27th July, 2006, 20th October, 2006 and 25th January, 2007. The details are presented in table 5.

Table 5: Attendance details of Remuneration/Compensation Committee

| Name of the Member    | Position               | Status   | No. of Meetings Attended |
|-----------------------|------------------------|----------|--------------------------|
| Mr. Mohit Burman      | Independent Director   | Chairman | 2                        |
| Mr. Anand G. Mahindra | Non-executive Director | Member   | Nil                      |
| Mr. Hemant Luthra     | Non-executive Director | Member   | 3                        |
| Mr. V. K. Chanana     | Independent Director   | Member   | 3                        |
| Mr. Nikhilesh Panchal | Independent Director   | Member   | 3                        |

The Remuneration/Compensation Committee of the Company recommends to the Board the compensation terms of executive Directors.

#### c) Share Transfer and Shareholders' / Investors' Grievance Committee

The Company's Share Transfer and Shareholders' / Investors' Grievance Committee functions under the Chairmanship of Mr. R. R. Krishnan, non-executive Director. Mr. V. K. Chanana and Mr. Fali P. Mama, both independent Directors are members of the Committee. Mr. Krishnan Shankar, Company Secretary & GM - Legal is the Compliance Officer of the Company.

The Committee meets as and when required, to deal with matters relating to transfer / transmission of shares and monitors redressal of complaints from shareholders relating to transfers, non-receipt of balance-sheet etc. With a view to expedite the process of share transfers, Mr. R. R. Krishnan, the Chairman of the Committee, is authorised to approve of transfer of shares which are below 5,000 in number.

The Committee held four meetings during the year under review on 27th July, 2006, 12th September, 2006, 26th September, 2006 and 17th October, 2006. All the meetings were well attended.

During the year, four complaints were received from the shareholders, all of which have been attended to/resolved to date.

As of date, there are no pending share transfers pertaining to the year under review.

#### Shares held by the non-executive Directors

As on 31<sup>st</sup> March, 2007, Mr. Mohit Burman alongwith his relatives held 75,250 equity shares and Mr. Fali P. Mama held 2,220 equity shares of the Company. Apart from them, no other non-executive Director held any shares or convertible instruments of the Company as on 31<sup>st</sup> March, 2007.

#### MANAGEMENT

#### **Management Discussion and Analysis**

Management Discussion and Analysis forms part of the Directors Report and is appearing elsewhere in the Annual Report.

#### Disclosure

#### Disclosures of Transactions with Related Parties

Details of related party transactions are provided in Note No. 24 in Schedule XVI to Annual Accounts of the Annual Report.

#### Disclosure of accounting treatment in preparation of financial statements

Your Company has followed the guidelines of accounting standards laid down by The Institute of Chartered Accountants of India (ICAI) in preparation of its financial statements.

#### Details of non-compliance by the Company

Your Company has complied with all the requirements of regulatory authorities. No penalties/strictures were imposed on the Company by stock exchanges or SEBI or any statutory authority on any matter related to capital markets since the listing of the Company's shares.

#### Code for prevention of insider-trading practices

In compliance with SEBI's regulation on prevention of insider trading, the Company has instituted a comprehensive Code of Conduct for prevention of Insider Trading for its designated employees. The Code lays down Guidelines, which advises them on procedures to be followed and disclosures to be made, while dealing with shares of Company, and cautioning them of the consequences of violations.

#### **SHAREHOLDERS**

#### Means of Communication with Shareholders

The quarterly, half yearly & yearly results are published in Business Standard & Sakal which are national and local dailies. The Company results and official news release are displayed on the Company's website http://www.mahindraforgings.com.

The Company also regularly posts information relating to financial results and shareholding pattern on the SEBI EDIFAR Website at www.sebiedifar.nic.in

#### **Additional Shareholder Information**

Annual General Meeting

Date : 25th July, 2007

Time : 3.30 p.m.

Venue : Amar Gian Grover Auditorium,

Lala Lajpat Rai Memorial Trust, Lala Lajpat Rai Marg, Haji Ali,

Mumbai - 400 034

#### **Book Closure**

The book closure is from 14th July, 2007 to 25th July, 2007 inclusive of both days.

#### **Dividend Payment**

The Board of Directors of the Company has not recommended a dividend for the year 2006-07.

#### Financial Year

Financial year covers the period from: 1st April to 31st March

For the year ending 31st March, 2008, results will be tentatively announced by

End July 2007 : First quarter
 End October 2007 : Half yearly
 End January 2008 : Third quarter

• End April 2008 : Fourth quarter and annual

#### Registered Office Address:

Mahindra Towers, P. K. Kurne Chowk, Worli, Mumbai - 400 018 Maharashtra

#### Listing

At present, the equity shares of the Company are listed on Bombay Stock Exchange Limited (BSE). The requisite listing fee has been paid in full to Bombay Stock Exchanges Limited.

#### Stock codes

|   | Stock Code         |  |
|---|--------------------|--|
| Bombay Stock Exchange Limited   | 532756             |  |
| Demat International Security Identification Number in NSDL & CDSL for Equity Shares | ISIN- INE536H01010 |  |

#### Stock Market Data

Table 6: High and low price of Company's shares for 2006-07 at BSE

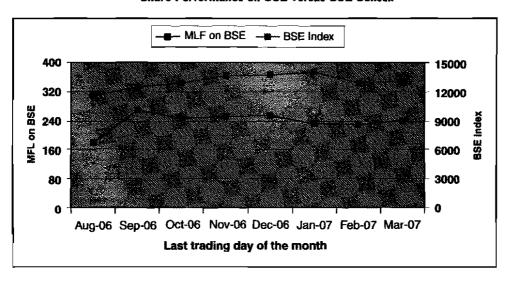
|         | Bombay Stock E | Bombay Stock Exchange Limited |   |  |
|---------|----------------|-------------------------------|---|--|
|         | High (Rs.)     | Low (Rs.)                     |   |  |
| Aug-06  | 270.00         | 160.00                        |   |  |
| Sept-06 | 275.50         | 178.00                        |   |  |
| 0ct-06  | 283.90         | 230.25                        |   |  |
| Nov-06  | 289.00         | 243.10                        |   |  |
| Dec-06  | 261.80         | 190.00                        |   |  |
| Jan-07  | 262.00         | 220.00                        | , |  |
| Feb 07  | 260.10         | 211.10                        |   |  |
| Mar 07  | 257.50         | 211.00                        |   |  |

Equity shares of the Company were listed on 29th August, 2006.

#### Stock Performance

The performance of the Company's shares relative to the BSE sensitive index is given in the chart below:

Share Performance on BSE versus BSE Sensex



Note: The Equity Shares of the Company were listed on Bombay Stock Exchange Limited on 29th August, 2006.

#### **Share Transfer System**

Shares sent for transfer in physical form are registered and returned within a period of thirty days from the date of receipt of the documents, provided the documents are valid and complete in all respects. With a view to expediting the process of share transfers, the Chairman of the Share Transfer and Shareholders' / Investors' Grievance Committee is authorised to approve of transfer of shares below 5,000 in number. The Share Transfer and Shareholders' / Investors' Grievance Committee meets as and when required to consider the other transfer proposals and attend to shareholder grievances.

### Distribution of Shareholding

Table 7: Distribution of shareholding as on 31" March, 2007

| Number of shares | No of shareholders | % of shareholders | Total shares | % of shares |
|------------------|--------------------|-------------------|--------------|-------------|
| 1 to 5000        | 18,635             | 96.85%            | 1,067,861    | 3.81%       |
| 5001 to 10000    | 251                | 1.30%             | 206,688      | 0.74%       |
| 10001 to 20000   | 137                | 0.71%             | 207,512      | 0.74%       |
| 20001 to 30000   | 59                 | 0.31%             | 156,580      | 0.56%       |
| 30001 to 40000   | 27                 | 0.14%             | 98,910       | 0.35%       |
| 40001 to 50000   | 28                 | 0.15%             | 135,973      | 0.49%       |
| 50001 to 100000  | 31                 | 0.16%             | 229,596      | 0.82%       |
| 100001 & above   | 73                 | 0.38%             | 25,917,466   | 92.49%      |
| Total            | 19,241             | 100.00%           | 28,020,586   | 100.00%     |

#### Shareholding Pattern

#### Table 8: Shareholding pattern as on 31st March, 2007

| Category of Shareholders        | No. of Equity Shares | Share Held (%) |
|---------------------------------|----------------------|----------------|
| Promoter & Promoter group       | 13,200,380           | 47.11%         |
| Mutual Fund/UTI                 | 921,585              | 3.29%          |
| Financial Institutions/Banks    | 90                   | 0.00%          |
| Insurance Companies             | 27,855               | 0.10%          |
| Foreign Institutional Investors | 2,389,883            | 8.05%          |
| Bodies Corporate                | 6,798,462            | 24.34%         |
| Individuals                     | 4,560,683            | 16.58%         |
| Foreign Nationals               | 50                   | 0.00%          |
| NRIS                            | 116,616              | 0.45%          |
| Clearing Members                | 4,982                | 0.08%          |
| Total                           | 28,020,586           | 100.00%        |

# **Dematerlisation of Shares**

As on 31st March 2007, 68% of the total Equity Capital was held in dematerialized form with National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL).

### Outstanding GDRs/ADRs/Warrants/Options

NIL

#### **Plant Location:**

Gat No. 856 to 860, Chakan Ambethan Road, Tal. Khed, Dist. Pune - 410 501. Maharashtra

#### Address for Correspondence

Shareholders may correspond with the Registrar and Transfer Agents at:

#### M/s. Karvy Computershare Pvt. Ltd.

Unit: Mahindra Forgings Limited 'Karvy House' 46 Avenue IV

Street No. 1, Banjara Hills, Hyderabad - 500 034.

Tel. No. 040-23420818 Fax No. 040-23420814 E-mail krishnans@karvy.com

on all matters relating to transfer/dematerialisation of shares, payment of dividend and any other query relating to shares of the Company. Shareholders would have to correspond with the respective Depository Participants for shares held in demat mode.

For all investor related matters, Company Secretary & GM - Legal can be contacted at Gat No. 856 to 860, Chakan Ambethan Road, Taluka; Khed, District: Pune - 410501. Tel No. 02135 663307' Fax No. 02135 663335 e-mail: krishnan.shankar@mahindra.com. The website of the Company is: http://www.mahindraforgings.com.

