MUSCO

# MAHINDRA UGINE STEEL COMPANY LIMITED

45th

Annual Report

2007-2008

## BOARD OF DIRECTORS

Keshub Mahindra — *Chairman*

Anand G. Mahindra — *Vice Chairman*

K. V. Ramarathnam — *Managing Director*

Deepak Dheer — *Executive Director*

Dr. Homi N. Sethna

M. R. Ramachandran

R. R. Krishnan

Hemant Luthra

Rajeev Dubey

S. Ravi

K.B.Saha *(nominee of LIC)*

**EXECUTIVE VICE PRESIDENT – FINANCE & MIS**

R. Sundaresan

**COMPANY SECRETARY**

Ajay Kadhao

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**BANKERS**
State Bank of India
Dena Bank
Bank of Baroda
Bank of India
ING Vysya Bank Ltd.
Standard Chartered Bank
DBS Bank Ltd.
Yes Bank Ltd.
IDBI Bank Ltd.

**AUDITORS**
M/s. A. F. Ferguson & Co.

**SOLICITORS**
M/s. Khaitan & Co.

**REGISTERED OFFICE**
74, Ganesh Apartment,
Opp. Sitaladevi Temple,
L.J. Road, Mahim,
Mumbai - 400016.
Tel. No. : 022-24444287 Telefax : 022-24458196
website: www.muscoindia.com
E-mail: investors_relation@mahindra.com
kadhao.ajay@mahindra.com

**WORKS**
**Steel:**
Jagdishnagar, Khopoli - 410 216,
District Raigad, Maharashtra
Tel. No. : 02192-263318/347
Fax No. : 02192-263073/6

**Stampings :**

1. 371, Takwe Road, At & Post: Kanhe,
   Dist. Pune - 412 106.
   Tel. No. : 02114-255289/294, Fax No. : 02114-255293
2. Plot No. D-2, MIDC, Ambad, Nashik- 422 010.
   Tel. No. : 0253-2387510/11/12/13,
   Fax No. : 0253-2382876
3. Maharajpur Road, Lalpur, Rudrapur
   (U.S.Nagar), Uttarakhand - 263143
   Tel No. : 05944-280921

**REGISTRAR & TRANSFER AGENTS**
**Sharepro Services (India) Pvt. Ltd.**
Satam Estate, 3rd Floor, Above Bank of Baroda,
Cardinal Gracious Road, Chakala, Andheri (East),
Mumbai - 400 099.
Tel.: 022-28215168/67720400
Fax: 022-28375646

**— Please bring your copy of the Annual Report at the Meeting.**

## NOTICE

The Forty–fifth Annual General Meeting of the Members of MAHINDRA UGINE STEEL COMPANY LIMITED will be held on Thursday, the 24th day of July, 2008 at 3.00 p.m. at Amar Gian Grover Auditorium, Lala Lajpat Rai Marg, Mahalaxmi, Haji Ali, Mumbai – 400 034, to transact the following business:

**ORDINARY BUSINESS:**

1) To receive and adopt the audited Balance Sheet as at 31st March, 2008 and the Profit and Loss Account for the year ended on that date and the Reports of the Directors and the Auditors thereon.
2) To declare Dividend on Equity Shares.
3) To appoint a Director in place of Mr. Hemant Luthra, who retires by rotation and being eligible, offers himself for re-appointment.
4) To appoint a Director in place of Mr. R.R. Krishnan, who retires by rotation and being eligible, offers himself for re-appointment.
5) To appoint a Director in place of Mr. S. Ravi, who retires by rotation and being eligible, offers himself for re-appointment.

**SPECIAL BUSINESS**

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

   "RESOLVED that subject to the provisions of sections 224, 225 and other applicable provisions, if any, of the Companies Act, 1956, M/s. Deloitte Haskins & Sells, Chartered Accountants, be appointed as the Statutory Auditors of the Company to hold office from the conclusion of this Annual General Meeting until the conclusion of the next Annual General Meeting, in place of the retiring Auditors M/s. A.F.Ferguson & Co., Chartered Accountants, to conduct the audit of the Accounts of the Company for the Financial Year 2008-09, on such remuneration as may be mutually agreed upon between the Board of Directors of the Company and the Auditors, plus service tax and out of pocket expenses."

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

"RESOLVED that pursuant to the provisions of sections 198, 269, 309, 310, 311 and all other applicable provisions of the Companies Act, 1956 (the Act), (including any statutory modification or re-enactment thereof for the time being in force), read with Schedule XIII of the Act and subject to the approval of the Central Government, if necessary, and such other approvals, permissions and sanctions, as may be required and subject to such conditions and modifications, as may be prescribed or imposed by any of the authorities in granting such approvals, permissions and sanctions, approval of the Company be accorded to the revision in remuneration payable to Mr. K. V. Ramarathnam as the Managing Director of the Company (hereinafter referred to as "Managing Director"), with effect from 1st April, 2007, for the reminder of his term of office, as follows:

| | | |
|---|---|---|
| **Salary** | | : Rs.2,25,000/- per month in the scale of Rs.1,10,000/- to Rs.2,25,000/- per month. |
| **Perquisites** | | : In addition to the salary, the Managing Director shall be entitled to the following perquisites in accordance with the rules of the Company. |
| i) | Housing | : Furnished residential accommodation or House Rent Allowance of 60% of salary in lieu thereof; |
| ii) | Gas, Electricity & Water | : The expenditure incurred on gas, electricity, water will be borne by the Company subject to Income Tax rules; |
| iii) | Medical re-imbursement | : Expenses incurred for the Managing Director and his family as per the Company's rules; |
| iv) | Leave Travel Concession | : For Managing Director and his family, once in a year, incurred in accordance with the Company's rules; |
| v) | Club Fees | : Fees of clubs, subject to a maximum of two Clubs. This will not include admission and life membership fees; |
| vi) | Personal Accident Insurance | : Premium as per the Company's rules; |
| vii) | Contribution to Funds | : Contribution to Provident Fund, Superannuation Fund, Gratuity Fund as per the Company's rules; |
| viii) | Encashment of Leave | : Encashment of leave not availed of by the Managing Director as per the Company's rules; |
| ix) | Provision of a car and telephone | : Provision of a car and telephone at the Managing Director's residence for his use as per Company's rules; |
| x) | Other benefits | : Such other benefits, amenities and facilities as per the Company's rules. |

The value of perquisites would be evaluated as per Income Tax Rules, 1962 wherever applicable and at cost in the absence of any Rule.

**Commission:**

In addition to the salary and perquisites, the Managing Director would be entitled to such commission based on the net profits of the Company in any financial year not exceeding one per cent of such profits as the Remuneration Committee shall decide, having regard to the performance of the Company.

Provided that the remuneration payable to the Managing Director (including the salary, commission, perquisites, benefits and amenities) does not exceed the limits laid down in sections 198 and 309 of the Companies Act, 1956, including any statutory modifications or re-enactment thereof.

FURTHER RESOLVED that where in any financial year during the currency of the tenure of the Managing Director, the Company has no profits or its profits are inadequate, the Company may pay to the Managing Director remuneration by way of salary, perquisites and other allowances and benefits as specified above as the minimum remuneration subject to the receipt of the requisite approvals, if any, for the remaining period of his appointment.

FURTHER RESOLVED that for the purpose of giving effect to this resolution the Board of Directors of the Company (hereinafter referred to as the 'Board' which term shall be deemed to include any duly authorised Committee thereof, for the time being exercising the powers conferred on the Board by this resolution) be authorised to do all such acts, deeds, matters and things as it may, in its absolute discretion, deem necessary, proper or desirable and to settle any questions, difficulties or doubts that may arise in this regard and further to execute all necessary documents, applications, returns and writings as may be necessary, proper, desirable or expedient."

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

"RESOLVED that pursuant to the provisions of Sections 269, 198, 309, 310, 311 and all other applicable provisions of the Companies Act, 1956 (the Act) (including any statutory modification or re-enactment thereof for the time being in force) read with Schedule XIII of the Act subject to the approval of the Central Government, if necessary, and such other approvals, permissions and sanctions, as may be required, and subject to such conditions and modifications, as may be prescribed or imposed by any of the authorities in granting such approvals, permissions and sanctions, approval of the Company be accorded to the re-appointment of Mr. K.V.Ramarathnam as the Managing Director of the Company (hereinafter referred to as 'Managing Director') for a period of three years with effect from 5th May, 2008.

FURTHER RESOLVED that the salary, perquisites (including allowances) payable or allowable and commission to the Managing Director be as follows:

| | | | |
|---|---|---|---|
| **Salary** | | : | Rs.2,25,000/- per month in the scale of Rs.1,10,000/- to Rs.2,25,000/- per month. |
| **Perquisites** | | : | In addition to the salary, the Managing Director shall be entitled to the following perquisites in accordance with the rules of the Company; |
| i) | Housing | : | Furnished residential accommodation or House Rent Allowance of 60% of salary in lieu thereof; |
| ii) | Gas, Electricity Water | : | The expenditure incurred on gas, electricity, water will be borne by the Company subject to Income Tax rules; |
| iii) | Medical re-imbursement | : | Expenses incurred for the Managing Director and his family as per the Company's rules; |
| iv) | Leave Travel Concession | : | For Managing Director and his family, once in a year, incurred in accordance with the Company's rules; |
| v) | Club Fees | : | Fees of clubs, subject to a maximum of two Clubs. This will not include admission and life membership fees; |
| vi) | Personal Accident Insurance | : | Premium as per the Company's rules; |
| vii) | Contribution to Funds | : | Contribution to Provident Fund, Superannuation Fund, Gratuity Fund as per the Company's rules; |
| viii) | Encashment of Leave | : | Encashment of leave not availed of by the Managing Director as per the Company's rules; |
| ix) | Provision of a car and telephone | : | Provision of a car and telephone at the Managing Director's residence for his use as per Company's rules; |
| x) | Other benefits | : | Such other benefits, amenities and facilities as per the Company's rules. |

The value of the perquisites would be evaluated as per Income Tax Rules, 1962 wherever applicable and at cost in the absence of any such Rule.

**Commission:**

In addition to the salary and perquisites, the Managing Director would be entitled to such commission based on the net profits of the Company in any financial year not exceeding one per cent of such profits as the Remuneration Committee shall decide, having regard to the performance of the Company.

Provided that the remuneration payable to the Managing Director (including the salary, commission, perquisites, benefits and amenities) does not exceed the limits laid down in sections 198 and 309 of the Companies Act, 1956, including any statutory modifications or re-enactment thereof.

FURTHER RESOLVED that where in any financial year during the currency of the tenure of the Managing Director, the Company has no profits or its profits are inadequate, the Company may pay to the Managing Director the above remuneration as the minimum remuneration for the remaining period of his tenure by way of salary, perquisites and other allowances and benefits as specified above as the minimum remuneration subject to the receipt of the requisite approvals, if any.

FURTHER RESOLVED that for the purpose of giving effect to this resolution the Board of Directors of the Company (hereinafter referred to as the ‘Board’ which term shall be deemed to include any duly authorised Committee thereof, for the time being exercising the powers conferred on the Board by this resolution) be authorised to do all such acts, deeds, matters and things as it may, in its absolute discretion, deem necessary, proper or desirable and to settle any questions, difficulties or doubts that may arise in this regard and further to execute all necessary documents, applications, returns and writings as may be necessary, proper, desirable or expedient.”

