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**Board of Directors**

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**Anand G. Mahindra**  
Chairman

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**Hemant Luthra**

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**V. K. Chanana**

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**R. R. Krishnan**

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**Zhooben Bhiwandiwalla**

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**Romesh Kaul**

---

**Nikhillesh Panchal**

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**Fali Mama**

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**Mohit Burman**

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**Manoj Jain**  
Chief Financial Officer

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**Ms. Payal Vyas**  
Company Secretary

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**Auditors**

**B. K. Khare & Co.**

*Chartered Accountants*

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**Bankers**

**State Bank of India**

**Standard Chartered Bank**

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**Registered Office**

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

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**Factory**

Gate No.856 to 860,  
Chakan Ambethan Road,  
Tal.: Khed, Dist.: Pune 410 501.

## Notice

Notice is hereby given that the **SEVENTH** Annual General Meeting of the Members of **MAHINDRA AUTOMOTIVE STEELS LIMITED** will be held on Friday, 19<sup>th</sup> May 2006 at 11.00 a.m. at the Registered Office of the Company at Mahindra Towers, P. K. Kurne Chowk, Worli, Mumbai 400 018 to transact the following business:

1. To receive and adopt the audited Balance Sheet as at 31<sup>st</sup> March, 2006 and the Statement of Accounts for the year ended on that date and the Report of the Directors and Auditors thereon.
2. To appoint a Director in place of Mr. Hemant Luthra, who retires by rotation and being eligible offers himself for re-appointment.
3. To appoint M/s. B. K. Khare & Co. Chartered Accountants, the retiring Auditors of the Company as Auditors who shall hold office from the conclusion of this Annual General Meeting until the conclusion of next Annual General Meeting of the Company and to fix their remuneration.

### SPECIAL BUSINESS

4. To consider and if thought fit, to pass, with or without modification(s), the following resolution as an Ordinary Resolution :

**"RESOLVED THAT** in accordance with the provisions of Section 257 and all other applicable provisions, if any, of the Companies Act, 1956, Mr. Romesh Kaul, who was appointed by the Board of Directors as an Additional Director of the Company and who holds office upto the date of this Annual General Meeting under Section 260 of the Companies Act, 1956 and in respect of whom the Company has received a notice in writing from a member proposing the candidature of Mr. Romesh Kaul for the office of Director, be and is hereby appointed a Director of the Company liable to retire by rotation."

5. To consider and if thought fit, to pass, with or without modification, the following resolution as an Ordinary Resolution :

**"RESOLVED THAT** in accordance with the provisions of Section 257 and all other applicable provisions, if any, of the Companies Act, 1956, Mr. Nikhilesh Panchal, who was appointed by the Board of Directors as an Additional Director of the Company and who holds office upto the

date of this Annual General Meeting under Section 260 of the Companies Act, 1956 and in respect of whom the Company has received a notice in writing from a member proposing the candidature of Mr. Nikhilesh Panchal for the office of Director, be and is hereby appointed a Director of the Company liable to retire by rotation."

6. To consider and if thought fit, to pass, with or without modification(s), the following resolution as an Ordinary Resolution :

**"RESOLVED THAT** in accordance with the provisions of Section 257 and all other applicable provisions, if any, of the Companies Act, 1956, Mr. Anand Mahindra, who was appointed by the Board of Directors as an Additional Director of the Company and who holds office upto the date of this Annual General Meeting under Section 260 of the Companies Act, 1956 and in respect of whom the Company has received a notice in writing from a member proposing the candidature of Mr. Anand Mahindra for the office of Director, be and is hereby appointed a Director of the Company liable to retire by rotation."

7. To consider and if thought fit, to pass, with or without modification(s), the following resolution as an Ordinary Resolution :

**"RESOLVED THAT** in accordance with the provisions of Section 257 and all other applicable provisions, if any, of the Companies Act, 1956, Mr. V. K. Chanana, who was appointed by the Board of Directors as an Additional Director of the Company and who holds office upto the date of this Annual General Meeting under Section 260 of the Companies Act, 1956 and in respect of whom the Company has received a notice in writing from a member proposing the candidature of Mr. V. K. Chanana for the office of Director, be and is hereby appointed a Director of the Company liable to retire by rotation."

8. To consider and if thought fit, to pass, with or without modification(s), the following resolution as an Ordinary Resolution :

**"RESOLVED THAT** in accordance with the provisions of Section 257 and all other applicable provisions, if any, of the Companies Act, 1956, Mr. Zhooben Bhiwandiwalla, who was appointed by the

Board of Directors as an Additional Director of the Company and who holds office upto the date of this Annual General Meeting under Section 260 of the Companies Act, 1956 and in respect of whom the Company has received a notice in writing from a member proposing the candidature of Mr. Zhooben Bhiwandiwalla for the office of Director, be and is hereby appointed a Director of the Company."

9. To consider and if thought fit, to pass, with or without modification(s), the following resolution as an Ordinary Resolution :

**"RESOLVED THAT** in accordance with the provisions of Section 257 and all other applicable provisions, if any, of the Companies Act, 1956, Mr. Fali Mama, who was appointed by the Board of Directors as an Additional Director of the Company and who holds office upto the date of this Annual General Meeting under Section 260 of the Companies Act, 1956 and in respect of whom the Company has received a notice in writing from a member proposing the candidature of Mr. Fali Mama for the office of Director, be and is hereby appointed a Director of the Company liable to retire by rotation."

10. To consider and if thought fit, to pass, with or without modification(s), the following resolution as an Ordinary Resolution :

**"RESOLVED THAT** in accordance with the provisions of Section 257 and all other applicable provisions, if any, of the Companies Act, 1956, Mr. Mohit Burman, who was appointed by the Board of Directors as an Additional Director of the Company and who holds office upto the date of this Annual General Meeting under Section 260 of the Companies Act, 1956 and in respect of whom the Company has received a notice in writing from a member proposing the candidature of Mr. Mohit Burman for the office of Director, be and is hereby appointed a Director of the Company liable to retire by rotation."

11. To consider and if thought fit, to pass, with or without modification(s), the following resolution as an Ordinary Resolution :

**"RESOLVED THAT** in supersession of the resolution passed by the shareholders at the Extra- Ordinary General Meeting of the Company held on 27th January 2000 and pursuant to the provisions of Sections 293(1)(a) and 293(1)(d) of the Companies

Act, 1956 and all other applicable provisions of the Companies Act, 1956 and the Memorandum and Articles of Association of the Company, consent of the Company be accorded to the Board of Directors from time to time borrowing moneys and, if they think fit, for mortgaging or charging the Company's undertaking and any property or any part thereof to secure such borrowings, up to a continuous limit for the time being and from time to time remaining undischarged of Rs.300,00,00,000/- (Rupees Three Hundred Crores Only) (apart from temporary loans obtained from the Company's Bankers in the ordinary course of business) even though the moneys to be borrowed together with the moneys already borrowed by the Company may exceed the aggregate of the paid-up share capital of the Company and its free reserves, that is to say, reserves not set apart for any specific purpose."

12. To consider and if thought fit, to pass, with or without modification(s), the following resolution as a Special Resolution :

**"RESOLVED THAT** pursuant to Section 21 of the Companies Act, 1956 and subject to the approval of the Central Government, the name of the Company be and is hereby changed from "Mahindra Automotive Steels Limited" to "Mahindra Forgings Limited."

#### NOTES:

- (A) EXPLANATORY STATEMENT AS REQUIRED UNDER SECTION 173(2) OF THE COMPANIES ACT, 1956 IS ANNEXED HERETO.
- (B) A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF AND A PROXY NEED NOT BE A MEMBER. PROXIES IN ORDER TO BE EFFECTIVE MUST REACH THE COMPANY'S REGISTERED OFFICE NOT LESS THAN 48 HOURS BEFORE THE MEETING.