#### OTHER DISCLOSURES

## **General Body Meetings**

Tables 9 and 10 give the details of the last three years' General Meetings.

Table 9: Annual General Meetings held during the past three years

| Year | Date                        | Time       | Special Resolution passed   |
|------|-----------------------------|------------|---|
| 2004 | 28 <sup>th</sup> July, 2004 | 11.00 a.m. | NIL   |
| 2005 | 28 <sup>th</sup> July, 2005 | 11.00 a.m. | NIL   |
| 2006 | 19 <sup>th</sup> May, 2006  | 11.00 a.m. | Change of name of the Company from 'Mahindra<br>Automotive Steels Limited.' to 'Mahindra Forgings Ltd'. |

#### Table 10: Extra-ordinary General Meetings held during the past three years

| Year | Date                            | Time       | Special Resolution passed  |
|------|---------------------------------|------------|--|
| 2005 | 19 <sup>th</sup> April, 2005    | 11.00 a.m. | Alteration of Memorandum of Association     Commencement of Business   |
| 2005 | 12 <sup>th</sup> December, 2005 | 10.00 a.m. | i. Loans to companies/investment of surplus funds  |
| 2006 | 24 <sup>th</sup> March, 2006    | 2.00 p.m.  | <ol> <li>Alteration of Articles of Association</li> <li>Conversion from Private Limited to a Public Limited Company,</li> <li>Adoption of new set of Articles</li> <li>Change in name of the Company from 'Mahindra Automotive Steels Private Limited' to 'Mahindra Automotive Steels Limited'.</li> </ol> |

All the meetings were held at Mahindra Towers, P. K. Kurne Chowk, Worli, Mumbai - 400 018.

#### **Postal Ballot**

No resolutions were passed by postal ballot in the year under review. No special resolution is proposed to be conducted through Postal Ballot.

## Compliance

#### Mandatory requirements

e Company is fully compliant with the applicable mandatory requirements of the Clause 49.

#### Adoption of non-mandatory requirements

Although it is not mandatory, the Board of MFL has constituted a Remuneration/ Compensation Committee. Details of the Committee have been provided under the Section 'Committees of the Board'. Additionally, the Company's financial statements are free from any qualifications by the Auditors.

The Company has not adopted the other non-mandatory requirements as specified in Annexure ID of Clause 49.

#### DECLARATION BY THE MANAGING DIRECTOR UNDER CLAUSE 49 OF THE LISTING AGREEMENT

To, The Members of Mahindra Forgings Limited

I, S. Ravindran, Managing Director of Mahindra Forgings Limited declare that all the Members of the Board of Directors and Senior Management Personnel have affirmed compliance with the Codes of Conduct.

S. Ravindran Managing Director

Mumbai, 26th April, 2007

#### CERTIFICATE

To

The Members of Mahindra Forgings Limited

We have examined the compliance of conditions of Corporate Governance by Mahindra Forgings Limited, for the year ended 31st March, 2007, as stipulated in Clause 49 of the Listing Agreement of the said Company with stock exchange in India.

The compliance of condition of Corporate Governance is the responsibility of the Management. Our examination was limited to procedures and implementation thereof, adopted by the Company for ensuring the compliance of the conditions of Corporate Governance. It is neither an audit nor an expression of opinion of the financial statements of the Company.

In our opinion and to the best of our information and according to the explanations given to us, we certify that the Company has complied with the conditions of Corporate Governance as stipulated in the above mentioned listing agreement.

We state that in respect of investor grievance received during the year 31st March, 2007, no investor grievances are pending against the Company as per records maintained by the Company and presented to the Shareholders' / Investors' Grievance Committee of the Company.

We further state such compliance is neither an assurance as to the future viability of the Company nor the efficiency or effectiveness will which the management has conducted the affairs of the Company.

For B.K. Khare & Co Chartered Accountant

Padmini Khare Kaicke Partne M.No. 4478

# **AUDITORS' REPORT**

# The Members of Mahindra Forgings Limited,

We have audited the attached Balance Sheet of Mahindra Forgings Limited as at 31st March 2007, and also the Profit and Loss Account and the Cash Flow Statement for the year ended on that date annexed thereto. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

- As required by the Companies (Auditor's Report) Order, 2003, issued by the Central Government of India, in terms of subsection (4A) of Section 227 of the Companies Act, 1956, we enclose in the Annexure a statement on the matters specified in the paragraphs 4 and 5 of the said Order.
- Further to our comments in the Annexure referred to above, we report that:
  - We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit;
  - b) In our opinion, proper books of account as required by law have been kept by the Company so far as appears from our examination of the books and proper returns adequate for the purposes of our audit have been received from the branches not visited by us;

- The Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report are in agreement with the books of account;
- d) In our opinion, the Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report comply with the Accounting Standards referred to in sub-section (3C) of Section 211 of the Companies Act, 1956;
- e) On the basis of the written representations received from the Directors as on 31st March, 2007 and taken on record by the Board of Directors, we report that none of the Directors is disqualified as on 31st March, 2007 from being appointed as Director in terms of clause (g) of sub-section (1) of Section 274 of the Companies Act, 1956 on the said date:
- f) In our opinion, and to the best of our information and according to the explanations given to us, the said accounts, read together with the Company's Accounting Policies and the Notes thereto, give the information required by the Companies Act, 1956 in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:
  - in the case of the Balance Sheet, of the state of affairs of the Company as on 31st March, 2007;
  - ii) in the case of the Profit and Loss Account, of the Loss of the Company for the year ended on that date; and
  - iii) in the case of Cash Flow Statement, of the cash flows for the year ended on that date.

For B.K. Khare & Co. Chartered Accountants

Padmini Khare Kaicker Partner M.No. 44784

# ANNEXURE TO THE AUDITORS' REPORT

#### Referred to in paragraph 1 of our Report of even date:

- (a) The Company is maintaining proper records showing full particulars including quantitative details and situation of fixed assets.
  - (b) All major assets have been physically verified by the management during the year. There is a regular programme of verification, which in our opinion, is reasonable having regard to the size of the Company and the nature of its assets. As explained to us, no material discrepancies were noticed on verification.
  - (c) During the year, Company has not disposed of any substantial/ major part of fixed assets.
- (a) The Management has conducted physical verification of inventory at reasonable intervals. In respect of inventories lying with third parties, confirmations have been received in respect of major portion of such inventories. In our opinion, the frequency of verification is reasonable.
  - (b) In our opinion and according to the information and explanations given to us, the procedures of physical verification of inventory followed by the management were found reasonable and adequate in relation to the size of the Company and the nature of its business.
  - (c) In our opinion and according to the information and explanations given to us and on the basis of our examination of the records of inventory, the Company is maintaining proper records of inventory. The discrepancies noticed on physical verification of inventory as compared to the book records were not material and have been properly dealt with in the books of account.
- iii. According to the information and explanations given to us and to the best of our knowledge, the Company has neither granted nor taken any loans, whether secured or unsecured to/from companies, firms or other parties covered in the Register maintained under Section 301 of the Companies Act, 1956.
- iv. In our opinion and according to the information and explanations given to us, there are adequate internal control procedures commensurate with the size of the Company and nature of its business with regard to the purchase of inventory and sale of goods and services. However, internal control with regard to the purchase of fixed assets needs to be strengthened. During the course of our audit, no major weakness has been noticed in the internal controls.
- v (a) In our opinion and according to the information and explanations given to us, the particulars of contracts or arrangements referred to in section 301 of the Act have been entered in the register required to be maintained under that section.
  - (b) In our opinion and according to the information and explanations given to us, the transactions have been made at prices which are prima facie reasonable having regard to the prevailing market prices at the relevant time.

- vi. In our opinion and according to the information and explanations given to us, the Company has not accepted any deposits from the public within the meaning of Section 58A and 58AA and any other relevant provisions of the Companies Act, 1956.
- vii. In our opinion, the company has an internal audit system commensurate with its size and nature of its business.
- viii. We have broadly reviewed the books of accounts maintained by the Company relating to the manufacture of forgings pursuant to the rules made by the Central Government for the maintenance of cost records under Section 209(1) (d) of the Companies Act, 1956 and are of the opinion that prima facie the prescribed accounts and records have been maintained. We have not, however, made a detailed examination of the records with a view to determine whether they are accurate or complete.
- ix (a) According to the records of the Company and information and explanations given to us, the Company has been generally regular in depositing undisputed statutory dues including Provident Fund, Investor Education and Protection Fund, Employees' State Insurance, Income-Tax, Sales-Tax, Wealth-Tax, Service-Tax, Customs Duty, Excise Duty, cess and other material statutory dues with the appropriate authorities during the year. However, there has been a delay in depositing Property Tax of Local Authority and TDS on Works Contract under Maharashtra VAT Act. According to information and explanations given to us, there are no arrears of outstanding statutory dues as mentioned above as at 31st March 2007 for a period of more than six months from the date they became payable.
  - (b) As on 31<sup>st</sup> March 2007, according to the records of the Company and information and explanations given to us, following are particulars of disputed dues on account of excise duty and cess that have not been deposited.

| Name<br>of<br>statute    | Nature<br>of<br>dues | Amt.<br>in Rs.<br>lakhs | Period to<br>Which Amt.<br>Related | Forum Where<br>Pending |
|--------------------------|----------------------|-------------------------|------------------------------------|------------------------|
| Central<br>Excise<br>Act | Excise<br>duty       | 24.00                   | 2003-04                            | CESTAT, Mumbai         |
| Central<br>Excise<br>Act | Excise<br>duty       | 60.98                   | 2003-04                            | CESTAT, Mumbai         |

- x. The Company has accumulated losses, as at the end of the year, which are not more than 50% of its net worth as on 31.3.07. The Company has not incurred any cash losses in the current and the immediately preceding financial year.
- xi. Based on our audit procedures and on the basis of information and explanations given by the management, we are of the opinion that the Company has not defaulted in the repayment of dues to financial institutions and banks.