**NOTES:**

(a) Explanatory statement pursuant to 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/HERSELF AND A PROXY NEED NOT BE A MEMBER. THE INSTRUMENT APPOINTING THE PROXY MUST BE DEPOSITED WITH THE COMPANY AT IT’S REGISTERED OFFICE NOT LESS THAN 48 HOURS BEFORE THE COMMENCEMENT OF THE MEETING.

(c) The Register of Members and Share Transfer Books of the Company will remain closed from 11$^{th}$ July, 2008 to 24$^{th}$ July, 2008 (both days inclusive).

(d) The dividend, as recommended by the Board of Directors, if declared at this Annual General Meeting, will be paid to those shareholders whose names appear in the Register of Members after giving effect to all valid transfer deeds in physical form lodged with the Company on or before 10$^{th}$ July, 2008 and in respect of shares held in the dematerialised form to those Members whose names appear in the statements as furnished by the depositories for the purpose as at the end of the business hours on 10$^{th}$ July, 2008. The dividend declared shall be paid within the prescribed time limit.

(e) In accordance with the provisions of Section 205C of the Companies Act, 1956, the Company has transferred unclaimed matured Fixed Deposits and interest on fixed deposits as on 31$^{st}$ March, 2001 to the Investor Education and Protection Fund of the Central Government.

(f) Members are requested to write to the Company Secretary at least ten days before the Meeting for obtaining any information as regards accounts and operations of the Company so that the same could be compiled in time.

(g) Consequent upon the introduction of Section 109A of the Companies Act, 1956, shareholders are entitled to make nomination in respect of shares held by them in physical form. Shareholders desirous of making nomination are requested to send their requests in Form No. 2B in duplicate (which will be made available on request) to the Registrar and Transfer Agents of the Company.

(h) Members are requested to:

(i) intimate to the Company or its Registrar and Transfer Agents viz. Sharepro Services (India) Pvt. Limited, Satam Estate, Cardinal Gracious Road, Chakala, Andheri (East), Mumbai – 400 099, about changes if any, in their registered address for correspondence, at an early date, in case of shares held in physical form;

(ii) intimate to their respective Depository Participant, about changes, if any, in their registered addresses for correspondence, at an early date, in case of shares held in dematerialized form;

iii) quote Folio Numbers or Client ID and DP ID numbers in all correspondence.

(i) Members who hold shares in dematerialised mode are requested to bring their Client ID and DP ID numbers for easy identification of attendance at the Meeting.

(j) Members holding shares under multiple folios in the identical order of names are requested to consolidate their holdings into one folio.

(k) Appointment/Re-appointment of Directors.

In respect of the information to be provided under Clause 49 of the Listing Agreement pertaining to the Directors being appointed/re-appointed, Members are requested to kindly refer the Chapter on Corporate Governance in the Annual Report.

**By Order of the Board**

**Ajay Kadhao**
**Company Secretary**

Registered Office:
74, Ganesh Apartment,
Opp. Sitaladevi Temple,
L.J.Road, Mahim,
Mumbai-400 016.

29th April, 2008.

## EXPLANATORY STATEMENT PURSUANT TO SECTION 173(2) OF THE COMPANIES ACT, 1956

### ITEM NO.6.

The Statutory Auditors M/s. A. F. Ferguson & Co., Chartered Accountants, retire at the ensuing Annual General Meeting. M/s. A. F. Ferguson & Co., Chartered Accountants, are now part of M/s. Deloitte Haskins & Sells, Chartered Accountants. Accordingly, M/s. A.F. Ferguson & Co., Chartered Accountants, have not offered themselves for re- appointment at this AGM.

Further, the Company has received a Special Notice from a Member of the Company under sections 190 and 225 of the Companies Act, 1956 (‘the Act’) signifying the Member’s intention to propose the appointment of M/s. Deloitte Haskins & Sells, Chartered Accountants, as the Statutory Auditors of the Company from the conclusion of this Annual General Meeting till the conclusion of the next Annual General Meeting. M/s. Deloitte Haskins & Sells, Chartered Accountants, have also expressed their willingness to act as the Statutory Auditors of the Company, if appointed and have further confirmed that the said appointment, if made, would be in conformity with the provisions of section 224(1B) of the Act.

In view of the above and based on the recommendations of the Audit Committee, the Board of Directors has, at its Meeting held on 29th April, 2008, recommended the appointment of M/s. Deloitte Haskins & Sells, Chartered Accountants, as the Statutory Auditors in place of M/s. A. F. Ferguson & Co., for the Financial Year 2008 -09.

The Members approval is being sought to the appointment of M/s. Deloitte Haskins & Sells, Chartered Accountants, as the Statutory Auditors and to authorize the Board of Directors, on the recommendation of the Audit Committee, to determine the remuneration payable to the Auditors.

The Directors recommend the resolution for the approval of the Members.

None of the Directors of the Company is concerned or interested in this resolution.

### Item No.7.

The Board of Directors of the Company at its Meeting held on 24th October, 2007 has, pursuant to the approval of Remuneration Committee of the Board and subject to approval of the Members, approved the revision in remuneration payable to Mr.K.V.Ramarathnam, Managing Director of the Company with effect from 1st April, 2007 for the remainder of his term of office. The Remuneration payable to Mr.K.V.Ramarathnam is in line with the current compensation paid by other companies in the group and also taking into account the market trends.

The revised terms of remuneration including Commission payable to Mr. Ramarathnam are set out in the special resolution under Item No.7 of the notice.

Pursuant to sections 198, 309, 310, 311 and all other applicable provisions of the Companies Act, 1956 (“the Act”), including Schedule XIII to the Act, the item relating to revised remuneration payable to Mr. Ramarathnam is now being placed before the Members in this Annual General Meeting for their approval by way of a special resolution.

The additional information as required under Schedule XIII of the Act is given in the Explanatory Statement to Item No.8.

In compliance with the requirements of section 302 (2) of the Companies Act, 1956, an abstract of the terms of revised remuneration has already been sent to all the Members of the Company.

The Directors recommend this resolution as a special resolution for approval of the Members.

Apart from Mr. K.V. Ramarathnam, who would be interested in the revision of his remuneration, none of the other Directors is concerned or interested in this resolution.

### Item No. 8.

The term of office of Mr. K.V. Ramarathnam, Managing Director of the Company expires on 4th May, 2008. The Board of Directors of the Company, subject to the approval of the Members, has re-appointed Mr. K.V. Ramarathnam as the Managing Director of the

Company for a period of 3 years w.e.f. 5th May, 2008 on the terms and conditions as set out in the Special Resolution under Item No.8. The Company has sent to the shareholders an abstract of terms of his re-appointment as required under section 302(2) of the Companies Act, 1956. The remuneration payable to Mr. K.V. Ramarathnam is in line with the current compensation package for the Managing Directors of other companies in the group and also the industry in general.

Your Directors recommend this resolution as a special resolution for approval of the Members.

Apart from Mr. K.V. Ramarathnam, who would be interested in his re-appointment, none of the other Directors is concerned or interested in this resolution.

The following additional information as required under Schedule XIII to the Companies Act, 1956 is given below -

**I. General Information:**

1. **Nature of Industry**

   The Company is engaged in the manufacture of alloy and special steel products and also pressed sheet metal components and assemblies.

2. **Date or expected date of commencement of commercial production:** May, 1968.

3. **In case of new companies expected date of commencement of activities as per project approved by financial institutions appearing in the prospectus:** Not applicable.

4. **Financial Performance based on given indicators as per audited financial results for the year ended 31st March, 2008:**

| **Particulars** | **(Rs. in Crores)** |
|---|---|
| Sales & Other Income | 924.94 |
| Net Profit after Tax as per Profit & Loss Account | 29.49 |
| Profit as computed under Section 309(5) read with Section 198 of the Companies Act. | 45.08 |
| Net Worth | 189.00 |

5. **Export Performance and Net Foreign Exchange Collaborations:**

   The FOB Value of Exports of the Company for the year ended 31st March, 2008 was Rs.5.02 Crores.

   The Company does not have any collaboration that has resulted in any earnings or outgo of foreign exchange.

6. **Foreign investments or collaborators, if any:**

   Not applicable.

**II. Information about the appointee:**

**Mr. K. V. Ramarathnam**

1. **Background details, job profile and suitability-**

   Mr. K. V. Ramarathnam is a Graduate in Mechanical Engineering from University of Madras and has rich experience of 37 years in Steel and related industries.

   Mr. K. V. Ramarathnam was SBU Head (Steel Division) of Perkasa Indobaja, Subang, Indonesia, (Texmaco Group) for more than 5 years heading Seamless Tubes, Hot Rolling Mill, Steel Melting Shop. Mr. K. V. Ramarathnam was also associated as a Key Personnel for more than 17 years with Kalyani Steels Ltd. and Kalyani Seamless Tubes Ltd.

   Mr. K. V. Ramarathnam has handled all areas of operations including Production, Marketing, Process and equipment selection, Project appraisal and implementation, Cost Control, Recruitment & Training, review of all MIS & action plans, Funds Flow management etc. Mr. K. V. Ramarathnam has widely traveled on different assignments and is an effective team leader.

2. **Past remuneration during the financial year ended 31st March, 2008 -**

   During the financial year ended 31st March, 2008, the Company paid Rs. 58,09,218/- as remuneration to Mr. K. V. Ramarathnam (in the basic scale of Rs. 2,25,000/- per month and other perquisites and benefits). Apart from above remuneration a commission of Rs. 20,64,000/- for the year 2007-08, is payable to Mr. K. V. Ramarathnam.

3. **Recognition or awards -**

   There was no external recognition or award.

4. **Remuneration proposed -**

   Salary of Rs.2,25,000/- in the scale of Rs. 1,10,000/- to Rs.2,25,000/- per month and other perquisites, allowances and Commission as fully set out in item No.8. of this notice.

5. **Comparative remuneration profile with respect to industry, size of the Company, profile of the position and person (in case of expatriates the relevant details would be with respect to the country of his origin) -**

   Taking into consideration the size of the Company, the profile of Mr. K. V. Ramarathnam, the responsibilities shouldered by him, the remuneration proposed to be paid is commensurate with the remuneration packages paid to his similar level counterparts in other companies.

6. **Pecuniary relationship directly or indirectly with the Company or relationship with the managerial personnel, if any -**

   Besides the remuneration proposed to be paid to Mr. K. V. Ramarathnam, he does not have any other pecuniary relationship with the Company or relationship with any other managerial personnel and Directors.

**III. Other Information:**

1. **Reason of loss or inadequate profits -**

   Not applicable, as the Company has posted a net profit after tax of Rs. 29.49 crores during the year ended 31st March, 2008.

2. **Steps taken or proposed to be taken for improvement and expected increase in productivity and profits in measurable terms -**

   Not applicable as the Company has adequate profits. The Company posted a net profit of Rs.29.49 crores for the year ended 31st March, 2008.

**IV. Disclosures:**

The information and disclosures of the remuneration package of the managerial personnel have been mentioned in the Annual Report in the Corporate Governance Report Section under the Heading "Remuneration to the Managing Director and Executive Director for the year ended 31st March, 2008".

**By Order of the Board**

**Ajay Kadhao**
**Company Secretary**

Registered Office:
74, Ganesh Apartment,
Opp. Sitaladevi Temple,
L.J.Road, Mahim,
Mumbai-400 016.