By Order of the Board

Director

**Registered Office:**  
Mahindra Towers,  
P. K. Kurne Chowk  
Worli, Mumbai 400 018.

28<sup>th</sup> April 2006

## Explanatory Statement

### Explanatory Statement under Section 173(2) of The Companies Act, 1956.

#### Item Nos. 4 to 10

Mr. Romesh Kaul and Mr. Nikhilesh Panchal were appointed as Additional Directors of the Company at the Board Meeting held on 18<sup>th</sup> August 2005. Subsequently, Mr. Anand Mahindra, Mr. V. K. Chanana, Mr. Zhooben Bhiwandiwalla, Mr. Fali Mama and Mr. Mohit Burman were appointed as Additional Directors of the Company at the Board Meeting held on 28<sup>th</sup> April 2006.

All the Directors have a rich and varied experience and expertise in their respective spheres of activity, business, occupation or vocation carried on by them.

The Board is of the view that the knowledge and experience of all the aforesaid Directors would be of immense benefit and value to the Company and therefore the Directors recommend the resolution for approval of the members.

None of the Directors of the Company other than Mr. Romesh Kaul, Mr. Nikhilesh Panchal, Mr. Anand Mahindra, Mr. V. K. Chanana, Mr. Zhooben Bhiwandiwalla, Mr. Fali Mama and Mr. Mohit Burman are deemed to be concerned or interested in the respective resolutions proposing their appointment.

#### Item No. 11

Pursuant to the provisions of Section 293(1) (d) of the Companies Act, 1956, the Board of Directors of a company cannot borrow money in excess of the amount of the paid-up capital of the company and its free reserves without the approval of the shareholders in a General Meeting.

At the Extra-Ordinary General Meeting of the Company held on 27<sup>th</sup> January 2000, the shareholders, by an Ordinary Resolution, had empowered the Board of Directors of the Company to borrow moneys, upto Rs.100,00,00,000/- (Rupees One Hundred Crores Only) even though such borrowing would be in excess of the paid-up capital and free reserves of the Company.

In view of the de-merger of the Chakan division of Amforge Industries Limited (AIL) from AIL on a going concern basis into the Company, it may be necessary for the Company to additionally borrow monies from time to time upto an amount not exceeding Rs.300,00,00,000/- (Rupees Three Hundred Crores) from Financial Institutions/Banks and/or from other bodies corporate as the case may be for meeting the Company's long term working capital requirements.

The consent of the members of the Company is required to enable the Board of Directors of the Company to create mortgages/charges in favour of the Lenders upto a limit of Rs.300,00,00,000/- (Rupees Three Hundred Crores).

The approval of the shareholders is required to the enhancement of the borrowing limits as above.

Your Directors recommend passing of this resolution as an Ordinary Resolution.

None of the Directors has any particular interest in this item of business.

#### Item No. 12

With a view to signify the true character and nature of business activities undertaken by the Company, it is proposed to change the name of the Company to "Mahindra Forgings Limited" subject to the approval of the Central Government.

None of the Director is concerned or interested in this item of business.

**By Order of the Board**

**Director**

#### **Registered Office:**

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

28<sup>th</sup> April 2006.



## Directors' Report

### To The Members

#### Mahindra Automotive Steels Limited

Your Directors have pleasure in presenting their 7th Annual Report and audited statement of accounts for the year ended 31<sup>st</sup> March, 2006.

#### Financial Highlights

	Rs in Lakhs
	2005-06
Gross Income.....	20426.06
Profit before Interest, Depreciation, Contingency and tax.....	1113.00
Less : Depreciation.....	534.68
Profit before Interest, Contingency and tax .....	578.32
Less : Interest and Finance cost .....	841.49
Loss before Contingency provision and tax .....	(263.17)
Less : Contingency provision .....	919.23
Loss before tax.....	(1182.40)
Less : Provision for tax – Fringe Benefit Tax.....	12.33
Loss for the year.....	(1194.73)
Loss carried to Balance Sheet .....	(1194.73)

The Company was not operational till year ended March, 2005 and only preliminary and preoperative expenses had been incurred since inception.

#### Operations

In pursuit of its objective to carry on the business of forging, a Scheme of Arrangement (the Scheme) was entered into with Amforge Industries Limited (AIL), a leading player in forging industry for strategic acquisition of the latter's plant at Chakan (near Pune). The Chakan unit of AIL is engaged in manufacturing crank shafts, connecting rods and stub axle forgings.

Pursuant to the Scheme which was approved by the High Court of Judicature at Bombay on 21<sup>st</sup> March, 2006, the Chakan unit of AIL was demerged and transferred to your Company with effect from 1<sup>st</sup> April, 2005. The Scheme resulted in accounting of goodwill of Rs.86.92 crores for your Company which amount will be amortized over 5 years beginning with the current financial year.

The Scheme also entailed an expansion of the capital base of the Company by issue of one equity

share and one preference share to the equity shareholders of AIL for every one equity share held in AIL as consideration for the business acquired under the Scheme. In accordance with the Scheme the word "Private" was dropped from your Company's name in the current year. Arrangements are underway for listing the equity shares and preference shares on the Bombay Stock Exchange Limited.

The gross income in the first year of operations amounted to Rs.204.26 crores and an operating profit of Rs.11.13 crores was registered. After depreciation and accounting for the major expenditure on business acquisition including provision for debt guaranteed under the Scheme as well as previously anticipated write off of obsolete items of stocks and doubtful book debts, the net resulted in a loss of Rs.11.94 crores.

As a result of the transfer of the Chakan unit of AIL, your Company has made a foray into the forging industry. This is a strategic step which will help in synergizing resources in a meaningful manner.

The general business environment in the industry has been buoyant owing to high growth being witnessed in the automobile sector. During the year, your Company set up a world class machining unit at Chakan and the same was commissioned in April, 2006.

#### Outlook

The demand in the automotive industry continues to be buoyant and the Company is expected to achieve better turnover and profitability in the coming years as a result of the organic and inorganic growth envisaged.

#### Dividend

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

#### Finance

Your Company became a direct subsidiary of Mahindra & Mahindra Limited (M&M), effective from 2<sup>nd</sup> June, 2005 following purchase by it from Mahindra Holdings & Finance Limited also its subsidiary, of 10,160 equity shares held in the Company and additional direct acquisition of 82,11,866 equity shares of Rs.10 each at a premium of Rs.87.42 per share aggregating Rs.80 crores. M&M also paid share application money to

your Company towards subscription of 49,78,444 number of equity shares of Rs.10 each at a premium of Rs.87.42 each aggregating Rs.48.5 crores. The shares will be allotted to M&M pursuant to the Scheme. The aforesaid amounts are being utilized for financing capital expenditure of Chakan machining unit and a part will also be applied towards redeeming the preference capital issued pursuant to the Scheme.

In accordance with the Scheme the Authorised Share Capital of the Company was re-organised and increased from Rs.40,00,00,000 (Rupees Forty Crores Only) to Rs.78,94,26,386 (Rupees Seventy Eight Crores Ninety Four Lakhs Twenty Six Thousand Three Hundred Eighty Six Only) comprising of 3,30,00,000 equity shares of Rs.10 each aggregating to Rs.33,00,00,000 (Rupees Thirty Three Crores Only) and 1,48,20,206, 4% non-cumulative redeemable non convertible preference shares of Rs.31 each aggregating Rs.45,94,26,386 (Rupees Forty Five Crores Ninety Four Lakhs Twenty Six Thousand Three Hundred Eighty Six Only). Pursuant to the Scheme, one equity share and one preference share will be issued to the equity shareholders of Amforge Industries Limited (AIL) for every one equity share held in AIL. Consequent upon the aforesaid allotment of equity shares, your Company will cease to be a subsidiary of 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:

- (i) 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 31<sup>st</sup> March, 2006 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 basis.