- xii. According to the information and explanations given to us, the Company has not granted any loans and advances on the basis of security by way of pledge of shares, debentures and other securities.
- xiii. In our opinion and according to the information and explanations given to us, the nature of activities of the Company does not attract any Special Statute applicable to Chit Fund, Nidhi or Mutual Benefit Fund/Societies.
- xiv. The company is not dealing or trading in shares, securities or any other investments.
- xv. According to the information and explanations given to us, the Company has not given any guarantee for loans taken by others from banks and financial institutions, except against loans including interest thereon amounting to Rs.139.79 lakhs for which the company has made adequate provision in the books of account in view of the likely default by the principal debtor.
- xvi. As informed to us the term loans availed by the Company were applied for the purposes for which the loans were obtained.
- xvii.According to information and explanation given to us, on an overall examination of the balance sheet and the Cash Flow Statement of the company, we report that funds raised on short

- term basis have, prima facie, not been used during the year for long term investment.
- xviii. The Company has not made any preferential allotment to parties and companies covered under register maintained under Section 301 of the Companies Act, 1956.
- xix. According to the information and explanations given to us, the company has not issued any debentures during the year.
- xx. The Company has not raised money by making any public issues during the year and hence the question of disclosure and verification of end use of such money does not arise.
- xxi. To the best of our knowledge and belief and according to the information and explanations given to us, no fraud on or by the Company was noticed or reported during the year.

For B.K. Khare & Co. Chartered Accountants

Padmini Khare Kaicker
Partner
M.No. 44784

Membership No. 44784

Mumbai, 26th April, 2007

# Balance Sheet as at 31st March, 2007

|       |   | ,                                       |            | 2007                           | 2006                                    |
|-------|---|---|------------|--------------------------------|---|
|       |   |   | Schee      | dule (Rs. in lakhs)            | (Rs. in lakhs)                          |
| l.    | SOURCES OF FUNDS:                       |   |            |                                |   |
|       | SHAREHOLDER'S FUNDS                     | <b>3</b> :                              |            |                                |   |
|       | Share Capital                           |   | 1          | 2,802.06                       | 822.19                                  |
|       | Share Capital Suspense                  |   | 1 <b>A</b> |                                | 6,076.26                                |
|       | Share Application Money                 |   |            | -                              | 4,850.00                                |
|       | Reserve & Surplus                       |   | 2          | 11,480.99                      | 7,178.81                                |
|       | Deferred Tax Liability                  |   |            | 158.40                         |   |
|       |   | Total                                   |            | 14,441.44                      | 18,927.26                               |
|       | LOAN FUNDS                              |   |            |                                |   |
|       |   | *************************************** | 3          | 8,013.87                       | 4,663.8                                 |
|       |   |   | 4          | 1,994.65                       | 2,496.0                                 |
|       |   |   | ·          | 10,008.52                      | 7,159.94                                |
|       |   | Total                                   |            | 24,449.97                      | 26,087.20                               |
|       |   | 10tai                                   |            | <del></del>                    | 20,087.20                               |
| I.    | APPLICATION OF FUNDS                    | <b>:</b>                                |            |                                |   |
|       | FIXED ASSETS                            |   |            |                                |   |
|       | Gross Block                             | **********************************      |            | 19,669.36                      | 14,947.64                               |
|       | Less : Depreciation                     |   |            | 5,606.92                       | 3,094.23                                |
|       | Net Block                               |   |            | 14,062.44                      | 11,853.41                               |
|       | Capital Work in Progress                | *************************************** |            | 4,127.02                       | 4,324.15                                |
|       | Total Fixed Assets                      |   | 5          | 18,189.46                      | 16,177.56                               |
|       | INVESTMENTS                             |   | 6          | 558.19                         | 275.73                                  |
|       | NET CURRENT ASSETS                      |   |            |                                |   |
|       | Current Assets                          | *************************************** | 7          | 5,573.99                       | 14,105.84                               |
|       | Loans & Advances                        |   | 8          | 964.63                         | 1,045.92                                |
|       |   |   |            | 6,538.61                       | 15,151.76                               |
|       | Less : Current Liabilitie               | es & Provisions                         | 9          | <u>3,484.14</u>                | 6,712.58                                |
|       |   |   |            | 3,054.47                       | 8,439.1)                                |
|       |   | (To the extent not                      |            | 200.00                         | _                                       |
|       |   | efer Note B-22 of Sch. 15)              |            | 2,447.85                       | 1,194.73                                |
|       | Tom & Loop Hoodin IIII                  |   |            | 24,449,97                      | 26,087.20                               |
|       |   |   |            |                                | ======================================= |
| TOM   | TES TO ACCOUNTS                         |   | 15         |                                |   |
| As p  | er our Report of even date              |   |            | For and on behalf of the Board | of Directors                            |
| For I | For B. K. Khare & Company Hemant Luthra |   | <b>\</b>   | Anand Mahindra                 | Chairman                                |
| Chai  | rtered Accountants                      | Zhooben Bhiwandiwala<br>R. R. Krishnan  |            | Sankaran Ravindran             | Managing Director                       |
| Pad:  | mini Khare Kaicker                      | Mohit Burman<br>Nikhilesh Panchal       | Directors  |                                | hief Financial Officer                  |
|       | tner)                                   | Virendra Kumar Chanana                  |            | waity take C/                  | по гланиа Опсе                          |
|       | L Li- N- 44704                          |   |            |                                |   |

Fali P. Mama

Company Secretary & GM - Legal

Krishnan Shankar

# Profit & Loss Account for the year ended 31st March, 2007

| Chartered Accountants  Padmini Khare Kaicker | wixy            | Zhooben Bhiwandiwala R. R. Krishnan Mohit Burman Nikhilesh Panchal | Directors | Sankaran Ravi  | indran                | Managing Director      |
|--|-----------------|--|-----------|----------------|-----------------------|------------------------|
| As per our Report of ever                    |                 | Hemant Luthra  |           | For and on beh | alf of the Board      | of Directors  Chairman |
| NOTES TO ACCOUN                              | rs              |  | 15        |                |                       |                        |
| Diluted                                      |                 |  |           |                | (4.97)                | (4.60)                 |
| <u>.</u> .                                   |                 | ······································                             |           |                | (4.97)                | (19.37)                |
|  |                 | e)   |           |                |                       |                        |
| FARNINGS DER                                 | SHARE (Note     | B-25 of Sch 15)  |           |                |                       |                        |
|  | & Loss Accou    | nt carried to Balance Sheet .                                      |           | =              | (2,447.85)            | (1,194.73)             |
|  |                 | nt brought forward   |           | -              | (1,194.73)            | 4                      |
|  | •               |  |           |                | (1,253.11)            |                        |
| Less: Prior Peri                             | od Expenses (   | (net) (Note B-27 of Sch 15)  |           | _              | 35.26                 |                        |
| Profit / (Loss) aft                          | er Tax          |  |           | _              | (1,217.85)            | (1,194.73)             |
|  |                 |  |           | -              | 10.20                 | 12.33                  |
|  |                 |  |           |                | 176.57                |                        |
|  |                 |  |           |                | 43.50                 |                        |
| Profit / (Loss) bef                          | ore tax         |  |           |                | (987.58)              | (1,182.40)             |
|  |                 | Note B-2 of Sch 15)<br>Note B-28 of Sch 15)                        |           | _              | 1,738.53<br>44.71     | 919.23                 |
| Profit Before Goo                            | dwill, Contingo | ency Provision & Tax   |           |                | 795.66                | (263.17)               |
| <b>V</b>                                     |                 |  |           | _              | 20,905.24             | 20,689.23              |
|  |                 |  |           |                | 841.19                | 534.68                 |
| ·  |                 |  |           |                | 752.69                | 872.23                 |
| •  |                 |  |           |                | 1,035.07<br>5,677.04  | 828.11<br>5,892.45     |
|  |                 |  |           |                | 12,599.25             | 12,561.76              |
|  |                 |  |           | =              | 21,700.90             | 20,426.06              |
|  |                 |  |           |                | 561.10                | 534.07                 |
|  | -               |  |           | -              | 21,139.80             | 19,891.99              |
| Gross Sales                                  |                 |  |           |                | 24,587.75<br>3,447.94 | 23,160.43<br>3,268.44  |
| I INCOME                                     |                 |  | 300       | edule (        | ns. III lakiisj       | (HS. III IAKIIS)       |
|  |                 | ,  | Sch       | edule (        | 2007<br>Rs. in lakhs) | 2006<br>(Rs. in lakhs) |

Krishnan Shankar

Company Secretary &

GM - Legal

Virendra Kumar Chanana

Fali P. Mama

(Partner)

Membership No. 44784

# Cash Flow Statement for the year ended 31st March, 2007

| Add. : Adjustments for         Depreciation / Amortisation       2,579.7       5         Provision for doubtful debts/ Write off's       72.86       3         Interest (Expenses)       752.69       8         Leave encashment       1.14       4.82         Contingency       (779.44)       5         Misc Expenses Write Off       (200.00)       5         Sub-Total       1,408.94       1,5         Less : Adjustments for  | akhs)<br>2.40)<br>34.67 |
|---|-------------------------|
| Profit/(Loss) before tax after prior period adjustments       (1,022.85)       (1,13         Add. : Adjustments for       Depreciation / Amortisation   | ·                       |
| Add.: Adjustments for       2,579.7       5         Depreciation / Amortisation       2,579.7       5         Provision for doubtful debts/ Write off's       72.86       3         Interest (Expenses)       752.69       8         Leave encashment       1.14         Gratuity       4.82       4.82         Contingency       (779.44)       5         Misc Expenses Write Off       (200.00)       1,408.94       1,5         Less: Adjustments for       193.63       3 | ·                       |
| Depreciation / Amortisation       2,579.7       5         Provision for doubtful debts/ Write off's       72.86       3         Interest (Expenses)       752.69       8         Leave encashment       1.14       4.82         Contingency       (779.44)       9         Misc Expenses Write Off       (200.00)       1,408.94       1,5         Less: Adjustments for       193.63       3   | 34. <del>6</del> 7      |
| Provision for doubtful debts/ Write off's         72.86         3           Interest (Expenses)         752.69         8           Leave encashment         1.14           Gratuity         4.82           Contingency         (779.44)         9           Misc Expenses Write Off         (200.00)           Sub-Total         1,408.94         1,5           Less: Adjustments for         193.63         3  | 34.67                   |
| Interest (Expenses)       752.69       8         Leave encashment       1.14         Gratuity       4.82         Contingency       (779.44)       9         Misc Expenses Write Off       (200.00)         Sub-Total       1,408.94       1,5         Less: Adjustments for       193.63       3  |                         |
| Leave encashment       1.14         Gratuity       4.82         Contingency       (779.44)         Misc Expenses Write Off       (200.00)         Sub-Total       1,408.94       1,5         Less: Adjustments for       193.63       3   | 86.67                   |
| Gratuity       4.82         Contingency       (779.44)         Misc Expenses Write Off       (200.00)         Sub-Total       1,408.94       1,5         Less: Adjustments for       193.63       3   | 41.40                   |
| Contingency   | 4.32                    |
| Misc Expenses Write Off   | 7.97                    |
| Sub-Total   | 19.23                   |
| Less : Adjustments for  Interest / Dividend Income  | 20.91                   |
| Interest / Dividend Income  | 32.86                   |
|   |                         |
| Profit on sale of Fixed Assets  | 77.93                   |
|   | -                       |
| Profit /(Loss) on sale of investment  | 16,77                   |
| Credit Balances Written Back  | -                       |
| Sub-Total   | 94. 🚺                   |
| Operating Profit before Working Capital changes   | 38.16                   |
| Adjustments for   |                         |
| Trade & Other receivables   | 6.84)                   |
| Inventories   | 46.47                   |
| Trade Payables  | 66.94                   |
| Other Liabilities   | 57.42                   |
| Loans & advances  | 8.26)                   |
| Cash generated from Operations  | 15.73                   |
| Direct Taxes Paid   | 7.00)                   |
| Net cash from Operating Activities  |                         |