29th April, 2008.

## DIRECTORS' REPORT

The Directors present their Forty-fifth Report together with the audited accounts of your Company for the year ended 31st March, 2008.

### FINANCIAL RESULTS

**(Rupees in crores)**

| | **2007-08** | 2006-07 |
|---|---|---|
| Gross Income | **924.94** | 718.91 |
| Profit before Interest and Depreciation | **99.53** | 96.73 |
| Less: Interest | **28.63** | 11.83 |
| Less: Depreciation | **26.71** | 16.73 |
| Profit before Tax and Exceptional Item | **44.19** | 68.17 |
| Less: Provision for Taxation | | |
| - Current Tax | **10.55** | 24.82 |
| - Deferred Tax | **4.15** | (1.55) |
| Profit after Tax | **29.49** | 44.90 |
| Balance of profit brought forward from earlier years | **49.07** | 37.33 |
| Profit available for Appropriation | **78.56** | 82.23 |
| Less: Interim dividend paid on preference Shares | **—** | 0.22 |
| Less: Interim Dividend paid on equity shares | **—** | 6.50 |
| Less: Proposed Dividend on Equity Shares | **9.74** | 8.12 |
| Less: Tax on Dividend | **1.66** | 2.32 |
| Less: Transfer to General Reserves | **2.95** | 16.00 |
| Balance Carried Forward | **64.21** | 49.07 |

### DIVIDEND

In view of pressures on the profit margins of the Company, your Directors have recommended a dividend of 30% (Rs.3.00 per share) as against 45% (includes Interim dividend of Rs.2.00 per share and Final dividend of Rs. 2.50 per share aggregating Rs. 4.50 per share) paid for the previous year. The dividend on equity shares, together with the tax on distributed profits, will absorb a sum of Rs. 11.40 crores (previous year Rs.16.91 crores) and will be paid to those Members of the Company who are entitled to receive the same as on the book closure date.

### PERFORMANCE

Your Company manufactures Alloy and Special steel products and is also in the business of press metal sheets/stampings. The year under review continued to witness unprecedented increase in the cost of major raw materials namely pig iron, sponge iron and shredded scrap metals. The cost of power also increased significantly during the year. Due to these factors coupled with high costs of borrowings, the operating profits of your Company have been impacted.

During the year under review, while the gross income of the Company grew by about 28.66% from Rs.718.91 crores to Rs.924.94 crores, the profit after tax for the year was Rs.29.49 crores as compared to Rs. 44.90 crores for the previous year.

### STEEL BUSINESS:

During the year your Company sold 1,27,290 tonnes as compared to 1,21,099 tonnes sold last year, registering a growth of about 5.11%. The sales value increased from Rs 585.56 crores in the previous year to Rs. 701.37 crores. Your Company registered sales of 4112 tonnes of Bearing Races for a value of Rs.33.17 crores.

Your Company's expansion project that will increase capacity from 125,000 tpa to 240,000 tpa is at an advanced stage of completion with the expected commissioning of the Continuous Rolling Mill during the F.Y. 2008-09.

Continuous efforts are on to improve the productive efficiencies at the plant and cost reduction besides looking at several options for metallic support. As regards power, your Company has entered into an arrangement for wheeling of power at a lower cost which will enable the Company to save about Rs. 1.50 per unit of power consumed.

The Company also started its Bearing Races operations at Jamshedpur in April 2007 as part of a two phase process that envisages the shifting of equipment to Khopoli in the second phase. The second phase is expected to be completed in the current year. Your Company expects to harvest the benefits of lower operation & logistic costs by movement of the equipment to Khopoli. This approach has allowed your Company to move up the learning curve rapidly while maintaining continuity of supply and thereby retaining the goodwill of customers.

**STAMPINGS BUSINESS:**

During the year under review the Company successfully commenced operations at Rudrapur in Uttarakhand- its third operating unit, in a conscious effort to diversify its customer base and manufacturing footprint, while the Nashik unit of the Company mainly caters to the needs of Mahindra & Mahindra Limited (M&M) and increasingly of its Joint Venture Partner – Renault, the Kanhe unit has won the confidence of and supplies sophisticated components even to those OEM's that compete with M & M. The Rudrapur unit was designed to meet the needs of the Farm Equipment Sector of M&M but with the cyclical de-growth in the Tractor Industry, the unit has diversified its customer base to both M&M's Automotive Sector operations in Haridwar as well as to many of the other automotive OEM's that have established a base in Uttarakhand.

While the operations of the Stampings business continued to be profitable, the continuous rise in steel prices has put pressure on the Automobile industry which in turn has resulted in pressure on the margins of the Stamping business of the Company.

The production during the year increased from 29,500 MT to 36,210 MT registering a growth of 22.75%. Sales in the corresponding period increased from 29,452 MT to 36,053 MT registering a growth of about 22.41%. The value addition on material owned and processed by the Company for third parties increased from Rs. 86.08 crores in the previous year to Rs. 135.72 crores registering a growth of 57.67%.

**MANAGEMENT DISCUSSION AND ANALYSIS REPORT:**

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

**FINANCE:**

During the year under review, the liquidity position of the Company continued to be satisfactory and the Company successfully tied up its requirement for capital expenditure and working capital needs through banks. The year was marked by a spurt in the borrowing costs.

**STOCK OPTIONS:**

The Remuneration Committee of your Company has granted 1,42,500 Stock Options to the eligible employees during the year under review.

Details required to be provided under the Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines,1999 are set out in Annexure I, to this Report.

**INDUSTRIAL RELATIONS:**

The relations with the workers and their respective unions remained cordial. During the year under review, an agreement for revision of wages was signed with the Workers' Union of Khopoli Unit of the Company. Negotiations with the Workers Union for the Kanhe Unit are in progress.

**SAFETY, HEALTH AND ENVIRONMENTAL PERFORMANCE:**

The Company has a defined policy on general health, safety and environmental conservation through which every employee is responsible for the observance of the measures designed to prevent accidents, damage to health and to avoid environmental pollution.

Safety committee members comprising representatives of workers and executives from various departments meet periodically to review the situation.

**DIRECTORS:**

Mr. K.V. Ramarathnam, Managing Director of the Company whose term of office as Managing Director expires on 4th May, 2008 was re-appointed as Managing Director with effect from 5th May, 2008 for a period of three years by the Board of Directors at its meeting held on 29th April, 2008 subject to approval of members of the Company.

Mr. Hemant Luthra, Mr. R.R. Krishnan and Mr. S. Ravi, Directors, retire by rotation at the ensuing Annual General Meeting and being eligible, offer themselves for re-appointment.

Mr. N.V. Khote, Director of the Company passed away on 9th September, 2007. The Board has placed on record its sincere appreciation of the services rendered by him during his tenure as Director of the Company.

**DIRECTORS' RESPONSIBILITY STATEMENT:**

Pursuant to Section 217(2AA) of the Companies Act, 1956, the Board of Directors, based on the representations 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 31st March, 2008 and of the profit 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.

**SUBSIDIARIES**

The Company had no subsidiary as on 31st March, 2008.

**AUDITORS:**

M/s. A. F. Ferguson & Co. Chartered Accountants,, the existing statutory Auditors are now part of M/s. Deloitte Haskins & Sells (DHS), Chartered Accountants. Accordingly, M/s. A.F. Ferguson & Co., Chartered Accountants have not offered themselves for re- appointment at the ensuing Annual General Meeting. The Company has received a Special Notice from a Member of the Company, in terms of the provisions of the Companies Act, 1956, signifying the intention to propose the appointment of DHS as the Statutory Auditors of the Company from the conclusion of the ensuing Annual General Meeting till the conclusion of the next Annual General Meeting. DHS have also expressed their willingness to act as Auditors of the Company, if appointed, and have further confirmed that the said appointment would be in conformity with the provision of section 224 (1B) of the Companies Act, 1956.

**PUBLIC DEPOSITS AND LOANS/ADVANCES:**

An amount of Rs. 14.45 Lakhs in the aggregate consisting of 98 matured fixed deposits had remained unclaimed as at 31st March, 2008. Since then, 32 of these deposits aggregating to Rs. 5.79 Lakhs have been repaid.

The Company had, from 1st May, 2005 discontinued acceptance of and renewal of deposits under the provisions of the Companies Act, 1956 read with Companies (Acceptance of Deposits) Rules, 1975.

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

**CORPORATE SOCIAL RESPONSIBILITY (CSR):**

As a socially responsible corporate citizen, the Mahindra Group has contributed not only to the economic well being of the communities it interacts with, but has also enhanced their social well being. Since inception, the Mahindra Group has engaged in activities which add value to the communities around it.

Your Company has, contributed a sum of Rs.23.50 Lakhs during the year towards Corporate Social Responsibility initiatives.

**PARTICULARS OF EMPLOYEES:**

As required pursuant to Section 217(2A) of the Companies Act, 1956 and rules framed there-under, a statement containing particulars of the Company's employees who were in receipt of remuneration of not less than Rs. 24,00,000/- during the year ended 31st March, 2008 or of not less than Rs. 2,00,000/- per month during any part of the year under review is given in the Annexure II to this Report.

**ENERGY CONSERVATION, TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE EARNINGS AND OUTGO:**

Particulars required to be disclosed under the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 are set out in the Annexure III to this Report.

**ACKNOWLEDGEMENTS:**

Your Directors acknowledge the continued support and co-operation from the Banks, Financial Institutions, Government Departments, Vendors, customers and employees, which augment the growth of the Company.

**For and on behalf of the Board**

**Keshub Mahindra**
**Chairman**

Mumbai: 29th April, 2008.

## ANNEXURE I TO THE DIRECTORS' REPORT FOR THE YEAR ENDED 31$^{ST}$ MARCH, 2008

Information to be disclosed under the Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines 1999:

| | | | |
|---|---|---|---|
| (a) | Options granted | 10,98,000 | |
| (b) | | 1$^{st}$ Tranche | 2$^{nd}$ Tranche |
| | The Pricing Formula | Discount of 15% on the average Price preceding the specified date -18$^{th}$ August 2006 | Discount of 15% on the average Price preceding the specified date - 24$^{th}$ October 2007 |
| | | Average Price : Average of the daily high and low of the prices for the Company's Equity Shares quoted on Bombay Stock Exchange Limited during the 15 days preceding the specified date. | |
| | | The specified date: Date on which the Remuneration Committee decided to grant options to eligible employees of the Company. | |
| (c) | Options vested | 2,15,875 Options stand vested on 31$^{st}$ March, 2008. | |
| (d) | Options Exercised | Nil | |
| (e) | The Total number of shares arising as a result of exercise of Options | Nil | |
| (f) | Options Lapsed | 1,10,500 | |
| (g) | Variation of terms of Options | At the Annual General Meeting held on 26$^{th}$ July, 2007, the Company has passed a special resolution to provide for recovery of Fringe Benefit Tax from employees. | |
| (h) | Money realised by exercise of Options | Nil | |
| (i) | Total number of Options in force | 9,87,500 | |
| (j) | Employee-wise details of Options granted to: | | |
| | (i) Senior Managerial personnel | As per Statement | |
| | (ii) Any other employee who receives a grant in any one year of Option amounting to 5% or more of Option granted during that year | Nil | |
| | (iii) Identified employees who were granted option, during any one year, equal to or exceeding 1% of the issued capital (excluding outstanding warrants and conversions) of the company at the time of grant | Nil | |
| (k) | Diluted Earnings Per Shares (EPS) pursuant to issue of shares on exercise of option calculated in accordance with Accounting Standard (AS) 20 'Earnings per Share' | Rs.9.04 | |
| (l) | Where the company has calculated employee compensation cost using the intrinsic value of the stock options, the difference between the employee compensation cost so computed and the employee compensation cost that shall have been recognised if it had used the fair value of the Options, shall be disclosed. The impact of this difference on profits and on EPS of the Company shall also be disclosed. | The Company has calculated the employee compensation cost using the intrinsic value of stock options. Had the fair value method been used, in respect of stock options granted on 18$^{th}$ August, 2006 and 24$^{th}$,October, 2007, the employee compensation cost would have been higher by Rs. 1.03 Crores. Profit after tax lower by Rs.0.68 Crores and the diluted earnings per share would have been lower by Rs.0.20. | |