#### **Directors**

Mr. Sanjay Joglekar, Mr. Romesh Kaul and Mr. Nikhilesh Panchal were appointed as Additional Directors of the Company at the Board Meeting held on 18<sup>th</sup> August, 2005.

Mr. S. Durgashankar and Mr. Sanjay Joglekar resigned as Directors of the Company at the Board Meeting held on 28<sup>th</sup> April, 2006. The Board has placed on record its appreciation of the services rendered by Mr. S. Durgashankar and Mr. Sanjay Joglekar during their tenure as Directors of the Company.

With a view to broad-base the Board and embarking on the wealth of experience and expertise of the Directors, 5 directors were appointed as Additional Directors of the Company subsequent to the year end viz. Mr. Anand G. Mahindra, Mr. V. K. Chanana, Mr. Zhooben Bhiwandiwalla, Mr. Fali Mama and Mr. Mohit Burman.

All the aforesaid Additional Directors hold office up to the date of the forthcoming Annual General Meeting. The Company has received notices from members signifying their intention to propose Mr. Anand G. Mahindra, Mr. V. K. Chanana, Mr. Romesh Kaul, Mr. Nikhilesh Panchal, Mr. Zhooben Bhiwandiwalla, Mr. Fali Mama and Mr. Mohit Burman as candidates for the office of Directors of the Company.

Mr. Anand G. Mahindra was also appointed as Chairman of the Company.

Mr. Hemant Luthra retires by rotation and, being eligible, offers himself for re-appointment.

#### **Audit Committee**

Subsequent to the year end, the Audit Committee was constituted by the Company and the terms of reference were approved by the Board. The Committee comprises of Mr. V. K. Chanana (Chairman of the Committee), Mr. Nikhilesh Panchal, Mr. Mohit Burman and Mr. R. R. Krishnan. A meeting of the Audit Committee was held for the purpose of reviewing and recommending the Balance Sheet and Profit & Loss Account for the year to the Board of Directors of the Company.

#### **Remuneration Committee**

Subsequent to the year end, the Remuneration Committee was constituted by the Company and the terms of reference were laid down. The Committee comprises of Mr. Anand G. Mahindra, Mr. Hemant Luthra, Mr. V. K. Chanana, Mr. Nikhilesh Panchal and Mr. Mohit Burman.



### **Auditors**

During the year under review, M/s. CVK & Associates, Chartered Accountants, resigned as Statutory Auditors of the Company. The Company wishes to place on record its sincere appreciation of the services rendered by them during their tenure.

M/s. B. K. Khare & Co., Chartered Accountants were appointed as Statutory Auditors by the Company at its Extra-Ordinary General Meeting held on 7<sup>th</sup> March, 2006. The said Auditors retire at the forthcoming Annual General Meeting and have given their consent for re-appointment. The members will be required to appoint Auditors for the current year and fix their remuneration.

As required under the provisions of Section 224 of the Companies Act, 1956, the Company has obtained a written certificate from the above Auditors proposed to be re-appointed to the effect that their re-appointment, if made, would be in conformity with the limits specified in the said Section.

### **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 with the parent company, Mahindra & Mahindra Limited.

### **Industrial Relations**

Industrial Relations remained satisfactory during the year under review. A productivity linked wage

agreement was settled with Workmen's union in April, 2006.

### **Safety, Health and Environmental Performance**

The Company has undertaken various initiatives on safety and health issues and has initiated various programmes to bring about general awareness among the employees on the same.

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

### **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 (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 are provided in the Annexure to this Report.

### **Particulars of Employees as required under Section 217(2A) of The Companies Act, 1956 and Rules framed there under**

The Company had no employee who was in receipt of remuneration of not less than Rs.24,00,000 during the year ended 31<sup>st</sup> March, 2006 or not less than Rs.2,00,000 per month during any part of the said year.

**For and on behalf of the Board**

**Anand G. Mahindra**  
Chairman

Mumbai, 28<sup>th</sup> April, 2006.

## Annexure to the 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 31<sup>st</sup> March, 2006

### A. CONSERVATION OF ENERGY

(a) During the year, the Company has taken the following initiatives for conservation of energy:

#### (i) Electrical Energy

1. Automatic power factor controller installed at 2000 KW heater to get maximum power factor.
2. 'Conserve Air' installed on air compressor and uniform air pressure of 6.4 Kg./Sq.cm from variable 7.0 Kg./Sq.cm.
3. Two Reciprocating Compressors are replaced by two Screw Compressors of same capacity with lower power consumption.
4. 32 Dia induction heater coil for 600 KW heater and 90 Dia coil for 2000 KW heater rectified with 'perfect coupling' for reduced power consumption.
5. The illumination in the plant is improved by fixing fiber transparent sheet which resulted in energy saving on use of flood lights during day time.
6. Energy conservation team is formed and various corrective measures have been worked out, actions are in process.

#### (ii) Fuel Energy

1. Optimum use of Diesel Generating Set.
2. One of the heat treatment furnaces of 1 Ton / Hour capacity converted from LDO to Furnace Oil.

(b) Additional investments and proposals, if any, being implemented for reduction of consumption of energy:

It is an ongoing process to upgrade the existing equipments from time to time in line with the new developing technologies.

(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:

Not ascertainable.

(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		2005-06
1. Electricity Purchased	: Quantity (KWH in Lakhs)	272.99
	: Total Amount (Rs. in Lakhs)	1016.02
	: Average Rate per unit (Rs.)	3.72
2. Furnace Oil *	: Quantity (Lakhs of Litres)	1.12
	: Total Amount (Rs. in Lakhs)	22.27
	: Average Rate per litre (Rs.)	19.88
*used for part of the year		
3. Light Diesel Oil	: Quantity (KL.)	2209.47
	: Total Amount (Rs. in Lakhs)	597.21
	: Average Rate per KL (Rs.)	27030
4. Consumption per unit of Production (Tons)	: Fuel Used : Electricity : Units : KWH / Ton	1149
	: Furnace Oil : : Litre / Ton	13.60
	: Light Diesel Oil : : Litre / Ton	94.81

## B. TECHNOLOGY ABSORPTION

### I. Research & Development :

- New Leco Spectrometer installed for material analysis.
- Up-gradation of Metallurgical laboratory as per latest technology.
- ZNC-EDM machine installed by replacing old EDM die sinking machine.
- Image analyzer added to the Metallurgical Laboratory.
- Control cooling conveyor installed for micro alloy forging.
- Full plant converted for oil base graphite lubrication system to water based graphite.
- 1000 T trimming press for 5000 T press line and 630 T trim press for 2500 T Press line installed.
- Implementing of H11/H14 dies for better die life.
- Adopting Plunger technology from UK for improving the yield.

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

- Immediate analysis of incoming and outgoing material.
- Better quality of dies is ensured.
- Better understanding of microstructure as well as its material quality.
- Bend free forgings

### III. Future plans of action:

- Understanding better technology like flashless forging for better yield product and more die life.
- Automation of Production process.
- Better product-mix.

### IV. Most of the R&D work is carried out in-house.

### V. Technology absorption, adaptation and innovation : Not applicable

## C. FOREIGN EXCHANGE EARNINGS AND OUTGO:

Total Foreign Exchange earned .....	Rs. 443.54 lakhs
Total Foreign Exchange used .....	Rs.2093.09 lakhs

For and on behalf of the Board

**Anand G. Mahindra**  
Chairman

Mumbai, 28<sup>th</sup> April 2006.