# Cash Flow Statement (Contd..)

|      |  | 2007<br>(Rs. in lakhs) | 2006<br>(Rs. in lakhs) |
|------|--|------------------------|------------------------|
| В.   | CASH FLOW FROM INVESTING ACTIVITIES                  | (113. III lakiis)      | (1 to. III laki19)     |
|      | Purchase of Fixed Assets                             | (4,658.00)             | (4,614.20)             |
|      | Sale of Fixed Assets                                 | 133.56                 | <u></u> .              |
|      | Purchase of Investments                              | (282.46)               | (275.73)               |
|      | Profit / (Loss) on sale of investment                | 111.62                 | 116.77                 |
|      | Interest Dividend received                           | 193.63                 | 377.93                 |
| 2000 | Net Cash from investing Activities                   | (4,501.65)             | (4,395.23)             |
| Ų.   | CASH FLOW FROM FINANCING ACTIVITIES                  |                        |                        |
|      | Term Loans   | 3,110.28               | (294.75)               |
| i    | Issue of Share Capital                               | <del>-</del> .         | 12,849. <b>99</b>      |
| *.   | Share Issue Expenses                                 | (68.15)                |                        |
|      | Redemption of Preferance Share                       | (4,545.37)             |                        |
|      | Working Capital Loan                                 | 239.73                 | (370.24)               |
|      | Repayment of Unsecured Loans                         | (501.43)               | (240.64)               |
|      | Interest Paid  | (752.69)               | (841.49)               |
|      | Net Cash from Financing Activities                   | (2,517.63)             | 11,102.87              |
|      | Net ((Decrease)/Increase) in Cash & Cash equivalents | (8,309.91)             | 8,564.54               |
| A    | Opening Cash / Bank Balances                         | 8,716.80               | 152.27                 |
| ***  | Closing Cash / Bank Balances                         | 406.89                 | 8,716. <b>80</b>       |
|      |  |                        |                        |

#### Note:

1. The Cash Flow has been prepared under the "Indirect method" as set out in Accounting Standard 3 on Cash Flow statement issued by Institute of Chartered Accountants of India.

For and on behalf of the Board of Directors

Company Secretary &

GM - Legal

Krishnan Shankar

2. Cash and cash equivalents represents cash and bank balances only.

Fall P. Mama

| ·                         |                        |           |                    |                         |
|---------------------------|------------------------|-----------|--------------------|-------------------------|
| For B. K. Khare & Company | Hemant Luthra          | 1         | Anand Mahindra     | Chairman Chairman       |
| Chartered Accountants     | Zhooben Bhiwandiwala   |           |                    |                         |
|                           | R. R. Krishnan         |           | Sankaran Ravindran | Managing Director       |
|                           | Mohit Burman           | Directors |                    |                         |
| Padmini Khare Kalcker     | Nikhilesh Panchal      | ĺ         | Manoj Jain         | Chief Financial Officer |
| (Partner)                 | Virendra Kumar Chanana |           | •                  |                         |

Mumbai, 26th April, 2007

Membership No. 44784

As per our Report of even date

# Schedule Annexed to and forming part of financial statements as at 31st March, 2007

| SCHEDULE 1  |                  |                  |
|---|------------------|------------------|
|   | 2007             | 2006             |
| Share Capital   | Rupees in Lakhs  | Hupees in Lakins |
| Authorised Capital:   |                  |                  |
| 3,30,00,000 (PY 3,30,00,000) Equity shares of Rs 10/- each            | 3,300.00         | 3,300.00         |
| 1,48,20,206 (PY 1,48,20,206) 4% Non Cumulative Redeemable             | 4,594.26         | 4,594.26         |
| Total   | 7,894.26         | 7,894.26         |
| Issued, Subscribed and Paid-up :                                      |                  |                  |
| 280,20,586 Equity shares (P Y 82,21,936) of Rs 10/-each fully paid up | 2,802.06         | 822.19           |
|   | 2,802.06         | 822.19           |
| SCHEDULE 1A   |                  |                  |
| Share Capital Suspense :  |                  |                  |
| 1,48,20,206 Equity shares of Rs 10 each                               | _                | 1,482.00         |
| 1,48,20,206 4% Preference shares of Rs 31 each                        |                  | 4,594.26         |
| Issued & redeemed to the shareholders of Amforge Industries Ltd in    |                  |                  |
| pursuance of the Scheme of Arrangement of Demerger approved by        |                  | 3                |
| The High Court of Mumbai. (Refer Note B-1(b) of Sch 15)               | ·                |                  |
| Total   |                  | 6,076.26         |
| SCHEDULE 2  |                  |                  |
| Reserve & Surplus :   |                  |                  |
| Share Premium Account   | 7,178.81         | _                |
| Additions During the year   | 4,370.33         | 7,178.81         |
| Utilised for writing off - Share Issue Expenses                       | (68.15)          | <del>-</del>     |
| ( Refer note B-1(a) of Sch 15) Total                                  | 11 400 00        | 7 170 0~         |
| iotai   | <u>11,480.99</u> | 7,178.8          |
| SCHEDULE 3  |                  |                  |
| Secured Loans :   |                  |                  |
| Term Loan from Banks  | 5,433.84         | 2,200.96         |
| Term Loans from Financial Institutions                                | 772.54           | 895.14           |

| <b>SCHEDULE</b> | 4 |
|-----------------|---|

(amount repayable within one year Rs. 150.02 PY Rs. 509.82)

Working Capital Loan from Banks (Note B-3 of Sch 15)

| Unsecured Loans :            |          |          |
|------------------------------|----------|----------|
| Interest free sales tax loan | 1,994.65 | 1,994.65 |
| Short term Loan from Banks   | _        | 501.43   |
| Total                        | 1,994.65 | 2,496.08 |

1,807.49

8,013.87

1,567.76

4,663.86

# Schedule Annexed to and forming part of financial statements as at 31st March, 2007

# SCHEDULE 5

# Fixed Assets

Rupees (Lakhs)

| Description                          |                  | Gros      | s Block                          |                  |                     | Depreciation Net Block |             |                     |                  | 3lock               |
|--------------------------------------|------------------|-----------|----------------------------------|------------------|---------------------|------------------------|-------------|---------------------|------------------|---------------------|
|                                      | As on 01/04/2006 | Additions | Deductions<br>and<br>Adjustments | As at 31/03/2007 | As on<br>01/04/2006 | For the year           | Adjustments | As on<br>31/03/2007 | As on 31/03/2007 | As on<br>01/04/2006 |
| Freehold Land                        | 51.74            |           | 14.21                            | 37.53            | _                   |                        | _           | -                   | 37.53            | 51.74               |
| Building                             | 960.11           | 673.57    | 23.74                            | 1,609.94         | 186.21              | 49.02                  | 4.26        | 230.96              | 1,378.97         | 773.90              |
| Plant & Machinery                    | 5,079.72         | 4,051.88  | 80.01                            | 9,051.59         | 2,870.23            | 759.27                 | 52.30       | 3,577.19            | 5,474.39         | 2,209.49            |
| Furniture & Fittings                 | 105.37           | 60.50     | 7.00                             | 158.87           | 31.60               | 10.89                  | 7.00        | 35.48               | 123.39           | 73.77               |
| Vehicles                             | 58.06            | 23.16     | 8.44                             | 72.77            | 6.19                | 6.68                   | 3.46        | 9.41                | 63.36            | 51.87               |
| Sub Total (a)                        | 6,255.00         | 4,809.11  | 133.41                           | 10,930.70        | 3,094.23            | 825.85                 | 67.03       | 3,853.05            | 7,077.65         | 3,160.77            |
| Intangible Assets                    |                  |           |                                  |                  |                     |                        |             |                     | <u> </u>         |                     |
| Goodwill                             | 8,692.64         | _         | -                                | 8,692.64         | -                   | 1,738.53               | _           | 1,738.53            | 6,954.11         | 8,692.64            |
| Software                             | _                | 46.02     | ~                                | 46.02            | _                   | 15.34                  |             | 15.34               | 30.68            | -                   |
| Sub Total (b)                        | 8,692.64         | 46.02     | 1                                | 8,738.66         | _                   | 1,753.87               | _           | 1,753.87            | 6,984.79         | 8,692.64            |
| Grand Total (a +b)                   | 14,947.64        | 4,855.13  | 133.41                           | 19,669.36        | 3,094.23            | 2,579.72               | 67.03       | 5,606.92            | 14,062.44        | 11,853.41           |
| Previous Year                        | 14,473.86        | 473.78    | 0                                | 14,947.64        | 2,559.55            | 534.68                 | 0           | 3,094.23            | 11,853,41        | 11,914.31           |
| CAPITAL WORK-IN-PE                   | ROGRESS          |           |                                  |                  | <u> </u>            |                        |             |                     |                  |                     |
| Plant & Machinery                    |                  |           |                                  | İ                |                     |                        | ,           |                     | 2,993.63         | 3,696.64            |
| Building                             |                  |           |                                  |                  |                     |                        |             |                     | 489.16           | 312.53              |
| Furniture                            |                  |           |                                  |                  |                     |                        |             |                     | 65.80            | ~                   |
| Capital Advance                      |                  |           |                                  |                  |                     |                        |             |                     | 91.33            | 298.18              |
| Finance Cost                         |                  |           |                                  |                  |                     |                        |             |                     | 17.03            | 16.80               |
| Other expenditure pending allocation |                  |           |                                  |                  |                     |                        |             |                     | 308,86           | 0                   |
| SAP implementation                   |                  |           | _                                |                  |                     |                        | _           |                     | 161.21           | 0                   |
| Total CWIP                           |                  |           |                                  |                  |                     |                        |             |                     | 4,127.02         | 4,324.15            |
| Total Fixed Assets                   |                  |           |                                  |                  |                     |                        |             |                     | 18,189.46        | 16,177.56           |

Note:

Other expenditure pending allocation includes salary, fees of project management consultants, power charges, foreign travel expenses etc. SAP implementation include related salary, professional fees and cost of licenses.