| | | | | |
|---|---|---|---|---|
| (m) | Weighted – average exercise prices and weighted average fair values of options shall be disclosed separately for options whose exercise price either equals or exceeds or is less than the market price of the stock. | Options Grand Date<br>24th October, 2007 | Exercise Price (Rs.)<br>73.00 | Fair Value (Rs.)<br>43.39 |
| (n) | A description of the method and significant assumptions used during the year to estimate the fair values of options, including the following weighted – average information : | The fair-value of the stock options granted on 24th October, 2007 have been calculated using Black-Scholes Options pricing formula and the significant assumptions made in this regard are as follows: | | |
| | (i) risk-free interest rate | 7.95% | | |
| | ii) expected life | 3.5 years | | |
| | (iii) expected volatility | 60.00% | | |
| | (iv) expected dividends, and | 4.32% | | |
| | (v) the price of the underlying share in market at the time of option grant. | Rs.85.50 | | |

**STATEMENT ATTACHED TO ANNEXURE I TO THE DIRECTORS' REPORT FOR THE YEAR ENDED 31ST MARCH, 2008.**

| Name of Senior Managerial Persons to whom Stock Options have been granted | Options granted on 24.10.07 | Options granted on 18.08.06 |
|---|---|---|
| Mr.K.V.Ramarathnam | Nil | 100000 |
| Mr.Deepak Dheer | Nil | 75000 |
| Mr.Hemant Luthra | Nil | 125000 |
| Mr.R.R.Krishnan | Nil | 15000 |
| Mr.M.R.Ramachandran | Nil | 15000 |
| Dr.H.N.Sethna | Nil | 15000 |
| Mr.N.V.Khote* | Nil | 15000 |
| Mr.S.Ravi | Nil | 15000 |
| Mr. Rajeev Dubey | Nil | 15000 |

* Expired on 9th September, 2007.

## ANNEXURE II FORMING PART OF THE DIRECTORS' REPORT

**ADDITIONAL INFORMATION PURSUANT TO 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 31ST MARCH, 2008.**

| Name of Employees | Designation | Qualification | Date of Employment | Age / (Experience) – in years | Gross Remuneration (Rs.) | Last Employment held (Organisation/ Designation) |
|---|---|---|---|---|---|---|
| Mr. K. V. Ramarathnam* | Managing Director | B.E.(Mech) | 05-05-2003 | 60 (38) | 78,73,218 | SBU Head (Steel Division) Perkasa Indobaga, Indonesia |
| Mr. Deepak Dheer** | Executive Director | B.E (Mech), PGDM, (IIM A'bad) | 20-10-2006 | 56(35) | 69,69,682 | Managing Director, Tudor India Limited |

**Notes:**

1. Nature of employment is contractual, subject to termination on 3 (three) month's notice from either side.
2. The above employees are not related to any Director of the Company.
3. *Remuneration paid includes Salary, House Rent Allowance or value of perquisites for accommodation, car perquisite value, reimbursement of medical expenses, employer's contribution to Provident Fund and Gratuity Fund and all other allowances/perquisites as applicable. The above remuneration includes Commission of Rs.20,64,000 payable to Mr. K.V. Ramarathnam for the year 2007-08.
4. ** Remuneration paid includes, Salary, House Rent Allowance, Motor car expenses, re-imbursement of medical expenses, employer's contribution to Provident Fund and Gratuity Fund, medical, gas electricity and all other allowances/perquisites as applicable including Commission of Rs. 19,00,000 payable for the year 2007-08.
5. None of the above employees holds by himself or with his dependent children 2% or more of the equity shares of the Company.
6. Employment terms and conditions are as per the Company's rules.

**For and on behalf of the Board**

**Keshub Mahindra**
**Chairman**

Mumbai: 29th April, 2008.

## ANNEXURE III

**STATEMENT PURSUANT TO 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 AND FORMING PART OF THE DIRECTORS' REPORT FOR THE YEAR ENDED 31ST MARCH, 2008.**

### Conservation of Energy

During the year, the Company has taken following measures for energy conservation and on reduction of consumption of energy. The impact of these measures is also given herein below:

| Sr. No. | Energy conservation measure | Impact of the measure |
|---|---|---|
| 1. | A new Electric 40 MVA EBT Arc Furnace with latest Digital controlled and operating with new generation hydraulic operated fast response proportional valves.The furnace is operational and operational practices established. | Reduction of power 30 Kwh per ton. For the year total saving on melting is 4.8 Mio Kwh. |
| 2. | Latest technology high efficiency dust & fume extraction system has been commissioned. | An average of 45000 Kwh saving per month by introducing the new VFD controlled system. |
| 3. | Digital variable speed drive has been installed for main hoist 1 & 2 of 100T EOT crane. | An average of 3500 Kwh per month saving. |
| 4. | Drives changed to VVFD<br>- For wire feeding machine at LF.<br>- Hot Saw machine at BAR Mill. | An average of 3000 Kwh per month saving. |
| 5. | High luminous light fittings have been introduced in SMS and Switch yard. Replaced 65 Nos of 400 watt sodium vapor lamps with 18 numbers of metal halides lamps. | An average of 9500 Kwh saving per month |
| 6. | Optimizing oil consumption in the newly commissioned walking beam furnace in rolling mill. | Oil consumption improved from 52 to 40 Ltrs/ton. |

## FORM A

(Form for disclosure of particulars with respect to conservation of energy)

| | Current Year 2007-2008 | | | Previous Year 2006-2007 | | |
|---|---|---|---|---|---|---|
| | **Steel** | **Stampings** | **Total** | Steel | Stampings | Total |
| **A) Power & Fuel Consumption** | | | | | | |
| **1 Electricity** | | | | | | |
| a **Purchased** | | | | | | |
| Units (KWH) | 165,908,137 | 11,886,090 | 177,794,227 | 149,534,289 | 6,459,915 | 155,994,204 |
| Total Amount (Rs.) | 800,014,313 | 54,515,500 | 854,529,813 | 679,822,264 | 33,060,861 | 712,883,125 |
| Rate/Unit (Rs.) | 4.82 | 4.59 | 4.81 | 4.55 | 5.12 | 4.57 |
| b **Own Generation (KWH)** | 60,112 | 1,097,825 | 1,157,937 | 56,296 | 263,688 | 319,984 |
| **2 Coal** | N.A | N.A | N.A | N.A | N.A. | N.A |
| **3 Furnace Oil** | | | | | | |
| (K.Litres) | 19,883 | N.A | 19,883 | 18,094 | N.A | 18,094 |
| Total Amount (Rs.) | 354,246,024 | N.A | 354,246,024 | 285,919,196 | N.A | 285,919,196 |
| Rate/Unit (Rs.) | 17,817 | N.A | 17,817 | 15,802 | N.A | 15,802 |
| **4 OTHER FUEL OIL (L.D.O.)** | | | | | | |
| Quantity (K.Litres) | 177 | N.A | 177 | 10 | N.A | 10 |
| Total Amount (Rs.) | 4,802,593 | N.A | 4,802,593 | 291,814 | N.A | 291,814 |
| Rate/Unit (Rs.) | 27,173 | N.A | 27,173 | 29,181 | N.A | 29,181 |
| **B) Consumption Per Unit of Production** | | | | | | |
| 1) Products *Unit - MT | 131,452 | 33,177 | 164,629 | 121,318 | 29,397 | 150,715 |
| 2) Electricity (KWH/MT) Total for the Plant | 1,262 | 391 | 1,080 | 1,233 | 229 | 1,035 |
| 3) Furnace Oil (K.Litres/MT) Total for the Plant | 0.151 | N.A | 0.121 | 0.149 | N.A | 0.120 |
| 4) Coal | N.A | N.A | N.A | N.A | N.A. | N.A |
| 5) Other Fuel Oil (K.Litres/MT) Total for the Plant | 0.00134 | N.A | 0.00107 | 0.00008 | N.A | 0.00007 |
| 6) Total Fuel Oil (Furnace Oil+L.D.O.) (K.Litres/MT) | 0.153 | N.A | 0.122 | 0.149 | N.A | 0.120 |

* Indicates in house production only.

## FORM B

(Form of disclosure of particulars with respect to Technology Absorption)

**RESEARCH & DEVELOPMENT**

**Specific areas in which R&D activities have been successfully completed during the year 2007 – 08:-**

| Sr. No. | Product & process improvement | Benefits |
|---|---|---|
| 1. | 15 new grades have been developed. | Introduction of new grades makes wider product range and customer base. |
| 2. | Close control of mechanical properties has been made possible for many grades through modified HT cycles. | Improved product quality and better customer satisfaction. |
| 3. | Modified BP flux has been developed which improved the surface quality of ingots. | Product quality improvement. |
| 4. | Internal rejection has been reduced through improvement of teeming process. | Reduction of internal rejection. |
| 5. | Carbon variation in some grades has been eliminated; thereby further consistency in chemistry has been achieved. | Improvement of product quality and better customer satisfaction. |
| 6. | Inclusion rating in 20MC5 has been consistently maintained much below the customer's requirement. This has been made possible by process improvement. | Improvement of product quality and better customer satisfaction. |
| 7. | A new effective Argon shroud system for teeming has been developed. | Improvement of product and process. |

Future Plan of action:-

- Further improvement in quality such as inclusion level, gases, microstructure, mechanical properties of HT products etc.
- Improvement of surface quality of the products.
- To develop new grades with stringent quality requirement for export.
- Improvement of banding in some specific grades.

A full fledged new department for the research and development has been constituted. This will enable the Company to aim at new product developments and applications in a structured manner.

Expenditure on R&D:

| | | 2007 – 08 (Rs. in Lacs) | 2006 – 07 (Rs. in Lacs) |
|---|---|---|---|
| a) | Capital | - | 20.24 |
| b) | Recurring | 96.53 | 63.77 |
| c) | Total | 96.53 | 84.01 |
| d) | Total R&D expenditure as percentage of total turnover | 0.104 | 0.117 |

## TECHNOLOGY ABSORPTION, ADAPTATION AND INNOVATION

(Efforts in brief towards technology absorption, adaptation and innovation and benefits derived as a result of the above efforts.)

| Sr. No. | Technology | Benefits |
|---|---|---|
| 1. | A new Electric 40 MVA EBT Arc Furnace with latest Digital controlled and operating with new generation hydraulic operated fast response proportional valves was commissioned earlier. But in 2007 - 08 the furnace is fully operational and operational practices have been established and stabilized. | Productivity improvement and prevention of primary slag carryover. |
| 2. | Latest technology high efficiency dust & fume extraction system commissioned earlier has since been stabilized in FY 2007-08. | Improvement in environment. |

During the last five years there has not been any Import of Technology.