## Auditors' Report

### To the Members of Mahindra Automotive Steels Private Limited,

We have audited the attached Balance Sheet of Mahindra Automotive Steels Private Limited as at 31st March 2006, and also the Profit and Loss Account and the Cash Flow Statement for the year ended on that date, in which, are incorporated all assets and liabilities of the demerged undertaking (Chakan unit) of Amforge Industries Limited effective from 1st April 2005 in terms of Scheme of Arrangement approved by High Court of Bombay, 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 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.

1. As required by the Companies (Auditor's Report) Order, 2003, issued by the Central Government of India, in terms of Section 227(4A) 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.
2. Further to our comments in the Annexure referred to above, we report that:
  - (a) 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;
  - (c) 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, 2006 and taken on record by the Board of Directors, we report that none of the Directors is disqualified as on 31st March, 2006 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) The Accounts of the Company for the year ended 31st March, 2005 have been audited by other auditors and balances on that date have been considered as opening balances for the purpose of these accounts.
  - (g) Without qualifying our opinion, we invite attention to Note No.3 of Schedule 16, in accordance with which goodwill arising from the demerger will be amortised from the next financial year over a period of five years as in the opinion of the management on

which we have placed reliance the future economic benefits arising therefrom will accrue accordingly.

- (h) 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:
- i) in the case of the Balance Sheet, of the state of affairs of the Company as on 31st March, 2006;
  - 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*  
Membership No.44784

Mumbai, 28th April, 2006.

## **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 the assets have not been physically verified by the management during the year but 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.
  - ii.
    - (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 fixed assets, and for the sale of goods and services. 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 view of the fact that the share capital of the company as of the beginning of the year prior to demerger was less than Rs.50 lacs on facts the requirement of internal audit is not applicable to the company for the current year.
- 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 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. According to information and explanations given to us, there are no arrears of outstanding statutory dues as mentioned above as at 31<sup>st</sup> March 2006 for a period of more than six months from the date they became payable.
- (b) As on 31st March 2006, 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 of statute	Nature of dues	Amount Rupees lakhs	Period to which amount relates	Forum where pending
Central Excise Act	Excise duty	24.00	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 31.3.06. 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.919.23 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*  
Membership No.44784

Mumbai, 28th April, 2006.

**Balance Sheet as at 31st March, 2006**

	Schedule	2006 Rupees lakhs	2005 Rupees lakhs
<b>I. SOURCES OF FUNDS :</b>			
<b>Shareholders' Funds :</b>			
Share Capital .....	1	822.19	1.01
Share Capital Suspense .....	1A	6076.26	-
Share Application Money .....		4850.00	-
Reserves and Surplus .....	2	7178.81	-
		<b>18927.26</b>	<b>1.01</b>
<b>Loan Funds :</b>			
Secured Loans .....	3	4663.86	-
Unsecured Loans .....	4	2496.08	-
		<b>7159.94</b>	<b>-</b>
Total.....		<b>26087.20</b>	<b>1.01</b>
<b>II. APPLICATION OF FUNDS :</b>			
<b>Fixed Assets :</b>			
Gross Block .....		14947.64	-
Less : Depreciation .....		3094.23	-
Net Block .....		11853.41	-
Capital Work-in Progress .....		4324.15	-
<b>Total Fixed Assets</b> .....	5	<b>16177.56</b>	<b>-</b>
<b>Investments</b> .....	6	<b>275.73</b>	<b>-</b>
<b>Net Current Assets :</b>			
Current Assets .....	7	14105.84	1.11
Loans and Advances .....	8	1045.92	0.27
		<b>15151.76</b>	<b>1.38</b>
Less : Current Liabilities and Provisions .....	9	6712.58	21.28
<b>Net Current Assets</b> .....		<b>8439.18</b>	<b>(19.90)</b>
<b>Miscellaneous Expenditure</b> (To the extent not written off or adjusted) .....	10	-	20.91
<b>Profit &amp; Loss Account</b> .....		<b>1194.73</b>	<b>-</b>
Total.....		<b>26087.20</b>	<b>1.01</b>
<b>Notes to Accounts</b> .....	16		

As per our Report of even date

For B. K. Khare & Co.  
Chartered AccountantsPadmini Khare Kaicker  
Partner  
Membership No.44784

For &amp; on behalf of Board of Directors

Hemant Luthra  
V. K. Chanana  
R. R. Krishnan  
Ramesh Kaul  
Nikhilesh Panchal  
Fali Mama

Directors

Manoj Jain

Chief Financial Officer

Payal Vyas

Company Secretary

Mumbai, 28th April, 2006.

Mumbai, 28th April, 2006.

## Profit & Loss Account for the year ended 31st March, 2006

	Schedule	2006 Rupees lakhs	2005 Rupees lakhs
<b>I. INCOME :</b>			
Gross Sales .....		23160.43	-
Less : Excise duty on Sales .....		3268.44	-
Net Sales .....		19,891.99	-
Other Income .....	11	534.07	-
<b>NET INCOME</b> .....		<b>20426.06</b>	<b>-</b>
<b>II. EXPENDITURE :</b>			
Material Consumption .....	12	12561.76	-
Personnel Expenses .....	13	828.11	-
Other Expenses .....	14	5923.19	-
Interest & Finance cost .....	15	841.49	-
Depreciation .....		534.68	-
		<b>20689.23</b>	<b>-</b>
<b>Profit / (Loss) before contingency provision and tax</b> .....		<b>(263.17)</b>	<b>-</b>
Less : Contingency provision (Note 9 of Schedule 16) .....		919.23	-
<b>Profit / (Loss) before tax</b> .....		<b>(1182.40)</b>	<b>-</b>
Less : Provision for tax –			
Fringe Benefit Tax .....		12.33	-
<b>Loss for the year carried to the Balance Sheet</b> .....		<b>(1194.73)</b>	<b>-</b>
<b>Earning Per Share</b> (Note 24 of Schedule 16) (Face Value of Rs.10 per Share) :			
Basic .....		(19.37)	-
Diluted .....		(4.60)	-
<b>NOTES TO THE ACCOUNTS</b> .....	<b>16</b>		

As per our Report of even date

For **B. K. Khare & Co.**  
Chartered Accountants

**Padmini Khare Kaicker**  
Partner  
Membership No.44784

For & on behalf of Board of Directors

**Hemant Luthra**  
**V. K. Chanana**  
**R. R. Krishnan**  
**Romesh Kaul**  
**Nikhilesh Panchal**  
**Fali Mama**

Directors

**Manoj Jain**

Chief Financial Officer

**Payal Vyas**

Company Secretary

Mumbai, 28th April, 2006.

Mumbai, 28th April, 2006.