# SCHEDULE 6

|   | 2007<br>Rupees in Lakhs | 2006<br>Rupees in Lakhs |
|---|-------------------------|-------------------------|
| Investments:  |                         |                         |
| Long Term Investments (Non Trade, unquoted, valued at cost) 50 fully paid up shares of Rs 10 each in The Saraswat Co-operative Bank Ltd (Previous year 50 shares) | 0.01                    | 0.01                    |
| Current Investments   |                         |                         |
| 51487 units of face value of Rs. 1000 each of Frenklin Templeton Mutual Fund (Previous year Nil)  | 558.19                  | <del>-</del>            |
| Nil units of face value of Rs. 10 each in Standard Chartered  | _                       | 275.72                  |
| Mutual Fund (Previous year 2726814 units)   | 558.19                  | 275.73                  |

Market Value of Investments Rs. 570.45 (Previous Year 276.11)

Movement of Investments during the year:

Franklin Templeton MF 360004 units Std. Chartered MF-Plus 327609 units

# Schedule Annexed to and forming part of financial statments as at 31st March, 2007

| SCHEDULE 7  | 2007                    | 2006             |
|---|-------------------------|------------------|
| Current Assets  | Rupees in Lakhs         | Rupees in Lakhs  |
| Inventories [Refer Note A-(v) of Sch.15]                    |                         |                  |
| (Valued at Cost or net realisable value whichever is lower) |                         |                  |
| Raw Material & Components                                   | 1,038.01                | 1,814.29         |
| Work-in-progress  | 372.59                  | 378.39           |
| Stores & Spares   | 278.84                  | 189.11           |
| Die steel blocks  | 175.38                  | 100.72           |
| Scrap   | -<br>405 FC             | 2.94             |
| Finished Goods  Dies (at cost less amortisation/write off)  | 185.56<br>319.71        | 528.72<br>604.93 |
| Dies for cost less quick resourchatte on)                   | 313.71                  | 004.93           |
| Total   | 2,370.09                | 3,619.10         |
| Sundry Debtors (Unsecured)                                  |                         |                  |
| Outstanding over six months                                 |                         |                  |
| Considered Good   | 70.22                   | <b>229.97</b>    |
| Considered Doubtful   | 107.04                  | <u> 178.05</u>   |
|   | 177.26                  | 408.02           |
| Other Debts Considered Good                                 | 2,726.79                | 1,539.97         |
| Less - Provision for doubtful debts                         | 107.04                  | 178.05           |
| Total   | 2,797.01                | 1,769.94         |
| Cash & Bank Balances  |                         |                  |
| Cash on hand  | 3.64                    | 3.89             |
| Balances with Scheduled Banks:                              |                         |                  |
| In Current account  | 126.27                  | 128.16           |
| In Fixed Deposit account                                    | 48.37                   | 8,477.96         |
| In Margin money Deposit account                             | 228.61                  | 106.79           |
|   | 406.89                  | <u>8,716.80</u>  |
| Total   | 5,573.9 <del>9</del>    | 14,105.84        |
| SCHEDULE 8  |                         | <del> </del>     |
| Loans and Advances  |                         |                  |
| (Unsecured, considered good)                                |                         |                  |
| Advances recoverable in cash or kind or for                 | 203.83                  | <b>263.67</b>    |
| value to be received.                                       |                         |                  |
| Balance with Excise/Custom/Sales tax autorities             | 474.69                  | 493.25           |
| Deposits  | 195.30                  | 204.33           |
| Advance Income Tax ( Net of Provision)                      | 90.80                   | <u>84.67</u>     |
| Total   | 964.63                  | 1,045.92         |
| SCHEDULE 9  |                         |                  |
| Current Liabilities & Provisions                            |                         |                  |
|   |                         |                  |
| Current Liabilities   | 0.440.07                | E 44E 00         |
| Sundry Creditors (Refer Note B-7 & 20 of Sch 15)            | <b>2,149.27</b><br>6.12 | 5,115.39         |
| Other Liabilities   | 1,096.02                | 31.36<br>559.62  |
| Ource Leavings  |                         |                  |
| Provisions  | 3,251.42                | 5,706.37         |
| Gratuity  | 69.78                   | 64.96            |
| Leave Encashment  | 23.16                   | 22.02            |
| Contingencies   | 139.79                  | 919.23           |
|   | 232.73                  | <del> </del>     |
|   |                         | 1,006.21         |
| Total   | 3,484.14                | 6,712.58         |
|   |                         |                  |

# Schedule Annexed to and forming part of financial statments as at 31st March, 2007

| Other Income         Rupees in Lakhs         Popular intenset on deposits         190.58         377.93           (TOS Rs 40.89 (P Y Rs. 84.67))         3.04         190.58         377.93           (TOS Rs 40.89 (P Y Rs. 84.67))         3.04         111.52         116.77           Profit on sale of Shord Frem Invostments         111.52         116.77           Profit on sale of Flazed Assets (net)         377.36         39.37           Credit Balances Written Back         151.37         39.37           Miscellaneous Income         12,247.38         35.407           SCHEDULE 11           Material Consumption           Paw Material and Consumption         12,247.35         12,237.21           Increased (Decrease) in Stocks         378.39         573.50           Scrap         378.39         573.50           Scrap         378.39         378.39         378.39           Scrap         910.05         1,258.60           Scrap         20.25         2.26           Finished Goods         528.72         648.67           Closing stock - Work in Progress         378.39         378.39           Scrap         185.66         528.72           Finished Goods         878.56 <td< th=""><th>,</th><th>SCHEDULE</th><th>10</th><th>2007</th><th><b>26</b>06</th></td<>  | , | SCHEDULE          | 10                                     | 2007            | <b>26</b> 06    |
|--|---|-------------------|--|-----------------|-----------------|
| Interest on deposities   | • |                   |  | Rupees in Lakhs | Rupees in Lakhs |
| Divident on Mutual Funds   |   |                   |  | dan ma          |                 |
| Dividend on Multial Funds.   3.04   Profit on sale of Short Term Investments   116.77   Profit on sale of Short Term Investments   17.18   1 |   |                   |  | 190.58          | 3/7.93          |
| Profit on sale of Short Term Investments   |   | •                 | •                                      | 2.2             | •               |
| Profit on sale of Fixed Assets (net)   |   |                   |  |                 | 4 4.00 TO       |
| Credit Balances Written Back   151.37   37.36   39.37   Miscellaneous Income   Total   561.10   564.07   561.10   564.07   |   |                   |  |                 | (10./:          |
| Name   |   |                   | · ·                                    |                 | •               |
| SCHEDULE 11   Sach   |   |                   |  |                 | 20.37           |
| SCHEDULE 11  |   | WINDOWN COOS II   |  |                 | ·               |
| Material Consumption   Raw Material and Components Consumed   12,247.35   12,237.21     Increase/ (Decrease) in Stocks   378.39   573.50     Copining stock - Work in Progress   2.94   14.43     Finished Goods   528.72   646.67     910.05   372.59   378.39     Grap   910.05   372.59   378.60     Closing stock - Work in Progress   372.59   378.60     Closing stock - Work in Progress   372.59   378.60     Closing stock - Work in Progress   372.59   378.60     Finished Goods   185.56   528.72     Finished Goods   185.56   528.72     Closing stock - Work in Progress   381.50   10.05     Closing stock - Work in Progress   353.15   910.05     Closing stock - Work in Progress   353.15     Closing stock - Work in Progress   377.56   12.561.76     Closing stock - Work in Progress   382.60   351.34     Contribution to Provident & other funds   382.60   351.34     Contribution to P |   |                   | lotal                                  | <u>561.10</u>   | 534.07          |
| Raw Material and Components Consumed   12,247.35   12,237.21     Increase/ (Decrease) in Stocks   378.39   573.50     Opening stock - Work in Progress   2.94   14.43     Firished Goods   910.05   1,234.60     Closing stock - Work in Progress   372.59   378.39     Scrap  | 7 | SCHEDULE          | 11                                     |                 |                 |
| Increase/ (Decrease) in Stocks   378.39   573.50   2.94   14.43   573.50   528.72   646.67  |   | Material Consu    | mption                                 |                 |                 |
| SCHEDULE 12   SCHEDULE 12   SCHEDULE 13    |   | Raw Material an   | d Components Consumed                  | 12,247.35       | 12,237.21       |
| Scrap  |   | Increase/ (Decre  | ease) in Stocks                        |                 |                 |
| Finished Goods   |   | Opening stock -   | Work in Progress                       | 378.39          | 573.50          |
| SCHEDULE 12   Personnel Expenses   Salaries, Wages, Borrus etc.   877.56   708.64   706.87   82.41   82.64   82.61   82.64   82.61   82.64   82.61   82.64   82.61   |   |                   | Scrap                                  | 2.94            | 14.43           |
| Closing stock - Work in Progress   372.59   378.39   Scrap   -   2.94   Finished Goods   185.56   528.72   558.15   910.05   (Increase)/ Decrease in Stocks   351.90   324.55   12.561.76  |   |                   | Finished Goods                         | 528.72          | 646.67          |
| Scrap  |   |                   | ###################################### | 910.05          | 1,234.60        |
| Finished Goods   |   | Closing stock -   | Work in Progress                       | 372.59          | 378.39          |
| SCHEDULE 12   Schedule   Stocks   Sto |   |                   | Scrap                                  |                 | 2.94            |
| Total   351.90   324.55  |   |                   | Finished Goods                         | 185.56          | 528.72          |
| Total   12,599.25   12,561.76  |   |                   |  | 558.15          | 910.05          |
| SCHEDULE 12   Personnel Expenses   Salaries, Wages, Bonus etc.   877.56   708.64   37.06   Staff Welfare expenses   106.87   82.41     SCHEDULE 13     SCHEDULE 13     SCHEDULE 13     SCHEDULE 13   Scheduling Expenses   392.60   351.34     Scheduling Expenses   292.60   351.34   |   | (Increase)/ Decr  | rease in Stocks                        | 351.90          | 324.55          |
| Personnel Expenses           Salaries, Wages, Bonus etc.         877.56         708.64           Contribution to Provident & other funds         50.64         37.06           Staff Welfare expenses         106.87         82.41           Total         1,035.07         828.11           SCHEDULE 13           Other Expenses           Manufacturing Expenses         392.60         351.34           Excise Duty on closing stock         -         114.50           Power, Fuel & Oil         2,256.84         1,923.17           Dies Consumed / Amortised         924.64         1,322.89           Stores and Spares consumed         608.58         268.36  |   |                   | Total                                  | 12,599.25       | 12,561.76       |
| Salaries, Wages, Bonus etc.         877.56         708.64           Contribution to Provident & other funds         50.64         37.06           Staff Welfare expenses         106.87         82.41           Total 1,035.07         828.11           SCHEDULE 13           Other Expenses           Manufacturing Expenses         392.60         351.34           Excise Duty on closing stock         -         114.50           Power, Fuel & Oil         2,256.84         1,923.17           Dies Consumed / Arnortised         924.64         1,322.89           Stores and Spares consumed         606.58         268.36  | ) | SCHEDULE          | 12                                     |                 |                 |
| Contribution to Provident & other funds         50.64         37.06           Staff Welfare expenses         106.87         82.41           Total         1,035.07         828.11           SCHEDULE 13           Other Expenses           Manufacturing Expenses         392.60         351.34           Excise Duty on closing stock         -         114.50           Power, Fuel & Oil         2,256.84         1,923.17           Dies Consumed / Amortised         924.64         1,322.89           Stores and Spares consumed         608.58         268.36   |   | Personnel Expo    | enses                                  |                 |                 |
| Staff Welfare expenses         106.87         82.41           Total         1,035.07         828.11           SCHEDULE 13           Other Expenses           Manufacturing Expenses         392.60         351.34           Excise Duty on closing stock         -         114.50           Power, Fuel & Oil         2,256.84         1,923.17           Dies Consumed / Amortised         924.64         1,322.89           Stores and Spares consumed         608.58         268.36   |   |                   |  | 877.56          | 708.64          |
| Total         1,035.97         828.11           SCHEDULE 13           Other Expenses           Manufacturing Expenses         392.60         351.34           Excise Duty on closing stock         -         114.50           Power, Fuel & Oil         2,256.84         1,923.17           Dies Consumed / Amortised         924.64         1,322.89           Stores and Spares consumed         606.58         268.36   |   | Contribution to F | Provident & other funds                |                 | 37.06           |
| SCHEDULE 13         Other Expenses         Manufacturing Expenses       392.60       351.34         Processing Charges       392.60       351.34         Excise Duty on closing stock       -       114.50         Power, Fuel & Oil       2,256.84       1,923.17         Dies Consumed / Amortised       924.64       1,322.89         Stores and Spares consumed       606.58       268.36  |   | Staff Welfare exp | penses                                 | 106.87          | 82.41           |
| Other Expenses         Manufacturing Expenses       392.60       351.34         Processing Charges       -       114.50         Excise Duty on closing stock       -       114.50         Power, Fuel & Oil       2,256.84       1,923.17         Dies Consumed / Amortised       924.64       1,322.89         Stores and Spares consumed       608.58       268.36   |   |                   | Total                                  | 1,035.07        | 828.11          |
| Manufacturing Expenses       392.60       351.34         Processing Charges       392.60       351.34         Excise Duty on closing stock       -       114.50         Power, Fuel & Oil       2,256.84       1,923.17         Dies Consumed / Amortised       924.64       1,322.89         Stores and Spares consumed       608.58       268.36   |   | SCHEDULE          | 13                                     |                 |                 |
| Processing Charges       392.60       351.34         Excise Duty on closing stock       -       114.50         Power, Fuel & Oil       2,256.84       1,923.17         Dies Consumed / Amortised       924.64       1,322.89         Stores and Spares consumed       608.58       268.36  |   | Other Expenses    | s                                      |                 |                 |
| Excise Duty on closing stock   |   | Manufacturing E   | xpenses                                |                 |                 |
| Power, Fuel & Oil       2,256.84       1,923.17         Dies Consumed / Amortised       924.64       1,322.89         Stores and Spares consumed       608.58       268.36   |   | •                 | -                                      | <b>39</b> 2.60  | 351.34          |
| Dies Consumed / Amortised         924.64         1,322.89           Stores and Spares consumed         608.58         268.36   |   | <del>-</del>      | <del>-</del>                           |                 |                 |
| Stores and Spares consumed 608.58 268.36   |   |                   |  |                 |                 |
| ·  |   |                   |  |                 |                 |
| Other Manufacturing Expenses 165.70 105.42   |   | •                 |  | <b>606.</b> 58  | 268,36          |
|  |   | Other Manufactu   | Iring Expenses                         | 165.70          | 105.42          |