## FOREIGN EXCHANGE EARNINGS AND OUTGO

The information of foreign exchange earnings and outgo is furnished in the notes to the accounts.

**For and on behalf of the Board**

**Keshub Mahindra**
**Chairman**

Mumbai: 29th April, 2008.

## MANAGEMENT DISCUSSION AND ANALYSIS (MDA)

**Overview**

Mahindra Ugine Steel Company Limited (MUSCO) has two business segments, one for the Manufacture of Alloy Steel at its plant at Khopoli (Maharashtra), and the other for Stampings business at its units at Kanhe, Nashik (both in Maharashtra) and Rudrapur (Uttarakhand). Mahindra & Mahindra Ltd.(M&M), through its subsidiary, holds 50.69% in the share holding of the Company.

**Industry Structure and Development**

**Steel business**

At the steel division, your Company manufactures Alloy Steel through the Electric Arc Furnace (EAF) route. Its products include alloy, tool and die steel, ball bearing steels, engineering alloy & construction steels and steels used in off shore oil fields. The steel division at Khopoli is TS16949 certified by RWUTV of Germany.

MUSCO has been the leading player in the Alloy Steel industry in the country for the last four decades. With the emergence of India, both as a consuming market as well as a production base for Original Equipment Manufacturers, there has been a strong and sustained growth in MUSCO's markets of interest i.e., Auto, Bearings, Industrial Equipment, Railways and Defence- to name a few. With projections that vary between 10% to 15% growth in these markets, MUSCO's presence as a premium player leaves it well poised to grow rapidly over the next decade.

The relentless focus on Product and Process improvement has resulted in MUSCO's entry into a select group of suppliers to the Indian Railways – a customer that has been identified as a key account for the Company and a high growth market. The reputation of being a high quality supplier has been further enhanced by the steady stream of Global approvals that your Company has been getting from leading Bearing manufacturers: SKF, Timken, FAG and NKK Bearings. Other customers include Bharat Forge, Cummins, Sandvik, Siemens, Tata Motors - all leaders in their respective fields and whose demand for your Company's products has been growing consistently. More importantly, MUSCO is now being viewed, globally, as a Partner in growth rather than simply a Vendor.

However, there have been other developments for most of the past year that have caused concern. The global steel industry has been hit by rising input costs. Flooding of coking coal mines in Queensland, transportation issues for coal in Russia and the shutting down of small coking coal mines in China have all resulted in skyrocketing prices of Pig Iron- one of the major inputs for the Steel Industry. This has been aggravated by a steep rise in Iron Ore prices- the other prime raw material for Pig Iron manufacture.

Fortunately for MUSCO, there has been some relief. The economics of manufacture of alloy steel through the EAF route (is relatively more dependent on Power rather than Pig Iron) and has therefore meant that your Company is a little better protected against Pig Iron pricing when compared to other Blast Furnace manufacturers. However, it has over the past few years borne the brunt of Power cost increases, with the weighted cost increasing from Rs 3.40/kwh to Rs 5.10/ kwh.

Your Company has been constantly striving to mitigate this cost pressure and to this end, MUSCO has now signed an agreement with Wardha Power Company Private Limited (WPCPL), a company promoted as a Special Purpose Vehicle (SPV) of KSK Power Ventures Limited. Your Company has agreed to an equity investment of Rs.22.75 crore in the SPV, thus entitling it to 35 MW of power. The project is expected to be ready in phases from July 2009 onwards and our Input Feed, as per agreement, is expected to begin from January 2010 onwards.

In order to optimize productivity, your Company is in the midst of various capital expenditure projects. The Eccentric Bottom Tapping (EBT) furnace was commissioned last year and has aided in producing 3409 heats in F.Y.2007-08, an increase of 306 heats over F.Y.2006-07. This project, along with the project for installation of the Walking Beam furnace, is now being evaluated for Carbon Credits. In F.Y.2007-08, the major ongoing project has been the installation of the Continuous Mill which will enable MUSCO to optimally utilize its current melting capacity, streamline the rolling process and add to the menu of sizes on offer. Commissioning is expected to be complete by October, 2008.

Downstream integration and entry into Products is an essential part of the Your Company's strategy to derisk against market cyclicality and to get closer to the end customer. The execution of this strategy has been initiated by acquiring a battery of presses and ring rolling mills to produce Bearing Races. This will strengthen your Company's position in the key Bearings market and consolidate its position as a partner in growth with MNC's like Timken, SKF etc.The Bearing Races project is now under installation, the recent agitation against migrant workers has delayed proceedings, but it is expected that the plant will be fully commissioned by October, 2008.

The two pronged strategy on improving the Cost Structure (through Productivity related measures as well as Cost Reduction exercises) and Downstream integration into Products and Specialized Steel requires the relentless focus of a strong management team. Your Company has strengthened the team over the past year and has been selectively hiring key executives to fill critical gaps and the completion of this exercise has positioned MUSCO into a company that now has the drivers necessary to execute its strategy for future growth.

**Stampings Business**

The Stamping business depends largely on the growth of Automotive and Farm equipment markets and both these sectors have registered healthy growth over the last decade. For the financial year F.Y.2007-08, however, both markets have registered an overall slowdown.

Passenger vehicles, LCV's markets have registered a growth of 11.8% & 10% respectively; however HCV's, Three Wheelers & Two Wheelers have registered a negative growth of 0.4%, 7.2% & 5% respectively over F.Y.2006-07. Overall Automotive sector had a negative growth of 2.2% for F.Y.2007-08 over F.Y.2006-07. Farm Equipment sector has had a negative growth of 4% for F.Y.2007-08.

Spiraling increase in steel prices in F.Y.2007-08 Q4 & April '08 has hit most Indian manufacturers. Further, the interest rate hike, liquidity crunch, high oil prices & other inflationary factors have hit the overall economy and the Automotive & Farm Equipment sectors were also affected, in varying degrees. Alleviating measures like the Farm loan waiver are expected to have a cascading effect (on the Farm Equipment sector)- if at all- only after the first half of F.Y.2008-09.

Competition in the Stampings business is between six to seven large players and several medium sized and small scale operators. The big players are vertically integrated, the medium and small scale players remain primarily as conversion agents. It is imperative for the big players to create a Unique Selling Proposition of their own in order to survive. This USP can be created through the capability of tool design, new technology (hot stamping, tailor welded blanks) and customer centricity through quality, cost and delivery.

MUSCO Stampings has drawn strategic plans to create a niche for itself and attain better value additions. MUSCO Rudrapur has been commissioned as a state-of-the-art plant that is equipped with Cathodic Electrode Deposition (CED) coating and top coat plant along with assembly & press shop. MUSCO Rudrapur will manufacture painted assemblies for Farm equipment sector. It is also gearing up to supply assemblies to TML & Ashok Leyland at Pantnagar. Similarly Nasik & Kanhe plants are improving their product mix in favour of assemblies to customers like M&M, Mahindra Renault & Tata Motors.

The Company is also in the process of upgrading and expanding the existing Tool Room. This will help us to become Full Service Suppliers providing "Design to Delivery". The Tool design office has been expanded in F2008 and has commenced design & manufacturing of tools thereby strengthening and adding value to the services on offer to the customer.

Capacity utilization at Nashik Plant has been 100% for last two years even after expansion in last year. Although Rudrapur facility has not been able to utilize full capacity because of downturn in FES, risk mitigation is being down by adding other customers such as Tata Motors and Ashok Leyland - whose plants have come up in the region and for whom our plant will strive to become a preferred supplier.

**Opportunities, threats and risks**

**Steel Business**

The demand for steel is expected to grow significantly especially with growth in the focus markets of Auto, Bearings, Railways, Engineering and Defence. The downstream growth opportunities in stainless steel, open die forging, wire rods and high value ESR steels are also being evaluated.

The business faces an unprecedented increase in the cost of power and also steep increase in the cost of metallics and Ferro alloys. After having taken steps to enhance the capacity and balancing, the Company has now decided to address the issues relating to metallics and power. As mentioned earlier, your Company has already taken effective steps to reduce dependence on MSEB power by signing a power delivery agreement with WPCPL. The issue of metallics cost control is now being analysed and planned for.

**Stampings Business**

Investment by global OEMs like Volkswagen at Chakan & General Motors at Talegaon offer additional business opportunities for Stampings at Kanhe. Setting up of operations in Uttrakhand by Tata Motors, Ashok Leyland & expansion by M&M Auto Sector at Haridwar offers excellent business opportunities for our Rudrapur Plant. Our Nashik Plant continues to grow on account of growth in M&M and Mahindra-Renault.

To derisk from the Auto industry, your Company aims to enter non-Auto businesses like the white goods sector & general engineering industries. Automation drive at Kanhe plant has been undertaken to enhance productivity and create additional capacity at low cost which will help to cater to the increased demand in this region.

**Operations**

**Steel Business**

**i) Steel products**

The Company's products continue to be received well in the market. In the face of competitive pressures, there is an ongoing effort to improve our performance with respect to quality and customer satisfaction and we have instituted steps to measure the Satisfaction Index consistent with the philosophy of Customer Centricity espoused by the Mahindra & Mahindra Group. The production of tool, alloy and special steel increased from 121317 tonnes (F.Y.2006-07) to 126970 (F.Y.2007-08) registering a growth of 4.65%; for the same period the Net Sales increased by 5.11% from 121099 tonnes (F.Y.2006-07) to 127290 tonnes (F.Y.2007-08). The overall revenue moved up from Rs.585.56 crores (F.Y.2006-07) to Rs.701.37 crores (F.Y.2007-08).

However, due to the increase in the power costs from Rs. 3570/MT in F.Y. 2006-07 to Rs. 3879/MT in F.Y. 2007-08 and the cost of metallics moving up from Rs.17147/MT in F.Y. 2006-07 to Rs.19530/MT in 2007-08, the margins came under pressure as all costs could not be passed on to the customer. The Company is therefore taking steps to address the metallics issues. As mentioned earlier, your Company has already signed an agreement with WPCPL for securing power at a cheaper cost.

Your Company introduced the 5"S" (Seiri or tidiness, Seiton or orderliness, Seiso or systemized cleanliness, Seiketsu or standards and Shitsuke or sustaining discipline) initiative for the steel business during the year which will start yielding results going forward.

**ii) Bearing races**

Immediately on purchasing the Bearing Races business of Tata Steel Limited, MUSCO commenced operations on the assets at Jamshedpur. The idea was to enable the Company to get acquainted with the new assets and impart training to the new set of workers and employees on the equipment. The Company produced 3741 tonnes of rings till September 2007 at Jamshedpur and sold 4112 tonnes of rings till March 2008. The sales turnover for the period April-07 to March -08 was Rs. 33.17 crores with a loss of about Rs.6 crores. This loss was due to lower productivity and higher costs attributable to the training process and impediments in working with manpower (that was to be retrenched imminently) at high fixed rates at Jamshedpur. The operations at Jamshedpur have since been stopped in September '07 and the assets are being transplanted at Khopoli; this installation exercise is expected to be complete by October '08.