**Cash Flow Statement for the year ended 31st March, 2006 :**

	2006 Rupees Lakhs
<b>Profit/(Loss) before tax</b> .....	<b>(1,182.40)</b>
<b>Add : Adjustment for</b> :	
: Depreciation / Amortisation.....	534.67
: Bad Debts/Provision for doubtful debts/ Write off's/ Write back (Net)	386.67
: Interest (Expenses) .....	841.49
: Leave encashment .....	4.32
: Gratuity .....	7.97
: Contingency.....	919.23
: Miscellaneous Expenses Write Off .....	20.91
Sub-Total.....	1,532.86
<b>Less : Adjustments for</b> :	
: Interest / Dividend Income.....	377.93
: Profit / Loss on sale of investment.....	116.77
Sub-Total.....	494.70
<b>Operating Profit before Working Capital changes</b> .....	<b>1,038.16</b>
<b>Adjustments for</b> :	
: Trade & Other receivables.....	(386.84)
: Inventories .....	646.47
: Trade Payables .....	966.94
: Other Liabilities.....	157.42
: Loans & advances .....	(468.26)
<b>Cash generated from Operations</b> .....	<b>915.73</b>
Direct Taxes Paid.....	(97.00)
<b>Net cash from Operating Activities</b> .....	<b>1,856.89</b>
<b>Cash flow from Investing Activities</b> :	
: Purchase of Fixed Assets.....	(4,614.20)
: Purchase of Investments.....	(275.73)
: Profit / Loss on sale of investment.....	116.77
: Interest / Dividend received.....	377.93
<b>Net Cash from investing Activities</b> .....	<b>(4,395.23)</b>
<b>Cash flow from Financing Activities</b> :	
: Repayment of Term Loans.....	(294.75)
: Issue of Share Capital .....	12,849.99
: Repayment of Working Capital Loan.....	(370.24)
: Repayment of Unsecured Loans .....	(240.64)
: Interest Paid .....	(841.49)
<b>Net Cash from Financing Activities</b> .....	<b>11,102.87</b>
<b>Net [ (Decrease) / Increase ] in Cash &amp; Cash equivalents</b> .....	<b>8,564.54</b>
<b>Opening Cash / Bank Balances</b> .....	<b>152.27</b>
<b>Closing Cash / Bank Balances</b> .....	<b>8,716.80</b>

- Notes :** 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.
2. Cash and cash equivalents represents cash and bank balances only.
3. In absence of operations in Previous Year, there were no significant cash flow movements.
4. Opening balances of demerged undertaking at Chakan Unit of Amforge Industries Limited taken over by the Company as per Scheme of Arrangement approved by the Honourable High Court, Mumbai are considered for Cash Flow Statement.

**As per our Report of even date**

For **B. K. Khare & Co.**  
Chartered Accountants

**Padmini Khare Kaicker**  
Partner  
Membership No.44784

**For & on behalf of Board of Directors**

**Hemant Luthra**  
**V. K. Chanana**  
**R. R. Krishnan**  
**Romesh Kaul**  
**Nikhilesh Panchal**  
**Fali Mama**  
**Manoj Jain.**  
**Payal Vyas**

*Directors*

*Chief Financial Officer*  
*Company Secretary*

Mumbai, 28th April, 2006.

Mumbai, 28th April, 2006.

Schedule annexed to and forming part of financial statements as at 31st March, 2006.

## Schedule 1

### Share Capital

	2006 Rupees lakhs	2005 Rupees lakhs
<b>Authorised Capital :</b>		
3,30,00,000 (Previous Year : 4,00,00,000) Equity Shares of Rs.10 each .....	3300.00	4000.00
1,48,20,206 (Previous Year : Nil) 4% Non-Cumulative Redeemable Convertible Preference Shares of Rs.31 each .....	4594.26	-
Total.....	<u>7894.26</u>	<u>4000.00</u>
<b>Issued, Subscribed and Paid-up :</b>		
82,21,936 (Previous Year : 10,070) Equity Shares of Rs.10 each fully paid up.....	822.19	1.01
[Of the above, 82,21,926 Equity Shares are held by Mahindra & Mahindra Limited, the holding company]		
Total.....	<u>822.19</u>	<u>1.01</u>

## Schedule 1A

### Share Capital Suspense

	2006 Rupees lakhs	2005 Rupees lakhs
1,48,20,206 Equity Shares of Rs.10 each .....	1482.00	-
1,48,20,206 4% Non-Cumulative Redeemable Convertible Preference Shares of Rs.31 each [To be issued to the shareholders of Amforge Industries Limited in pursuance of the Scheme of Arrangement of Demerger approved by The High Court of Mumbai. (Refer Note 2 of Schedule16)]	4594.26	-
Total.....	<u>6076.26</u>	<u>-</u>

## Schedule 2

### Reserves & Surplus

	2006 Rupees lakhs	2005 Rupees lakhs
Share Premium Account .....	-	-
Additions during the year (Rs.87.42 per share on 82,11,866 Equity Shares) .....	7178.81	-
Total.....	<u>7178.81</u>	<u>-</u>

## Schedule 3

### Secured Loans

	2006 Rupees lakhs	2005 Rupees lakhs
Term Loan from Banks .....	2200.96	-
Term Loans from Financial Institutions [amount repayable within one year Rs.509.82 lakhs (Previous Year : Rs.Nil)] .....	895.14	-
Working Capital Loan from Banks (Note 5 of Schedule 16) .....	1567.76	-
Total.....	<u>4663.86</u>	<u>-</u>



Schedule annexed to and forming part of financial statements as at 31st March, 2006.

**Schedule 4****Unsecured Loans**

	2006 Rupees lakhs	2005 Rupees lakhs
Interest free Sales tax loan.....	1994.65	-
Short Term Loan from Banks .....	501.43	-
Total.....	<b>2496.08</b>	-

**Schedule 5****Fixed Assets**

Description	Gross Block			Depreciation			Net Block	
	* As at 1st April, 2005	Addition during the year	As at 31st March, 2006	As at 1st April, 2005	Addition during the year	As at 31st March, 2006	As at 31st March, 2006	As at 1st April, 2005
Goodwill .....	8692.64	-	8692.64	-	-	-	8692.64	8692.64
Freehold Land .....	51.74	-	51.74	-	-	-	51.74	51.74
Leasehold Land.....	-	-	-	-	-	-	-	-
Building .....	883.65	76.46	960.11	158.95	27.26	186.21	773.90	724.70
Plant & Machinery # ...	4742.04	337.68	5079.72	2373.54	496.69	2870.23	2209.49	2368.50
Furniture & Fittings .....	92.17	13.20	105.37	23.90	7.70	31.60	73.77	68.27
Vehicles.....	11.62	46.44	58.06	3.16	3.03	6.19	51.87	8.46
<b>Total.....</b>	<b>14473.86</b>	<b>473.78</b>	<b>14947.64</b>	<b>2559.55</b>	<b>534.68</b>	<b>3094.23</b>	<b>11853.41</b>	<b>11914.31</b>
Previous Year.....	-	-	-	-	-	-	-	-

**Capital Work-in-Progress :**

Plant & Machinery .....	3696.64	-
Building .....	312.53	-
Capital Advance .....	298.18	-
Finance Cost .....	16.80	-
<b>Total Capital Work-in-Progress ...</b>	<b>4324.15</b>	-
<b>Total Fixed Assets.....</b>	<b>16177.56</b>	<b>11914.31</b>

\* Opening balances of demerged undertaking at Chakan Unit of Amforge Industries Limited taken over by the Company as per Scheme of Arrangement approved by the Honourable High Court, Mumbai.

# Include assets for Rs.64.32 lakhs acquired under hire purchase arrangement.

Schedule annexed to and forming part of financial statements as at 31st March, 2006.

## Schedule 6

### Investments

	2006 Rupees lakhs	2005 Rupees lakhs
<b>Long Term Investments :</b>		
(Non Trade, unquoted, valued at cost)		
50 fully paid up shares of Rs.10 each in The Saraswat Co-operative Bank Limited (Previous year : Nil) .....	0.01	-
<b>Current Investments :</b>		
(Non Trade, Unquoted, valued at lower of cost and fair value)		
27,26,814 units of face value of Rs.10 each in Standard Chartered Mutual Fund (Previous year : Nil) .....	275.72	-
Total.....	275.73	-

Market Value of Current Investments **Rs.276.11 lakhs** (Previous Year : Rs.Nil)

#### Movement of Investments during the year:

	Unit Purchased	Unit Sold
	Nos.	Nos.
HSBC Mutual Fund .....	1,18,91,863	1,18,91,863
Grindlays Mutual Fund .....	1,41,13,795	1,41,13,795
HDFC Mutual Fund .....	1,07,37,602	1,07,37,602
Kotak Mutual Fund .....	1,10,95,003	1,10,95,003
ICICI Mutual Fund .....	90,17,078	90,17,078
Tata Liquid Fund .....	81,104	81,104
Templeton Mutual fund.....	1,42,735	1,42,735
Standard Chartered Mutual Fund.....	98,89,925	71,63,111

Schedule annexed to and forming part of financial statements as at 31st March, 2006.