## Schedule Annexed to and forming part of financial statments as at 31st March, 2007

| :  | 2007<br>Rupees in Lakhs | 2006<br>Rupees in Lakhs |
|--|-------------------------|-------------------------|
| Repairs & Maintenance                            |                         |                         |
| - Plant & Machinery 460.46                       |                         |                         |
| - Buildings 40.12                                |                         |                         |
| - Others   | 511.19                  | <u>525.66</u>           |
| Total Manufacturing Expenses                     | 4,859.54                | 4,611.34                |
| Administrative & Selling expenses                |                         |                         |
| Rent, Rates & Taxes                              | 39.46                   | 15.87                   |
| Insurance  | 27,37                   | 15.04                   |
| Freight & Packing                                | 298.18                  | 250.00                  |
| Printing & Stationery                            | 20.12                   | 10.24                   |
| Telephone Expenses                               | 11.17                   | 10.01                   |
| Travelling & Conveyance                          | 60.14                   | 35.68                   |
| Corporate Expenses reimbursed                    | _                       | 180.00                  |
| Demerger expenses                                | -                       | 198.25                  |
| Provision for Doubtful debts                     | 11.42                   | 178.05                  |
| Bad Debts Written Off                            | 8.73                    | 142.38                  |
| Old Balances Written Off                         | 52.70                   | 66.24                   |
| Preliminary / Pre-operative Expenses Written Off | _                       | 20.91                   |
| Other Administrative & Selling Expenses          | 199.58                  | 158.44                  |
|  | 728.87                  | 1,281.11                |
| Exchange rate fluctuation                        | 12.78                   |                         |
| Non Compete Fees ( Refer Note B-22 of Sch 15)    | 50.00                   |                         |
| Provision for Diminution in value of CWIP        | 25.85                   | <del></del>             |
|  | 88.63                   |                         |
| Total Other Expenses                             | 5,677.04                | 5,892.45                |
| SCHEDULE 14                                      |                         | <del></del>             |
| Interest & Finance Cost                          |                         |                         |
| On Fixed period loans                            | 371.75                  | 475.76                  |
| On Others  | 285.91                  | 365.73                  |
| Cash Discounts                                   | 95.03                   | 30.74                   |
| Total  | 752.69                  | 872.23                  |

#### **SCHEDULE - 15**

### Notes forming part of the Accounts for the Year ended 31st March, 2007

#### A. Significant Accounting Policies

#### (i) Method of Accounting

The financial statements are prepared under the historical cost convention as a going concern and on accrual basis.

#### (ii) Fixed Assets and Depreciation

- (a) All Fixed Assets are stated at cost less accumulated depreciation. Cost of acquisition is inclusive of purchase price, levies and any directly attributable cost of bringing the assets to its working condition for the intended use. In case of borrowed funds and liabilities in foreign currencies for the acquisition of fixed assets from a country outside India, the exchange differences are adjusted to the cost of such asset.
- (b) When an asset is scrapped or otherwise disposed off, the cost and related depreciation are removed from the books of accounts and resultant profit (including capital profit) or loss, if any, is reflected in the Profit and Loss Account.
- (c) Free hold land is stated at cost.
- (d) Depreciation on assets is calculated on Straight Line Method at the rates and in the manner prescribed in Schedule XIV to the Companies Act, 1956.

#### (iii) Intangible Assets

- (a) Intangible Assets except software are initially measured at cost and amortised so as to reflect the pattern in which the asset's economic benefits are consumed.
- (b) Software expenditure incurred is amortised over three financial years, equally, commencing from the year in which the software is installed.

### (iv) Investments

Investments held as long-term investments are stated at cost comprising of acquisition and incidental expenses less permanent diminution in value, if any.

Investments other than long-term investments are classified as current investments and valued at cost or fair value whichever is less.

#### (v) Inventories

Inventories are stated at cost or net realizable value, whichever is lower.

- 1. Cost is arrived at
  - (a) In case of Raw Material & Die Steel on actual basis.
  - (b) In case of stores & spares on a weighted average method.
  - (c) In case of WIP & FG it includes material cost, labour, where appropriate, manufacturing overheads & excise duty.
- Cost of Dies includes cost of die steel and appropriate labour and manufacturing overheads and cost of renewal. The cost of dies is amortised over a period of two years.

#### (vi) Foreign Currency Transactions

- (a) Transactions in foreign currencies are recorded at the exchange rate prevailing on the date of the transaction. Realised gains and losses and also exchange differences arising on translation at year end exchange rates of current assets and current liabilities outstanding at the end of the year are recognized in the Profit and Loss Account.
- (b) In the case of expenses items incurred for the acquisition of fixed assets from a country outside India, the exchange differences are adjusted to the cost of such assets.

#### (vii) Revenue recognition

Sales of products and services are recognised when the products are despatched or services rendered. Sales are exclusive of sales tax and net of sales return and trade discounts.

#### (viii) Export Benefits

Export incentives in respect of exports made are recognized at a point of reasonable certainty of ultimate collection.

#### (ix) Retirement Benefits

Retirement Benefits in respect of gratuity and leave encashable at retirement/cessation are provided for based on valuations, as at the Balance Sheet date, made by independent actuaries.

#### (a) Defined Contribution Plans -

Company's contribution paid/payable during the year to Provident Fund and Labour Welfare fund are Recognised in the Profit and loss Account.