The Bearing races business is identified as a Key Business Area for the Company; all customers of the erstwhile TISCO business have been migrated to MUSCO and have been very supportive of the growth of the new business at MUSCO. MUSCO will now be the only integrated producer of Bearing Races in the country. Adding on Machining and Heat treatment of rings, so as to be able to give a complete solution to the customer, is part of the business plan.

**Stampings Business**

Sale of Stampings & assemblies has increased from 29,452 MT (F.Y. 2006-07) to 36,053 MT (F.Y. 2007-08) and revenue from Rs. 86.08 crores (F.Y. 2006-07) to Rs. 135.72 crores (F.Y. 2007-08).

Various initiatives have been launched for implementation of world class quality systems at all plants. MUSCO Nashik has achieved Grade B for ASES which is a quality system of Renault. This is a high rating since only 30% of the suppliers have qualified for B rating. Quality Circles & 5S programs have been instituted at all plants.

## Financial Performance

Continuing with details provided above, summary of financial performance is presented below:

### Summary of Financial Performance

Amount in (Rs.) crore

| Particulars | Steel (including bearing races) | | Stamping | | Total | |
|---|---|---|---|---|---|---|
| | April-Mar 08 | April-Mar 07* | April-Mar 08 | April-Mar 07 | April-Mar 08 | April-Mar 07 |
| **Sales** | 746.66 | 597.57 | 175.52 | 119.66 | 922.18 | 717.23 |
| **Other Income** | 1.54 | 0.83 | 1.22 | 0.85 | 2.76 | 1.68 |
| **Total Income** | 748.20 | 598.40 | 176.74 | 120.51 | 924.94 | 718.91 |
| **Expenses** | 720.13 | 565.02 | 160.62 | 85.72 | 880.75 | 650.74 |
| **EBIDTA** | 65.49 | 50.54 | 34.04 | 46.19 | 99.53 | 96.73 |
| **PBT** | 28.07 | 33.38 | 16.12 | 34.79 | 44.19 | 68.17 |
| **PAT** | | | | | 29.49 | 44.90 |

* excludes bearing races.

## Material Development in Human Resources/ Industrial Relations

As at 31st March 08 the Company had 779 employees in Steel and 757 in Stamping business. Regular Training Programs in various areas of operations at different levels in the organization are conducted; we also have programs to effectively collect employee feedback and improve overall engagement. Your Company introduced a process of hearing the voices of the employees through a structured program titled *"Bindaas Bol" (Talk Candidly)* which aims at listening to the suggestions of the employees as part of improvement in the working of the organization.

## Internal control systems and their adequacy:

The Company at all its locations has well established internal audit and internal control systems commensurate with the size of its operations with a view to ensure that all the assets are safeguarded and protected against losses and that all the transactions are appropriately authorized, correctly recorded and disclosed in the financial statements. Based on these duly authorized documentations, the financial statements are prepared. The internal audit of the company is carried out by a reputed and experienced firm of Chartered Accountants. They periodically evaluate the internal controls which provide reasonable assurance regarding the effectiveness and the efficiency of operations. Independence of the Audit and compliance function is ensured by the direct reporting of the Internal Audits to the Audit Committee of the Board. Details on the composition and functions of the Audit Committee can be found in the chapter on Corporate Governance.

## Outlook

The expansion activities in the steel business has been delayed partly due to the extended time for the foundation and the refurbishing of the continuous mill; this has been aggravated by the recent incidents of violence against migrant workers in Maharashtra. On account of this, both the continuous mill and the bearing races projects have been slowed down and commissioning has been delayed to October 2008. The state of the art Rudrapur unit for making the pressed metal components commenced operations from May 2007 and is yet to stabilise operations on account of low volumes from the tractor business of M&M at Rudrapur. The Rudrapur division has presently taken up press metal operation for the three wheeler "Alfa" of the Auto Division of M&M; it is expected that the volume will progressively increase and provide significant improvement in the capacity utilisation of this division.

The Company is conscious of its status as a customer centric corporation in line with the Group Philosophy. Our endeavor to retain such status continues to be only through relentless service.

## Cautionary Statement

*Certain statements in the Management Discussion & Analysis describing the Company's objectives, projections, estimates, expectations or predictions may be "forward looking statements" within the meaning of applicable securities laws and regulations. Actual results could differ from those express or implied. Important factors that could make a difference to the Company's operations include raw material availability and prices, cyclical demand and pricing in the Company's principal markets, changes in Government regulations, tax regimes, economic developments within India and the countries in which the Company conducts business and other incidental factors.*

## CORPORATE GOVERNANCE REPORT

### Company's philosophy on code of Corporate Governance

Your Company follows good corporate governance practices and ensures transparency in its policies, reporting, and decision making process. The Company emphasizes on effective and efficient accounting system, internal control mechanism and planning process. The practices adopted by the Company lay emphasis on optimum utilization of the resources so that the Company grows from strength to strength and creates wealth for its stakeholders.

The Board of Directors of the Company has an appropriate composition of Executive and Non-Executive Directors including Independent Directors. The Board of Directors through the active participation of Directors ensure that the discussions and decisions on the policy matters are taken after due deliberation and discussion and in consonance with the good Corporate Governance practices.

A report on compliance with the Code of Corporate Governance as prescribed by the Securities and Exchange Board of India and incorporated in the Listing Agreement is given below.

### I. BOARD OF DIRECTORS – Constitution and Composition

The Chairman of the Company is a Non – Executive Director and the number of Independent Directors is more than 1/3rd of the total strength of the Board. The number of Non-Executive Directors is more than 50% of the total strength of the Board. The composition of the Board is in conformity with Clause 49 of the Listing Agreement.

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

The Chairman and the Vice-Chairman of the Company, though professional Directors in their own individual capacity, belong to the promoter group of the ultimate holding company Mahindra & Mahindra Limited (M&M). Mr. Hemant Luthra and Mr. Rajeev Dubey, Non-Executive Directors of the Company, are in the whole time employment of M&M, and draw remuneration from it. Mr. R. R. Krishnan, a Non–Executive Director of the Company is a consultant with M&M and draws consultancy/advisory fees from it.

Apart from the above and apart from the re-imbursement of expenses incurred in the discharge of their duties and 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 professional services as an advisor, none of these Directors has any other material pecuniary relationship or transaction with the Company, its Promoters, its Directors, its Senior Management and associates which, in their judgement, would affect their independence.

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.

### A. Composition of Board

The Company presently has eleven Directors, including one Managing Director and one Executive Director. There are five Non-Independent Non-Executive Directors. The remaining four Non-Executive Directors (including the Nominee Director) are Independent Directors and professionals, with expertise and experience in general corporate management, finance, banking and other allied fields.

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 Constitution of the Board as on 31st March, 2008 is as under:**

| Directors | Category | Total number of Committee Memberships+ of Public Companies as on 31st March, 2008. | Total number of Chairmanships of Committees+ of Public Companies as on 31st March, 2008. | Directorships* of Public Companies as on 31st March, 2008. |
|---|---|---|---|---|
| **Non- Executive** | | | | |
| Mr. Keshub Mahindra - Chairman | Non Independent | 1 | 1 | 7 |
| Mr. Anand G. Mahindra - Vice-Chairman | Non Independent | 1 | Nil | 13 |
| Mr. Hemant Luthra | Non independent | 3 | Nil | 9 |
| Mr.R.R.Krishnan | Non Independent | 3 | 1 | 3 |
| Mr.Rajeev Dubey | Non Independent | 1 | 1 | 8 |
| Dr.H.N.Sethna | Independent | 8 | 3 | 6 |
| Mr.M.R.Ramachandran | Independent | 2 | 2 | 1 |
| Mr.K.B.Saha (nominee of LIC) | Independent | 1 | Nil | 1 |
| Mr.S.Ravi | Independent | 8 | 4 | 12 |
| **Executive** | | | | |
| Mr.K.V.Ramarathnam - Managing Director | Non Independent | 1 | Nil | 2 |
| Mr. Deepak Dheer – Executive Director | Non Independent | Nil | Nil | 1 |

* Excludes Directorships in Private Companies, Foreign Companies, Companies registered under Section 25 of the Companies Act 1956 and Government Bodies but includes Directorships in Mahindra Ugine Steel Company Limited.

\+ Committees considered are Audit Committee and Shareholders/Investors' Grievance Committee, including in Mahindra Ugine Steel Company Limited.

**B. 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. A detailed functional report is also placed at Board Meetings. 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.

**C. Number of Board Meetings, attendance record of the Directors at Meetings of the Board and at the last Annual General Meeting.**

Five Meetings of Board of Directors were held during the year 1st April, 2007 to 31st March, 2008 on the following dates:

- 27th April, 2007
- 26th July, 2007
- 24th October, 2007
- 28th January, 2008
- 25th March, 2008

The gap between two Meetings did not exceed four months. These were well attended by directors.

The Forty - fourth Annual General Meeting (AGM) was held on 26th July, 2007.

The attendance of the Directors at these Meetings is as under:

| **Director** | Number of Board Meetings Attended | Attendance at the last AGM |
|---|---|---|
| Mr.Keshub Mahindra | 5 | Yes |
| Mr.Anand G.Mahindra | 5 | Yes |
| Mr.K.V.Ramarathnam | 5 | Yes |
| Mr.Deepak Dheer | 5 | Yes |
| Mr.N.V.Khote* | 1 | No |
| Dr.H.N.Sethna | 4 | Yes |
| Mr.M.R.Ramachandran | 4 | Yes |
| Mr. Hemant Luthra | 5 | Yes |
| Mr.R.R.Krishnan | 5 | Yes |
| Mr.Rajeev Dubey | 5 | Yes |
| Mr.K.B.Saha | 4 | No |
| Mr.S.Ravi | 2 | No |

* Expired on 9th September, 2007.

**D. Directors seeking appointment / re-appointment**

Mr. K.V. Ramarathnam, Managing Director is seeking re-appointment as the Managing Director w.e.f 5th May 2008 for a period of 3 years. Further, Mr. Hemant Luthra , Mr. R.R. Krishnan and Mr. S. Ravi, retire by rotation and being eligible have offered themselves for re-appointment.

**Mr. K.V. Ramarathnam**

Mr. K. V. Ramarathnam is a Graduate in Mechanical Engineering from University of Madras and has rich experience of 37 years in Steel and related industries.

Mr. K.V. Ramarathnam was SBU Head (Steel Division) of Perkasa Indobaja, Subang, Indonesia, (Texmaco Group) for more than 5 years heading Seamless Tubes, Hot Rolling Mill, Steel Melting Shop. Mr. K. V. Ramarathnam was also associated as a Key Personnel for more than 17 years with Kalyani Steels Ltd. and Kalyani Seamless Tubes Ltd.

Mr. K.V. Ramarathnam has handled all areas of operations including Installation & Commissioning from green field site to full capacity, Production, Marketing, Process and equipment selection, Project appraisal and implementation, Cost Control, Recruitment & Training, Review of all MIS & action plans, Funds Flow management etc. Mr. K. V. Ramarathnam has widely traveled on different assignments and is an effective team leader.

Mr. K.V. Ramarathnam is holding Directorship of Marmagoa Steel Ltd, and is a member of Shareholders' Grievance Committee of Mahindra Ugine Steel Co. Ltd. Mr. K. V. Ramarathnam is not holding any shares of the Company.