**Schedule 7****Current Assets**

	2006 Rupees lakhs	2005 Rupees lakhs
<b>Inventories</b> [Refer Note 1(iv) of Schedule 16] (Valued at Cost or net realisable value whichever is lower) :		
Raw Material & Components.....	1,814.29	-
Work-in-progress.....	378.39	-
Stores & Spares.....	189.11	-
Die steel blocks.....	100.72	-
Scrap.....	2.94	-
Finished Goods.....	528.72	-
Dies (at cost less amortisation/write off).....	604.93	-
	<b>3,619.10</b>	<b>-</b>
<b>Sundry Debtors (Unsecured) :</b>		
Outstanding over six months		
Considered Good.....	229.97	-
Considered Doubtful.....	178.05	-
	<b>408.02</b>	<b>-</b>
Other Debts :		
Considered Good.....	1,539.97	-
Less : Provision for doubtful debts.....	178.05	-
	<b>1,769.94</b>	<b>-</b>
<b>Cash &amp; Bank Balances :</b>		
Cash on hand.....	3.89	0.02
Balances with Scheduled Banks :		
In Current account.....	128.16	1.09
In Fixed Deposit account.....	8,477.96	-
In Margin money Deposit account.....	106.79	-
	<b>8,716.80</b>	<b>1.11</b>
<b>Total.....</b>	<b>14,105.84</b>	<b>1.11</b>

**Schedule 8****Loans and Advances** [Unsecured, considered good]

	2006 Rupees lakhs	2005 Rupees lakhs
Advances recoverable in cash or in kind or for value to be received.....	263.67	-
Balance with Excise / Custom / Sales tax Authorities.....	493.25	-
Deposits.....	204.33	0.27
Advances taxes (Net of Provision).....	84.67	-
<b>Total.....</b>	<b>1045.92</b>	<b>0.27</b>

Schedule annexed to and forming part of financial statements as at 31st March, 2006.

## Schedule 9

### Current Liabilities & Provisions

	2006 Rupees lakhs	2005 Rupees lakhs
<b>Current Liabilities :</b>		
Sundry Creditors (Note 21 of Schedule 16).....	5115.39	-
Interest accrued but not due on loans .....	31.36	-
Other Liabilities .....	559.62	21.28
	<u>5706.37</u>	<u>21.28</u>
<b>Provisions :</b>		
Gratuity.....	64.96	-
Leave Encashment.....	22.02	-
Contingencies .....	919.23	-
	<u>1006.21</u>	<u>-</u>
Total.....	<u>6712.58</u>	<u>21.28</u>

## Schedule 10

### Miscellaneous Expenditure

(To the extent not written off or adjusted)

	2006 Rupees lakhs	2005 Rupees lakhs
Preliminary Expenses.....	-	0.28
Pre-operative Expenses.....	-	20.63
Total.....	<u>-</u>	<u>20.91</u>

## Schedule 11

### Other Income

	2006 Rupees lakhs	2005 Rupees lakhs
Interest on Deposits [Tax deducted at source Rs.84.67 lakhs (Previous Year : Rs.Nil) ] .....	377.93	-
Profit on sale of Short Term Investments .....	116.77	-
Miscellaneous Income.....	39.37	-
Total.....	<u>534.07</u>	<u>-</u>

Schedule annexed to and forming part of financial statements as at 31st March, 2006.

**Schedule 12****Material Consumption**

		2006 Rupees lakhs	2005 Rupees lakhs
Raw Material and Components Consumed .....		12237.21	-
(Increase) / Decrease in Stocks :			
Opening Stock :			
: Work-in-Progress .....	573.50	-	
: Scrap .....	14.43	-	
: Finished Goods .....	646.67	-	
	1234.60		
Closing Stock :			
: Work-in-Progress .....	378.39	-	
: Scrap .....	2.94	-	
: Finished Goods .....	528.72	-	
	910.05		
(Increase) / Decrease in Stocks : .....	324.55	-	
Total.....	12561.76	-	

**Schedule 13****Personnel Expenses**

		2006 Rupees lakhs	2005 Rupees lakhs
Salaries, Wages, Bonus, etc. ....	708.64	-	
Contribution to Provident & Other funds .....	37.06	-	
Staff Welfare Expenses .....	82.41	-	
Total.....	828.11	-	

Schedule annexed to and forming part of financial statements as at 31st March, 2006.

## Schedule 14

### Other Expenses

	Rupees lakhs	2006 Rupees lakhs	2005 Rupees lakhs
<b>Manufacturing Expenses :</b>			
Processing Charges .....		351.34	-
Excise Duty .....		114.50	-
Power, Fuel & Oil .....		1,923.17	-
Dies Consumed / Amortised .....		1,322.89	-
Stores and Spares consumed .....		268.36	-
Other Manufacturing Expenses .....		105.42	-
Repairs & Maintenance : Plant & Machinery .....	498.71		-
: Buildings .....	7.02		-
: Others .....	19.93		-
		525.66	-
		4,611.34	-
<b>Administrative &amp; Selling Expenses :</b>			
Rent, Rates & Taxes .....		15.87	-
Insurance .....		15.04	-
Freight & Packing .....		250.00	-
Printing & Stationery .....		10.24	-
Telephone Expenses .....		10.01	-
Travelling & Conveyance .....		35.68	-
Cash Discounts .....		30.74	-
Corporate Expenses reimbursed .....		180.00	-
Demerger expenses .....		198.25	-
Bad Debts Written off .....		142.38	-
Old Balances Written off .....		66.24	-
Provision for Doubtful debts .....		178.05	-
Preliminary / Pre-operative Expenses Written off .....		20.91	-
Other Administrative & Selling Expenses .....		158.44	-
		1,311.85	-
Total.....		5,923.19	-

## Schedule 15

### Interest & Finance Cost

	2006 Rupees lakhs	2005 Rupees lakhs
On fixed period loans. ....	475.76	-
On Others .....	365.73	-
Total.....	841.49	-



## Schedule 16

### Notes forming part of the Accounts for the Year ended 31st March, 2006

#### 1. 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 account 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. Cost of leasehold land is amortized over the period of lease.

(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) 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.

##### (iv) Inventories

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

##### A. 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 & FGs it includes material cost, labour, where appropriate, manufacturing overheads & excise duty.

B. 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.

##### (v) 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 monetary items incurred for the acquisition of fixed assets from a country outside India, the exchange differences are adjusted to the cost of such assets.

(vi) Intangible Assets :

All Intangible Assets are initially measured at cost and amortised so as to reflect the pattern in which the asset's economic benefits are consumed.

(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.

(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 are recognised 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 realised.

2. In accordance with the Scheme of Arrangement and Demerger which was approved by the Hon'ble Bombay High Court on March 21, 2006, the business undertaking of Chakan unit of Amforge Industries Limited, herein after referred to as demerged undertaking has been demerged and vested in the Company with effect from the appointed date i.e. April 1, 2005. The Scheme has accordingly been given effect to in these accounts.

This demerged undertaking is engaged in carrying on the business of manufacture and sale of forging components and related activities.