#### (b) Defined Benefit Plan -

Company's liabilities towards gratuity, leave encashment are determined using the projected unit credit method which consider each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation. Actuarial gain and losses are recognised immediately in the Statement of Profit and loss as income or expense. Obligation is measured at the present value of estimated future cash flow using a discount rate that is determined by reference to market yields at the Balance Sheet date on government bonds where the currency and terms of the government bonds are consistent with the currency and estimated terms of the defined benefit obligation.

#### (x) Taxation

Current tax is determined as the amount of tax payable in respect of taxable income for the year. Deferred tax is recognised, subject to consideration of prudence, on timing differences, being the difference between taxable income and accounting income that originate in one period and are capable of reversal in one or more subsequent periods. Deferred Tax assets arising on account of unabsorbed depreciation or carry forward of tax losses are recognized only to the extent that there is virtual certainty supported by convincing evidence that sufficient future tax income will be available against which such deferred tax assets can be realized.

#### B) Notes to Accounts

#### 1. Share Capital

#### (a) Issued and subscribed Capital includes:

In accordance with the Scheme of Arrangement and Demerger which was approved by the Hon'ble Bombay High Court on March 21, 2006. The Company has issued 1,48,20,206 equity shares of Rs. 10 each aggregating to Rs. 1,482.02 Lakhs and 1,48,20,206 4% Non Cumulative Redeemable Preference Shares of Rs. 31 each aggregating to Rs. 4,594.26 Lakhs. These shares were issued in the ratio of one equity share & one preference share for every one equity share held by the shareholders of Amforge Industries Limited on 22<sup>rd</sup> May 2006. In Addition to above, company has issued 49,78,444 Equity Shares of Rs 10 each aggregating to Rs 497.84 Lakhs on 23<sup>rd</sup> May 2006.

Share issue expenses of Rs. 68.15 Lakhs includes Stamp Duty, ROC & SEBI Fees, & other related expenses; these expenses are adjusted against Share Premium Account, Net of Deferred Tax of Rs. 18.17 Lakhs.

#### (b) Preference Shares

1,48,20,206 4% Non Cumulative Redeemable Non Convertible Preference Shares of Rs.31 each aggregating to Rs.4,594.26 Lakhs were issued and redeemed during the current year.

#### 2. Goodwill

In terms of Scheme of Demerger, approved by the Hon'ble Bombay High Court on March 21, 2006 an amount of Rs.8,692.64 Lakhs considered as "Goodwill", being the difference between the aggregate value of equity shares and preference shares and net book value of assets and liabilities of the Chakan undertaking as on April 1, 2005, is being amortised over five years commencing from April, 2006. An amount of Rs 1738.53 Lakhs has been amortised during the current year.

#### 3. Borrowings and Securities

| Name of the Lender                         | Type of Loan                                       | Repayment Schedule  |
|--|--|---|
| Industrial Investment Bank of India (IIBI) | Long Term Loan (LTL)                               | 14 equal quarterly installments till<br>September, 2009                   |
| Industrial Investment Bank of India (IIBI) | Funded Interest Term Loan (FITL) (0% coupon bonds) | 12 equal quarterly installments till<br>March, 2010.                      |
| Life Insurance Corporation of India (LIC)  | Long Term Loan (LTL)                               | 14 equal quarterly installments till<br>September, 2009                   |
| Life Insurance Corporation of India (LIC)  | Funded Interest Term Loan (FITL)                   | 14 equal quarterly installments till<br>September, 2009                   |
| Life Insurance Corporation of India (LIC)  | Funded Interest Term Loan (FITL)                   | Single bullet payment in December, 2010                                   |
| State Bank of India                        | Corporate Loan                                     | 13 quarterly installments commencing from April, 2008 to April 2011       |
| State Bank of India                        | Term Loan  | 17 quarterly installments commencing from April, 2008 to April 2012       |
| UTI Bank                                   | Corporate Loan                                     | 16 equal quarterly installments commencing from April, 2008 to March 2012 |

All the term lenders have 1st charge on immovable assets & 2st charge on movable assets. Whereas Working Capital lenders have 1st charge on movable assets & 2st charge on Immovable assets of the company. The Documentation for creation of security, in respect of some of the Borrowings is pending.

#### 4. Contingent Liabilities not provided for

(Rs. in Lakhs)

| Particulars   | As at 31st<br>March'2007 | As at 31st<br>March'2006 |
|---|--------------------------|--------------------------|
| (i) Bank Guarantees outstanding in favor of the Government and other parties                  | 171.43                   | 161.08                   |
| (ii) Letters of Credit issued by banks on behalf of the Company and outstanding               | 1590.65                  | 1222.37                  |
| (iii) (a) Towards Excise Duty demands in respect of which the Company has preferred an appeal | 120.60                   | 53.62                    |
| (b) Towards SCN issued by Excise Department   | _                        | 66.98                    |
| (c) Towards interest on Excise Duty in respect of which is preferring an appeal               | 4.79                     | _                        |
| (iv) Claims against the Company not acknowledged as debts                                     | _                        | 12.07                    |

In addition to the above, the Company has availed Bill Discounting Facilities under Bill Marketing Scheme, during the year from its customers in the amount of Rs. 1029.06 Lakhs. (Previous year Rs. 2341.23 Lakhs).

- 5. The company has imported capital goods under the Export Promotion Capital Goods (EPCG) scheme, of the Government of India, at concessional rates of duty on an understanding to fulfill quantified exports against which future obligation aggregates to USD 220.04 Lakhs (Previous Year USD 104.79 Lakhs), over a period of next eight years. Non-fulfillment of such future obligations, if any, entails options/rights to the Government to confiscate capital goods under the said licenses and other penalties under the above referred scheme.
- 6. Estimated value of contracts remaining to be executed on capital account (net of advances) and not provided for Rs. 3561.38 Lakhs (Previous year Rs 1406.95 Lakhs.)
- 7. Suppliers covered under the Micro, Small and Medium Enterprises Development Act 2006, have not furnished the information regarding filing of necessary memorandum with appointed authority. In view of this and legal opinion obtained by the company, information required under section 22 of the said act is not given.

### 8. Other Administrative & selling Expenses include Auditors' Remuneration (Net of Service Tax where applicable):

(Rs. in Lakhs)

| -     | Auditors Remuneration | Current Year | Previous Year |
|-------|-----------------------|--------------|---------------|
| (i)   | Audit Fees            | 5.00         | 5.00          |
| (ii)  | Tax Audit Fees        | 1.00         | 1.00          |
| (iii) | Other Services        | 3.22         | -             |
|       | Total                 | 9.22         | 6.00          |

9. Managerial remuneration for directors included in the Profit and Loss Account is Rs 45.22 Lakhs (Previous year Rs Nil) including contribution to provident fund and other funds of Rs 1.95 Lakhs (Previous year Rs Nil), perquisites Rs 5.09 Lakhs (Previous year Rs Nil), Variable performance pay Rs 16.28 Lakhs (Previous year Rs Nil) and other allowance Rs 5.62 Lakhs (Previous year Rs Nil) excluding charge for provision for leave encashable on separation as it is accrued for the company as a whole.

#### 10. Capacities and Production of Forging

(Rs. in Lakhs)

| Forging                            | Current Year | Previous Year |
|------------------------------------|--------------|---------------|
| Unit                               | M.T          | M.T           |
| Installed Capacity(3 shifts basis) | 42765        | 40992         |
| Production                         | 23957        | 23761         |

### 11. Turnover, Opening and Closing Stocks

(Value in Rs. Lakhs)

| Forging       |      | Current Year |          | Previous Year |          |
|---------------|------|--------------|----------|---------------|----------|
| · ·           | Unit | Qty          | Value    | Qty           | Value    |
| Turnover      | M.T. | 24427        | 24587.75 | 23500         | 23160.43 |
| Opening Stock | M.T. | 697          | 528.72   | 436           | 604.40   |
| Closing Stock | M.T. | 227          | 191.51   | 697           | 528.72   |

#### 12. Raw Materials & Components Consumed

(Rs. in Lakhs)

| Steel | Current Year | Previous Year |
|-------|--------------|---------------|
| M.T.  | 34942        | 33995         |
| Value | 12247.35     | 12237.21      |

### 13. Value of Raw Material and Components Consumed

|            | Current      | Current Year |              | ıs Year    |
|------------|--------------|--------------|--------------|------------|
|            | Rs. in Lakhs | %            | Rs. in Lakhs | %          |
| Indigenous | 12247.35     | 100          | 12230.07     | 100        |
| Imported   | -            |              | 7.14         | Negligible |
| Total      | 12247.35     | 100          | 12237.21     | 100        |

#### 14. Value of Stores & Spares Consumed

|            | Curren       | Current Year |              | Year  |
|------------|--------------|--------------|--------------|-------|
| _          | Rs. in Lakhs | %            | Rs. in Lakhs | %     |
| Indigenous | 504.60       | 82.91        | 257.15       | 95.82 |
| Imported   | 103.98       | 17.09        | 11.21        | 4.18  |
| Total      | 608.58       | 100          | 268.36       | 100   |

### 15. Value of Imports (C. I. F.)

(Rs. in Lakhs)

| Sr.  | Particulars       | Current Year | Previous Year |
|------|-------------------|--------------|---------------|
| i)   | Stores and Spares | 103.98       | 11.21         |
| ii)  | Capital Goods     | 679.26       | 2032.44       |
| iii) | Raw Material      | -            | 7.14          |
|      | TOTAL             | 783.24       | 2050.79       |

#### 16. Earnings in Foreign Exchange

(Rs. in Lakhs)

|                        | Current Year | Previous Year |
|------------------------|--------------|---------------|
| Exports (F.O.B. Value) | 687.87       | 443.54        |

## 17. Expenditure in Foreign Currency

(Rs. In Lakhs)

| Sr. | Particulars           | Current Year | Previous Year |
|-----|-----------------------|--------------|---------------|
| i)  | Foreign Travel        | 37.14        | 8.51          |
| ii) | Technical Consultancy | 155.09       | 33.79         |
|     | TOTAL                 | 192.23       | 42.30         |

### 18. Employee Benefits

### (a) Defined Benefit Plan

|   |  | Gratuity<br>Rs. Lakhs | Leave Encashment . Rs. Lakhs |
|---|--|-----------------------|------------------------------|
|   | Expense recognised during the period ended March 31,2007(Included in Schedule 12 "Salary, Wages, Bonus" of Personnel Expenses) |                       |                              |
| 1 | Current Service cost   | 11.60                 | 8.02                         |
| 2 | Interest Cost  | 5.20                  | 1.76                         |
| 3 | Expected return on plan assets   |                       | _                            |
| 4 | Actuarial Losses/ (Gains)  | 7.30                  | 2.76                         |
| 5 | Total expense  | 24.08                 | 12.53                        |
|   | Reconciliation of Net Asset/(Liability)  |                       | •                            |

|   | Reconciliation of Net Asset/(Liability) recognised in the Balance Sheet during the period ended March 312007 |  |         |  |
|---|--|--|---------|--|
| 1 | Net Asset/(Liability) at beginning of period   | (64.96)                                | (22.02) |  |
| 2 | Employee Expense   | (24.08)                                | (12.53) |  |
| 3 | Employee Contributions   | 19.26                                  | 11.40   |  |
| 4 | Net Asset/(Liability) at the end of the period   | (69.78)                                | (23.16) |  |
| 5 | Actual Return on plan assets   | Not Readily available with the Company |         |  |

|   | Actuarial Assumptions **             | As at March 31 2007    |
|---|--------------------------------------|------------------------|
| 1 | Discount Rate                        | 8% per annum           |
| 2 | Expect rate of return on plan assets | NA .                   |
| 3 | Expect rate of salary increase       | 5% per annum           |
| 4 | Mortality Table                      | LIC (1994-96) ULITMATE |

<sup>\*\*</sup> Estimates of future salary increases considered in actuarial valuation takes into account inflation, seniority, promotion, and other relevant factors such as supply and demand in the employment market.