**Mr. Hemant Luthra**

Mr.Hemant Luthra is a graduate of the Indian Institute of Technology, Delhi where he was nominated for the President's Gold Medal for best all round student. He has also been through the Advanced Management Programme at the Harvard Business School. Mr.Luthra joined Mahindra & Mahindra Limited (M&M) as Executive Vice President – Corporate Strategy in December 2001 and was involved in a number of Strategic initiatives across different sectors and group companies. He serves on several Boards and is also Chairman of some Mahindra Group companies.

Mr. Luthra is a member of the Group Management Board of M&M and is President of Mahindra Systems & Automotive Technologies (Systech) Sector.

Mr. Luthra has 35 years of varied and rich work experience in Operations, Finance, Business Development and Private Equity, which is of special interest to M&M today as it seeks to consolidate its leadership in different verticals on the back of its strong financial performance. Mr. Luthra started his career with IBM in India where he was directly responsible for a substantial part of the business with responsibility for both Large Accounts and the Finance Industry vertical. He was seconded to IBM Singapore as Marketing Advisor and was the recipient of several awards including one from the Chairman for his special contribution to teamwork.

After IBM, Mr. Luthra spent 18 years with the Thapar Group, a $1 Billion conglomerate with interest in Paper, Chemicals & Engineering. As Group CFO and then as COO of the Group's flagship company BILT, he served on the Board of several joint ventures of the Group [with Dupont, Mitsubishi, OKI and served as Chairman of the JV with Maersk Shipping].

Following his entrepreneurial instinct Mr. Luthra then founded a Private Equity fund for the ING Group and served as its first CEO. He later joined the Essar Group as CEO of their Telecom business and helped engineer a lucrative merger of the business with Hutchison. He then worked with Enron India as CEO of their Broad Band business.

Mr. Luthra is the Chairman of Mahindra Engineering Design & Development Company Limited. Mahindra Composites Limited, Mahindra Hinoday Industries Limited. Mahindra Castings Private Limited, Mahindra Aerospace Private Limited and Mahindra SAR Transmission Private Limited. He also holds Directorships in public Companies of First Choice Wheels Limited, Mahindra Sona Limited, Mahindra Lifespaces Developers Limited, Mahindra Forgings Limited, Mahindra International Limited. He is a member of the following Board Committees;

| Sr. No. | Name of the Company | Name of the Committee | Position held |
|---|---|---|---|
| 1. | First Choice Wheels Limited | Audit Committee | Member |
| 2. | Mahindra Lifespace Developers Ltd. | Shareholders/Investors' Grievance Committee | Member |
| 3. | Mahindra Ugine Steel Co. Ltd. | Investors' Grievance Committee | Member |

Mr. Hemant Luthra is holding 5906 shares of the Company.

**Mr. R.R. Krishnan**

Mr.R.R.Krishnan is an Honours graduate in Mathematics from University of Delhi and has also done his GPMD course from Michigan Business School. Mr. R. R. Krishnan was with Mahindra Group for around 47 years and has held several senior positions during his stint with Mahindra Group. He was Member of the Group Management Board of Mahindra & Mahindra Ltd., until March 2005 and was also the Managing Director of Mahindra Intertrade Ltd. and Mahindra Steel Service Center Ltd. (MSSCL). Mr. R. R. Krishnan was responsible for the activities of the then Intertrade Division of Mahindra and Mahindra Limited (M&M), which subsequently became 'Mahindra Intertrade Ltd.' (MIL). During his tenure he was responsible for setting up the facilities of MSSCL and the expansion thereof. MIL also expanded globally to set up a facility in UAE – Mahindra Middleeast Electrical Steel Service Centre -FZC. Mr. R.R. Krishnan, carries with himself rich experience and expert knowledge of steel industry.

Mr. R.R. Krishnan holds Directorships of Mahindra Composites Ltd. and Mahindra Forgings Ltd. He is a member of the following Board Committees;

| Sr. No. | Name of the Company | Name of the Committee | Position held |
|---|---|---|---|
| 1 | Mahindra Ugine Steel Co. Ltd. | Audit Committee | Member |
| 2. | Mahindra Forgings Ltd. | Investors' Grievance Committee | Chairman |
| | | Audit Committee | Member |

Mr. R. R. Krishnan is presently a senior advisor in M&M. Mr. R. R. Krishnan does not hold shares in the Company.

**Mr. S. Ravi**

Mr. S. Ravi is a Post Graduate in Commerce and F.C.A. He is a practicing Chartered Accountant and the Senior Partner of Ravi Rajan & Co. During the course of practice, he has handled various assignments in the field of Restructuring & Rehabilitation of companies, Takeover, Mergers & Acquisitions and Business and Brand valuation. He is also a member on the Board of Voluntary Health Association of India (VHAI).

His experience in the banking sector includes tenure as Government Nominated Director of UCO Bank, wherein as a member of the Strategic Revival Group, he was instrumental in the formulation of the revival plan and its subsequent implementation. Mr. S. Ravi was also a member of the strategic Revival Committee of Dena Bank apart from Asset Liability Management Committee, Risk Management Committee and Committee for Monitoring NPAs and Chairman of Audit Committee during his tenure as shareholder director of the Bank. Mr. S. Ravi is a visiting faculty at IIMT Management College, Meerut and National Institute of Banking Studies and Corporate Management (NIBSTC), Noida. Mr. S. Ravi is an expert analyst on Banks, Economic and Business Matters of CNBC, ZEE and other TV Channels and contributed articles pertaining to banking in leading Financial Dailies. Mr. S. Ravi is an advisor of the Management Study Group of Northern Indian Regional Council of ICAI. Mr. S. Ravi is also a guest lecturer at various Management Institutes.

Mr. S. Ravi holds the Directorships of the following body corporates viz. IFCI Limited, Corporation Bank, IDBI Capital Market Services Limited, Batliboi Limited, UTI Trustee Company Private Limited, Gujarat Pipavav Port Limited, LIC Housing Finance Limited, IDBI Home Finance Limited, Kudremukh Iron Ore Co. Ltd., Hindustan Aeronautics Ltd., Inter-connected Stock Exchange of India Ltd., Bharat Heavy Electricals Ltd. and Ravi Rajan & Co.Pvt.Ltd. He is a member of the following Board Committees;

| Sr. No. | Name of the Company | Name of the Committee | Position held |
|---|---|---|---|
| 1. | Mahindra Ugine Steel Co. Ltd. | Audit Committee | Member |
| | | Investors' Grievance | Member |
| 2. | Corporation Bank | Audit Committee | Member |
| 3. | IDBI Capital Market Services Ltd. | Audit Committee | Member |
| 4. | LIC Housing Finance Ltd. | Audit Committee | Chairman |
| 5. | IDBI Home Finance Ltd. | Audit Committee | Chairman |
| 6. | IFCI Ltd. | Audit Committee | Chairman |
| 7. | IFCI Ltd. | Shareholders/ Investors' Grievance Committee | Chairman |

Mr. S. Ravi does not hold shares in the Company.

**E. Code of Conduct**

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

**F. CEO/CFO Certification**.

As required under clause 49 V of the Listing Agreement with Stock Exchanges, the Managing Director and Executive Vice President – Finance & MIS have certified to the Board regarding the financial statements for the year ended 31st March, 2008.

**II. REMUNERATION TO DIRECTORS**

**A. Remuneration Policy**

While deciding on the remuneration of Directors, the Board/Remuneration Committee (Committee) considers the performance of the Company, the current trends in the industry, the qualification of the appointee(s), their experience, past performance and other relevant factors. The Board/ Remuneration 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.

**B. Remuneration to Non-Executive Directors for the year ended 31st March, 2008.**

Non-Executive Directors are paid sitting fee of Rs.7,500/- for every Meeting of the Board and Audit Committee attended and a sitting fee of Rs.3,750/- is paid per Meeting in case of Investors' Grievance and Remuneration Committee Meetings, respectively. The fees paid to Non-Executive Directors for the year ended 31st March, 2008 along with their shareholdings are as under:

| Director | Sitting Fees for Board and Committee Meetings Paid during the year (Rs.) | No. of Equity shares held as on 31st March, 2008 |
|---|---|---|
| Mr. Keshub Mahindra | 37,500 | 1,231 |
| Mr. Anand G. Mahindra | 45,000 | - |
| Dr. Homi N. Sethna | 71,250 | 2,200 |
| Mr. N. V. Khote* | 18,750 | - |
| Mr. M. R. Ramachandran | 82,500 | - |
| Mr. Hemant Luthra | 41,250 | 5,906 |
| Mr. R. R. Krishnan | 75,000 | - |
| Mr. Rajeev Dubey | 37,500 | - |
| Mr. K. B. Saha** | 60,000 | - |
| Mr. S. Ravi | 30,000 | - |

* Expired on 9th September, 2007.

** Sitting fees paid to LIC.

2,15,000 Stock Options have been granted to Non-Executive Directors under the Company's Stock Option Scheme on 18th August, 2006. The Stock options were granted at 15% discount to the average of high and low share prices of the Company on Bombay Stock Exchange, during 15 days preceding the date of grant of options. Details of these are given in the Statement attached to Annexure I to the Directors' Report. Apart from the above sitting fees, Non–Executive Directors received no remuneration during the year under review.

**C. Remuneration to the Managing Director and Executive Director for the year ended 31st March, 2008.**

Remuneration payable to the Managing Director and the Executive Director is usually fixed by the Remuneration Committee and thereafter approved by the Board of Directors subject to the approval of shareholders at a General Meeting.

Following Remuneration paid/payable to the Managing Director and Executive Director during the year ended 31st March, 2008.

| Director | Salary (Rs.) | Company's contribution to funds* (Rs.) | Perquisites and allowances (Rs.) | Commi-ssion | Total (Rs.) | Contract Period | No. of Options granted in August, 2006 |
|---|---|---|---|---|---|---|---|
| * Mr. K.V. Ramarathnam Managing Director | 27,70,851 | 7,29,000 | 23,09,367 | 20,64,000 | 78,73,218 | 5th May, 2003 to 4th May, 2008.+ + | 100000 |
| ** Mr. Deepak Dheer Executive Director | 34,12,379 | 4,49,692 | 12,07,611 | 19,00,000 | 69,69,682 | 20th October, 2006 to 19th October, 2009. | 75000 |

++ Re-appointed with effect from 5th May, 2008 for a period of 3 years by the Board of Directors. The approval from the members is being sought for the same as mentioned in the Notice.

Note:

1. * The Remuneration Committee and the Board of Directors at their respective Meetings held on 24th October, 2007, revised the remuneration, subject to approval by the members at the ensuing Annual General Meeting. The options granted would vest in four equal installments on the expiry of 12, 24, 36 & 48 months from the date of grant which is 18-08-2006 and can be exercised at a price of Rs. 99/- per share over a period of five years from date of vesting of the options. Mr. K V Ramaratham has not exercised any of the vested options during the year.

2. **Remuneration payable to Mr. Deepak Dheer, Executive Director, revised by the Remuneration Committee at its Meeting held on 24th October, 2007 was approved by the Board of Directors at its Meeting held 24th October, 2007. The options granted would vest in four equal installments on the expiry of 12, 24, 36 & 48 months from the date of grant which is 18-08-2006 and can be exercised at a price of Rs. 99/- per share over a period of five years from date of vesting of the options. Mr. Deepak Dheer has not exercised any of the vested options.

3. Notice period applicable to Managing Director and the Executive Director is three months.

4. The overall remuneration to the Managing Director and the Executive Director is approved by the Remuneration Committee and the Board of Directors.