In terms of the scheme, all the assets and liabilities of the demerged undertaking have been accounted for at their carrying amounts on April 1, 2005. As per the Scheme and in consideration of the above, the Company will issue 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 Non Convertible Preference Shares of Rs.31 each aggregating to Rs.4,594.26 lakhs. These shares will be issued in the ratio of one equity share & one preference share for every one equity share held by the shareholders of Amforge Industries Limited. Pending allotment of these shares, have been disclosed under the head "Share Capital Suspense" in the Balance Sheet.

Consequent upon giving effect to the Scheme of Demerger, an amount of Rs.8,692.65 lakhs arising as Goodwill, being the difference between the aggregate value of equity shares and preference shares to be allotted and net book value of assets and liabilities of the Chakan undertaking as on April 1, 2005, has been disclosed under "Goodwill".

In view of the aforesaid demerger with effect from April 1, 2005 the figures for the current year are not comparable with those of the previous year.

3. Goodwill arising on demerger has not been amortised in the current financial year as the economic benefits there from are expected to accrue over a period of five years from the next financial year.
4. During the year, company has made rights issue of 82,11,866 equity shares of face value of Rs.10 each at a premium of Rs.87.42 per equity shares in the ratio of 816 equity shares for every one equity share held as on June 2, 2005.

**5. Borrowings and Securities :**

Name of the Lender	Type of Loan	Repayment Schedule
Industrial Investment Bank of India .....	Long Term Loan	14 equal quarterly installments till September, 2009
Industrial Investment Bank of India .....	Funded Interest Term Loan (0% coupon bonds)	12 equal quarterly installments till March, 2010.
Life Insurance Corporation of India .....	Long Term Loan	14 equal quarterly installments till September, 2009
Life Insurance Corporation of India .....	Funded Interest Term Loan	14 equal quarterly installments till September, 2009
Life Insurance Corporation of India .....	Funded Interest Term Loan	Single bullet payment in December, 2010
State Bank of India .....	Working Capital Term Loan	56 equal monthly installments from October, 2007
State Bank of India .....	Funded Interest Term Loan	64 equal monthly installments from April, 2006
South Indian Bank Limited .....	Term Loan	Within one year.

All the term lenders have 1st charge on immovable assets & 2nd charge on movable assets as on 01-04-2005. Whereas Working Capital lenders have 1st charge on movable assets and 2nd charge on Immovable assets of the company. The Documentation for creation of security, in respect of some of the Borrowings is pending.

**6. Contingent Liabilities not provided for**

(Rs. in Lakhs)

Particulars	As at 31st March, 2006
(i) Bank Guarantees outstanding in favour of the Government and other parties.....	161.08
(ii) Letters of Credit issued by banks on behalf of the Company and outstanding.....	1222.37
(iii) (a) Towards Excise Duty demands in respect of which the Company has preferred an appeal .....	53.62
(b) Towards SCN issued by Excise Department .....	66.98
(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.2341.23 lakhs.

7. 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 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.
8. Estimated value of contracts remaining to be executed on capital account (net of advances) and not provided for Rs.1406.95 lakhs.
9. The Company has furnished a guarantee in respect of certain liabilities amounting to Rs.919.23 lakhs for which a provision has been made in the books of account, in view of the likely default by the principal debtor.

**10. Auditors' Remuneration**

		(Rupees Lakhs)	
		Current Year	Previous Year
(i)	Audit Fees	5.00	0.09
(ii)	Tax Audit Fees	1.00	-
(iii)	Certifications/Limited Review Reports	-	0.02
(iv)	Service Tax	*0.00	0.01
Total.....		6.61	0.12

\* Exclusive of Service tax Rs.0.61.

**11. Capacities and Production (Previous Year: Nil) :**

	Unit	Installed Capacity (3 shifts basis)	Production
Forging .....	M.T.	40,992	23,761

**12. Turnover, Opening and Closing Stocks (Previous Year : Rs.Nil) :**

		(Value in Rupees lakhs)					
	Unit	Turnover		Opening Stock		Closing Stock	
		Quantity	Value	Quantity	Value	Quantity	Value
Forging .....	M.T.	23,500	23160.43	436	604.40	697	528.72

**13. Raw Materials & Components Consumed (Previous Year : Nil) :**

	M.T.	Rupees lakhs
Steel.....	33,995	12237.21

**14. Value of Raw Material and Components Consumed (Previous Year : Rs.Nil) :**

	Rupees lakhs	%
Indigenous .....	12,230.07	100
Imported.....	7.14	Negligible
Total.....	12,237.21	100

**15. Value of Stores & Spares Consumed (Previous Year : Rs.Nil) :**

	Rupees lakhs	%
Indigenous .....	257.15	95.82
Imported.....	11.21	4.18
Total.....	268.36	100

**16. Value of Imports (C.I.F.) (Previous Year : Rs.Nil) :**

Sr. No.	Particulars	Rupees lakhs
(i)	Stores and Spares .....	11.21
(ii)	Capital Goods .....	2032.44
(iii)	Raw Material .....	7.14
	Total.....	2050.79

**17. Earnings in Foreign Exchange (Previous Year : Rs.Nil) :**

Particulars	Rupees lakhs
Exports [F.O.B. Value] .....	443.54

**18. Expenditure in Foreign Currency (Previous Year : Nil) :**

Sr. No.	Particulars	Rupees lakhs
(i)	Foreign Travel .....	8.51
(ii)	Technical Consultancy.....	33.79
	Total.....	42.30

**19. Assets acquired on hire purchase – CNC Machines :**

- (i) The total minimum lease payments as at March 31, 2006 is **Rs.15.00 lakhs** (Previous Year : Rs.Nil) maturing within one year and
- (ii) Present value of minimum lease payments as at March 31, 2006 is **Rs.14.52 lakhs** (Previous Year Rs.Nil).

- 20.** The company has recognized deferred tax assets only to the extent that there are timing differences the reversal of which will absorb the aforesaid deferred tax assets. In line with Accounting Standard – 22 issued by the Institute of Chartered Accountants of India, (Accounting for Taxes on Income), on principles of prudence, the company has not recognized in the accounts, deferred tax assets aggregating Rs.557.94 lakhs as at 31st March, 2006.

The major components of the Deferred Tax Assets as on 31st March, 2006 based on the tax effects of the timing differences, are as follows.

		(Rupees lakhs)
Sr. No.	Particulars	Current year
A	Timing Difference of Depreciation between Taxation & Books of Accounts.....	375.66
B	Unabsorbed Depreciation .....	4.71
C	Carried Forward Business Losses .....	370.95
	Total.....	375.66

- 21.** The Company has an outstanding of **Rs.29,68,140** (Previous Year : Rs.Nil) 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 below:

Shreeram Engineers	Jaybee Steel Treaters Private Limited
Shakun Auto Parts Private Limited	Stride Engineers
United Engineering Works	S.R Engineers
J. K. Engineers	Laxmi Engineering
Radiant Industries	Vijaya Engg. Company
Forebros Tools (P) Limited	Sant Kruppa Engineering & Cutting Works

22. 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.
23. Related Party Disclosures as required by Accounting Standard – 18 issued by the Institute of Chartered Accountants of India, are given below:

(a) Enterprise controlling the Company : **Mahindra & Mahindra Limited**

(b) Are under common control including fellow subsidiaries :