#### (b) Defined Contribution Plans -

Amount Recognised as an expense and included in the Schedule 12 "Contribution to Provident and other funds" of Personnel Expenses Rs 50.64 Lakhs.

19. The components of Deferred Tax Assets / Liability:

(Rs in Lakhs)

| Deferred Tax Liability                         | 31st March 2007 | 31st March 2006 |
|--|-----------------|-----------------|
| - On fiscal allowances on Fixed Assets         | 486.02          | 375.66          |
|  | 486.02          | 375.66          |
| Less: Deferred Tax Assets                      |                 |                 |
| - On unabsorbed fiscal losses and depreciation | 253.54          | 375.66          |
| - On demerger expenses                         | 40.43           | -               |
| - On share issue expenses                      | 18.53           |                 |
| - On other timing differences                  | 15.13           |                 |
|  | 327.62          | 375.66          |
| Net  | 158.40          | _               |

20. The Company has an outstanding of Rs.174.75 Lakhs (Previous Year Rs.29.68 Lakhs) payable to the small scale and ancillary undertakings (SSI).

The list of SSI units, where outstanding is more than 30 days and amount of outstanding is more than Rs.1.00 Lakh is given

**Anand Machine Tools** Choughule Machines Pvt. Ltd. Jaybee Steel Treaters Pvt. Ltd.

Sanketh Enterprises Samarth Auto Precesion (I) Pvt. Ltd. Utcon Engineers Pvt. Ltd. Witman Engineering

Metallurgical Processes & Equipments

Preetha Engineering Works

- 21. In terms of Accounting Standard 17 (Segment Reporting) issued by the Institute of Chartered Accountants of India, the Company operates in only one segment i.e. Forgings.
- 22. Board of Directors in their meeting held on 20th October, 2006 have resolved to pay Non-Compete Fees of Rs. 500 Lakhs to Amforge Industries Limited (AFL) & the Promoter of AFL, of which Rs. 250 Lakhs have accrued and paid and the balance shall accrue & become payable only after fulfillment of certain conditions as per Non Compete Agreement, accordingly out of the payment Rs. 50 Lakhs is amortised during current year. Other expenditure includes Rs. 50 Lakhs as amortised amount in this year.
- 23. Balances of Sundry Debtors and Creditor are subject to confirmation.
- 24. Related Party Disclosures:
  - Name of related parties where transactions have taken during the year:
    - Associate Company Mahindra & Mahindra Limited
    - Enterprises significantly influenced by Key Management Personal Mahindra Ugine Steel Company Limited Mahindra SAR Transmission Private Limited Bristlecone India Limited Stokes Forgings Limited
    - (iii) Key Management Personnel Anand Mahindra Hemant Luthra Zhooben Bhiwandiwala R. R. Krishnan Mohit Burman Nikhilesh Panchal Sankaran Ravindran Virendra Kumar Chanana Fali P. Mama

### b) Transactions with related parties:

- . .

(Rs. In Lakhs)

|     | Nature of Trasanction                        | Current Year         |  |                               | Previous Year        |   |                                   |
|-----|--|----------------------|--|-------------------------------|----------------------|---|-----------------------------------|
| Sr. |  | Associate<br>Company | Enterprise<br>significantly<br>influenced by<br>key manage-<br>ment Personal | Key<br>Management<br>personal | Associate<br>Company | Enterprises Significantly influenced by key manage- ment Personal | Key<br>Manag-<br>ment<br>personal |
| 1   | Sales  |                      |  |                               |                      |   |                                   |
|     | - Goods                                      | 5635.86              | _  | _                             | 3654.80              | _   |                                   |
|     | - Scrap                                      | _                    | 1934.97  | _                             | _                    | 1327.90   | _                                 |
| 2   | Purchases                                    | ****                 | _  |                               | _                    | _   | -                                 |
|     | - Raw material                               |                      | 5016.19  | -                             |                      | 5762.80   |                                   |
|     | - Capital goods                              | 169.06               | 75.76  | ·····                         | 1782.04              | _   |                                   |
|     | - Services                                   | 530.77               | 41.89  |                               | 58.86                | _   | _                                 |
| 3   | Payment of Rent                              | 3.95                 | 12.48  |                               | _                    | 22.00   | 1                                 |
| 4   | Advance for expenses received                |                      | _  | _                             |                      | 0.50  |                                   |
| 5   | Intercorporate Deposit accepted and refunded | · <u>-</u>           | _  | _                             | **                   | 600.00  | <u> </u>                          |
| 6   | Professional Fees                            | 1.60                 | 50.76  |                               |                      | _   | _                                 |
| 7   | Interest on ICD paid                         | _                    |  | _                             | _                    | 6.51  | _                                 |
| 8   | Interest on delayed payments                 |                      |  | -                             | 17.14                | _   | -                                 |
| 9   | Outstandings                                 | ****                 | _  | _                             |                      |   | ****                              |
|     | -Receivables                                 | 449.46               |  | _                             | 661.51               | _   | _                                 |
|     | -Payables                                    | 119.78               | 844.55   | _                             | 38.50                | 1298.24   | _                                 |
|     | Reimbursement of Expense                     | 56.93                | 0.86   | _                             | _                    |   | -                                 |
| 10  | Advance for expenses payable                 | -                    | _  | _                             | whee                 | 21.65   |                                   |
| 11  | Sitting Fees                                 | _                    | _  | 1.40                          | <u> </u>             | _   |                                   |
| 12  | Managerial remuneration                      | _                    | ****   | 45.22                         | _                    | _   |                                   |

### 25. Earnings per Share:

|  | Current Year | Previous Year |
|--|--------------|---------------|
| Profit/(Loss) as per the P&L Account (Rs. in Lakhs)                  | (1,253.11)   | (1,194.73)    |
| Weighted Average Number of equity shares outstanding during the year | 2,52,32,922  | 2,52,32,922   |
| Basic Earnings per share (Rs.)                                       | (4.97)       | (19.37)       |
| Diluted Earnings per share (Rs.)                                     | (4.97)       | (4.60)        |

- 26. Amount of borrowing cost capitalized during the period is Rs. 22.93 Lakhs (Previous Year Rs. NIL).
- 27. Prior Period Items include Interest cost of Rs. 35.26 Lakhs.
- 28. The Company had furnished a guarantee in respect of certain liability amounting to Rs. 919.23 Lakhs. The company has provided as interest of Rs. 14.02 Lakhs as contingency on unpaid liability of Rs. 113.83 Lakhs. Contingency Provision also includes Rs. 30.69 Lakhs pertaining to other expenses.
- 29. Figures for the previous year have been regrouped and rearranged wherever necessary and are not comparable with those of the current year.

#### Signature to schedule 1 to 15

As per our Report of even date

For B. K. Khare & Company Chartered Accountants

Padmini Khare Kaicker (Partner) Membership No. 44784

Mumbai, 26th April, 2007

Hemant Luthra Zhooben Bhiwandiwala R. R. Krishnan Mohit Burman Nikhilesh Panchal Virendra Kumar Chanana Fali P. Mama

Directors

For and on behalf of the Board of Directors

Anand Mahindra

Chairman

Sankaran Ravindran

Managing Director

Mano] Jain

Chief Financial Officer

Krishnan Shankar

Company Secretary &

GM - Legal

#### **Registration Details** 1 2 1 2 8 5 of 1999 State Code | 1 | 1 Registration No. 3 0 3 0 7 **Balance Sheet Date** Date Year Month Capital raised during the year (Amount in Rs. Lakhs) Public Issue Rights Issue 1 L Bonus Issue Private Placement Ν Ν ı Position of Mobilisation and Deployment of funds (Amounts in Rs. Lakhs) Total Assets Total Liabilities (Including Shareholders' Funds) 2 4 2 4 4 5 0 0 Sources of Funds: Paid-up Capital Reserves & surplus 2 8 0 2 6 3 9 **Unsecured Loans** Secured Loans 0 1 4 9 9 5 **Application of Funds:** Capital WIP **Net Fixed Assets** 2 7 0 6 3 **Net Current Assets** Investments 2 5 4 5 5 8 3 Accumulated Losses (-) 2 4 8 IV. Performance of Company (Amount in Rs. Lakhs) **Total Expenditure** Turnover 2 0 2 9 5 4 1 **Net Loss** Dividend Ν L (-) 1 2 3 Earning per share in Rs. - Basic Earning per share in Rs. - Diluted

ADDITIONAL INFORMATION PURSUANT TO THE PROVISIONS OF PART IV OF SCHEDULE VI TO THE COMPANIES ACT, 1956.

Balance Sheet Abstract and Company's General Business Profile :

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V. Generic names of three principal products/services of company (as per monetary terms)

 Item Code (ITC Code)
 7
 3
 2
 6
 9
 0

 Product Description
 F
 O
 R
 G
 I
 N
 G
 S

Hemant Luthra
Zhooben Bhiwandiwala
R. R. Krishnan
Mohit Burman
Nikhilesh Panchal
Virendra Kumar Chanana
Fali P. Mama

Directors

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Anand Mahindra

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Company Secretary &

Mumbai, 26th April, 2007