Sr.No.	Name of subsidiary company
1	Automartindia Limited
2	Tech Mahindra (R&D) Services Pte. Limited (with effect from 28th November, 2005)
3	Tech Mahindra (R&D) Services Inc. (with effect from 28th November, 2005)
4	Bristlecone Limited, Cayman Islands
5	Bristlecone (Singapore) Pte. Limited
6	Bristlecone (UK) Limited
7	Bristlecone GmbH
8	Bristlecone Inc.
9	Bristlecone India Limited
10	Jensand Limited (3 <sup>rd</sup> January, 2006)
11	Mahindra & Mahindra Financial Services Limited
12	Mahindra & Mahindra South Africa (Proprietary) Limited
13	Mahindra (China) Tractor Company Limited (with effect from 13th May, 2005)
14	Mahindra Acres Consulting Engineers Limited
15	Mahindra Ashtech Limited
16	Mahindra Holdings & Finance Limited
17	Mahindra Engineering & Chemical Products Limited
18	Mahindra Engineering Design & Development Co. Limited
19	Mahindra Europe s.r.l. (with effect from 30th May, 2005)
20	Mahindra Gesco Developers Limited
21	Mahindra Gujarat Tractor Limited
22	Mahindra Holidays & Resorts (India) Limited
23	Mahindra Holidays & Resorts USA, Inc.
24	Mahindra Infrastructure Developers Limited
25	Mahindra Insurance Brokers Limited
26	Mahindra International Limited (with effect from 1st November, 2005)
27	Mahindra Intertrade Limited
28	Mahindra Logisoft Business Solutions Limited
29	Mahindra Middleeast Electrical Steel Service Centre (FZC)
30	Mahindra Overseas Investment Company (Mauritius) Limited
31	Mahindra Realty Limited (with effect from 21st September, 2005)
32	Mahindra Renault Private Limited (with effect from 5th August, 2005)
33	Mahindra Sar Transmission Private Limited



Sr.No.	Name of subsidiary company
34	Mahindra Shubhlabh Services Limited
35	Mahindra Steel Service Centre Limited
36	Mahindra Ugin Steel Company Limited (with effect from 21st June, 2005)
37	Mahindra USA, Inc
38	Mahindra World City (Jaipur) Limited (with effect from 26th August, 2005)
39	Mahindra World City Developers Limited
40	Mahindra-BT Investment Company (Mauritius) Limited (with effect from 9th May, 2005)
41	NBS International Limited
42	Plexion Technologies (UK) Limited (with effect from 15th February, 2006)
43	Plexion Technologies GmbH, Germany (with effect from 15th February, 2006)
44	Plexion Technologies Incorporated, USA (with effect from 15th February, 2006)
45	Plexion Technologies (India) Private Limited (with effect from 15th February, 2006)
46	Stokes Forgings Dudley Limited (with effect from 3rd January, 2006)
47	Stokes Forgings Limited (with effect from 3rd January, 2006)
48	Stokes Group Limited (with effect from 3rd January, 2006)
49	Tech Mahindra (R&D Services) Limited (with effect from 28th November, 2005)
50	Tech Mahindra (Americas) Inc.
51	Tech Mahindra (GmbH)
52	Tech Mahindra (Singapore) Pte. Limited
53	Tech Mahindra Limited
54	Tech Mahindra (Thailand) Limited (with effect from 21st February, 2006)
55	Tech Mahindra Foundation (with effect from 22nd March, 2006)

## (c) Transactions with related parties

		(Rupees Lakhs)	
Sr. No.	Nature of Transactions	Enterprises controlling the Company	Companies under common control including Fellow subsidiaries
1.	Sales : Goods .....	3654.80	-
	: Scrap.....	-	1327.90
2	Purchases : Raw material .....	-	5762.80
	: Capital goods .....	1782.04	-
	: Services .....	58.86	-
3	Payment of Rent .....	-	22.00
4	Advance for expenses received.....	-	0.50
5	Inter-corporate Deposit accepted and refunded.	-	600.00
6	Interest on ICD paid .....	-	6.51
7	Interest on delayed payments.....	17.14	-
8	Outstandings : Receivables .....	661.51	-
	: Payables .....	38.50	1298.24
9	Advance for expenses payable.....	-	21.65

**24. Earnings per Share :**

Profit/(Loss) as per the Profit & Loss Account .....	(Rupees Lakhs)	(1194.73)
Weighted Average Number of equity shares outstanding during the year .....	(Nos.)	61,68,970
Potential Ordinary (Equity) shares .....	(Nos.)	2,59,67,620
Basic Earnings per share .....	(Rs.)	(19.37)
Diluted Earnings per share .....	(Rs.)	(4.60)

- 25.** Balances of Sundry Debtors and Creditors are subject to confirmation.
- 26.** In the opinion of the Board, current assets, loans and advances have a value not less than the amount at which they are stated.
- 27.** Figures for the previous year have been regrouped and rearranged wherever necessary and are not comparable with those of the current year.

**Signatures to Schedule 1 to 16**

**As per our Report of even date**

For **B. K. Khare & Co.**  
Chartered Accountants

**Padmini Khare Kaicker**  
Partner  
Membership No.44784

**For & on behalf of Board of Directors**

**Hemant Luthra**  
**V. K. Chanana**  
**R. R. Krishnan**  
**Romesh Kaul**  
**Nikhilesh Panchal**  
**Fali Mama**

*Directors*

**Manoj Jain**

*Chief Financial Officer*

**Payal Vyas**

*Company Secretary*

Mumbai, 28th April, 2006.

Mumbai, 28th April, 2006.

# **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 :**

### **I. Registration Details**

Registration No.	1	1	-	1	2	1	2	8	5	of	1	9	9	9	State Code	1	1
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Balance Sheet Date	3	1	0	3	2	0	0	6
	Date			Month		Year		

### **II. Capital raised during the year (Amount in Rs. Lakhs)**

Public Issue								
					N	I	L	
Bonus Issue								
					N	I	L	

Rights Issue								
					8	2	1	
Private Placement								
					N	I	L	

### **III. Position of Mobilisation and Deployment of Funds (Amount in Rs. Lakhs)**

Total Liabilities								
			3	2	8	0	0	

Total Assets								
			3	2	8	0	0	

#### Sources of Funds :

Paid-up Capital								
					8	2	2	
Share Application Money								
					4	8	5	0
Secured Loans								
					4	6	6	4

Reserves & Surplus								
					7	1	7	9
Share Capital Suspense								
					6	0	7	6
Unsecured Loans								
					2	4	9	6

#### Application of Funds :

Net Fixed Assets								
			1	1	8	5	3	
Investments								
					2	7	6	
Accumulated Losses								
					1	1	9	5

Capital Work-in-Progress								
					4	3	2	4
Net Current Assets								
					8	4	3	9

**IV. Performance of the Company (Amount in Rs. Lakhs) :**

		Turnover							Total Expenditure				
		2	0	4	2	6			2	0	6	8	9
+	-	Net Loss											
	✓			1	1	9	5						

(Please tick appropriate box + for Profit - for Loss)

Earnings per Share in Rs. - Basic							Earnings per Share in Rs. - Diluted							
		(-)	1	9	.	3	7			(-)	4	.	6	0

Dividend							
					N	I	L

**V. Generic Names of Three Principal Products / Services of Company (as per monetary terms) :**

Item Code No. (ITC Code)				7	3	2	6	9	0
Product Description		F	O	R	G	I	N	G	S

**For & on behalf of Board of Directors**

**Hemant Luthra  
V. K. Chanana  
R. R. Krishnan  
Romesh Kaul  
Nikhilesh Panchal  
Fali Mama**

*Directors*

**Manoj Jain**

*Chief Financial Officer*

**Payal Vyas**

*Company Secretary*

Mumbai, 28th April, 2006.

**Notes :**

[illegible]

## **Mahindra Automotive Steels Limited**

Regd. Office : Mahindra Towers, P. K. Kurne Chowk, Worli, Mumbai 400 018, India.