5. Commission is the only component of remuneration that is performance linked. All other components are fixed.

6. Mr. K. V. Ramarathnam, Managing Director and Mr. Deepak Dheer, Executive Director, do not hold any shares in the Company.

## III. RISK MANAGEMENT

Your Company has a well-defined risk management framework in place. The risk management framework adopted by the Company is discussed in the Management Discussion and Analysis chapter of this Annual Report. Your Company has established procedures to periodically place before the Board the risk assessment and minimization procedures being followed by the Company and steps taken by it to mitigate these risks.

## IV. COMMITTEES OF THE BOARD OF DIRECTORS

### A. Audit Committee

The Audit Committee has been constituted by the Board of Directors and presently it comprises of Dr. Homi N. Sethna, Mr. M. R. Ramachandran, Mr. R. R. Krishnan, Mr. S. Ravi and Mr. K.B.Saha all being Independent and Non-Executive Directors except Mr. R. R. Krishnan, who is a Non-Independent Director. All the Members have vast experience and knowledge of corporate affairs & financial management and Mr. M.R. Ramachandran, Chairman of the Committee, possesses strong accounting and financial management expertise. The Company Secretary acts as Secretary to the committee.

Mr. M.R. Ramachandran was present at the Annual General Meeting of the Company held on 26th July, 2007.

The terms of reference of this Committee are very wide. Besides having access to all the required information from within the Company, the Committee can obtain external professional advice whenever required. The Committee acts as a link between the Statutory and 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 and meet with them to discuss their findings, suggestions and other related matters. The Committee is empowered *inter alia* to review the remuneration payable to the Statutory Auditors and to recommend a change in Auditors, if felt necessary. It is also empowered to 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. 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.

The Committee held 5 Meetings during the year 2007-08. The gap between two Meetings did not exceed four months. The attendance at the Meetings was as under :

| Sr. No. | Members | Meetings Attended | Remarks |
|---|---|---|---|
| 1 | Mr. M. R. Ramachandran (Chairman) | 4 | — |
| 2 | Mr. N. V. Khote | 1 | Expired on 9th September, 2007 |
| 3 | Dr. H. N. Sethna | 5 | — |
| 4 | Mr. R. R. Krishnan | 5 | — |
| 5 | Mr. S. Ravi | 1 | — |
| 6 | Mr. K. B. Saha | 4 | — |

The Meetings of the Audit Committee were also attended by the Managing Director, Executive Director, Executive Vice-President (Finance) & MIS, Company Secretary, the Statutory Auditors and the Internal Auditors.

### B. Investors' Grievance Committee

The Investors' Grievance Committee has been constituted by the Board of Directors and the Committee functions under the Chairmanship of Mr. M. R. Ramachandran, a Non-Executive Director. Mr. S. Ravi, Mr. Hemant Luthra and Mr. K.V.Ramarathnam are also on the Committee.

The Company Secretary is the Compliance Officer of the Company.

The Committee meets as and when required, to deal with matters relating to transfers/transmissions of shares, issue of duplicate share certificates etc., and monitors redressal of complaints from shareholders relating to transfers, non-receipt of balance-sheet, non-receipt of dividends declared etc.

The Committee held 6 Meetings during the year 2007-08. The attendance at these Meetings was as under:

| Sr. No. | Members | Meetings Attended |
|---|---|---|
| 1. | Mr. S. Ravi | 2 |
| 2. | Mr. M. R. Ramachandran | 5 |
| 3. | Mr. K. V. Ramarathnam | 6 |
| 4. | Mr. Hemant Luthra* | 1 |

* Appointed w.e.f. 24th October, 2007.

The Company also has constituted a Sub-committee to expedite the process of Share Transfer/Transmission consisting of the following Members:

Mr. K. V. Ramarathnam — Managing Director

Mr. R. Sundaresan — Executive Vice President (Finance) & MIS

Mr. Ajay Kadhao — Company Secretary

Normally Share Transfer Committee Meetings are held once in 15 days to approve share transfers and other related matters and are attended by the Managing Director, Executive Vice President (Finance) & MIS and Company Secretary of the Company. Share Transfer Committee Meetings are chaired by the Managing Director of the Company.

During the year, 90 letters / complaints were received from the shareholders, all of which were attended to / resolved to date.

As on 31st March, 2008, there were no pending share transfers pertaining to the year under review.

### C. Remuneration Committee.

The role of the Remuneration Committee is to review market practices and to decide on remuneration packages applicable to the Managing Director/ Executive Director. During the course of its review, the Committee also decides on the Commission and/

or other incentives payable, taking into account the individual's performance as well as that of the Company. The Remuneration Committee is also empowered to decide on the matters relating to Employee Stock Option Scheme of the Company.

The Remuneration Committee comprises of Dr. H. N. Sethna, Mr. Hemant Luthra, Mr. M. R. Ramachandran and Mr. K. B. Saha. The Company Secretary acts as Secretary to the Committee.

Dr. H. N. Sethna is the Chairman of the Committee.

The Committee held 2 Meetings during 2007-08. The attendance at the Meetings was as under:

| Sr. No. | Members | Meetings Attended | Remarks |
|---|---|---|---|
| 1. | Dr. H. N. Sethna | 1 | - |
| 2. | Mr. Anand G. Mahindra | 2 | Ceased to be a member of the Committee w.e.f 24th October, 2007. |
| 3. | Mr. Hemant Luthra | - | Appointed as member of the Committee w.e.f 24th October, 2007. |
| 4. | Mr. M.R. Ramachandran | 1 | - |
| 5. | Mr. K.B. Saha | - | Appointed as member of the Committee w.e.f 24th October, 2007. |
| 6. | Mr. N.V. Khote | 1 | Expired on 9th September, 2007 |

## V. DISCLOSURES

### A. Disclosures relating to related party

During the financial year 2007-08, there were no materially significant transactions entered into between the Company and its promoters, Directors or the management, relatives, etc. that may have potential conflict with the interests of the Company at large. Further, details of related party transactions are presented in note no. "24" in Schedule "L" to Annual Accounts of the Annual Report.

### B. Disclosure of Accounting Treatment in Preparation of Financial Statements

The 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.

### C. Code for Prevention of Insider-Trading Practices

In compliance with SEBI's regulation on prohibition and prevention of insider trading, the Company has instituted a comprehensive Code of Conduct for prohibition and 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 the Company, and cautioning them of the consequences of violations.

## VI. SHAREHOLDER INFORMATION

### (i) Annual General Meeting

The Forty - fifth Annual General Meeting of the Company will be held on Thursday, 24th July, 2008 at 3.00 p.m. at Amar Gian Grover Auditorium, Lala Lajpat Rai Marg, Haji Ali, Mumbai-400 034 to transact such business as stated in the Notice of the Meeting.

### (ii) Financial Year of the Company

The financial year covers the period 1st April to 31st March.

**Financial Reporting for:**

— Quarter ending 30.06.2008 - by end of July, 2008.

— Half-year ending 30.09.2008 - by end of October, 2008.

— Quarter ending 31.12.2008 - by end of January, 2009.

— Year ending 31.03.2009 - by end of April, 2009.

Note : The above dates are indicative.

### (iii) Date of Book Closure

Friday, 11th July, 2008 to Thursday, 24th July, 2008 (both days inclusive).

### (iv) Dividend Payment date

On or after 24th July, 2008.

### (v) Listing of Equity Shares on Stock Exchanges

1. Bombay Stock Exchange Limited.
2. National Stock Exchange of India Limited
3. Calcutta Stock Exchange Association Limited*

(*Applied for delisting the equity shares on 14th September, 2004 and approval is still awaited).

The Company has paid the Listing Fees to Bombay Stock Exchange Limited and National Stock Exchange of India Limited.

**(vi) Stock Codes:**

(a) Bombay Stock Exchange Limited (BSE)-504823

(b) National Stock Exchange of India Ltd. (NSE) - MAHINDUGIN EQ

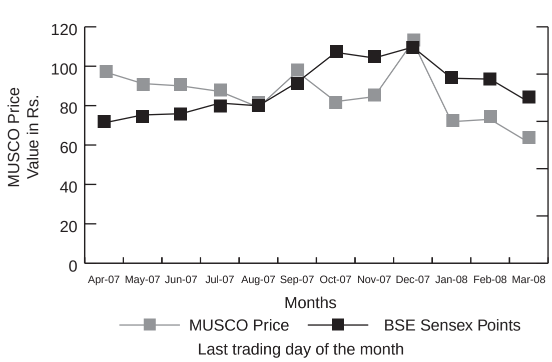
(c) Demat International Securities Identification Number (ISIN) in NSDL and CDSL for Equity Shares - INE 850A01010

**(vii) Stock Market price data:**

High/low prices during each month in last financial year on Bombay Stock Exchange Limited / National Stock Exchange of India Limited.

| Month | Bombay Stock Exchange Ltd. | | National Stock Exchange Ltd. | |
|---|---|---|---|---|
| | High (Rs.) | Low (Rs.) | High (Rs.) | Low (Rs.) |
| April 2007 | 109.00 | 84.50 | 109.50 | 84.00 |
| May 2007 | 104.80 | 90.10 | 105.00 | 90.00 |
| June 2007 | 92.45 | 85.00 | 92.50 | 83.30 |
| July 2007 | 104.85 | 85.75 | 104.70 | 85.10 |
| August 2007 | 87.00 | 70.50 | 87.90 | 71.00 |
| September 2007 | 103.50 | 80.00 | 103.80 | 80.30 |
| October 2007 | 108.00 | 76.10 | 100.00 | 70.00 |
| November 2007 | 94.90 | 75.00 | 94.80 | 71.00 |
| December 2007 | 114.85 | 84.10 | 115.95 | 84.00 |
| January 2008 | 118.70 | 62.00 | 118.75 | 61.80 |
| February 2008 | 84.90 | 67.15 | 82.00 | 66.80 |
| March 2008 | 73.70 | 55.00 | 74.00 | 50.00 |

**(viii) Stock Performance in comparison to BSE Sensitive Index.**




**ix) Registrar and Transfer Agents-**

M/s. Sharepro Services (India) Private Limited.

**Unit: Mahindra Ugine Steel Co. Ltd.**

Satam Estate, 3rd floor, Above Bank of Baroda, Cardinal Gracious Road, Chakala, Andheri (East), Mumbai- 400 099.

Tel. No. 022-28215168/67720300/67720400

Fax No. 022-28375646/28591568

E-mail : sharepro@shareproservices.com

**(x) Share Transfer System**

All the Transfers received are processed and approved by the committee constituted for Share Transfer, Transmission etc., purpose, which normally meets at least once in 15 days and the committee reports to the Investors' Grievance Committee.

**(xi) Pattern of shareholding as on 31st March, 2008**

| Sr. No. | Description | Number of Shares | % to capital |
|---|---|---|---|
| 1 | Promoters and Promoter Group | 1,80,37,829 | 55.53 |
| 2 | Mutual Funds/UTI | 13,59,115 | 4.18 |
| 3 | Financial Institutions/Banks | 25,944 | 0.08 |
| 4 | Insurance Companies | 23,07,506 | 7.10 |
| 5 | Foreign Institutional Investors | 29,76,960 | 9.16 |
| 6 | Bodies Corporate | 12,55,220 | 3.87 |
| 7 | Non Resident Indian / Foreign National | 1,54,694 | 0.48 |
| 8 | Indian Public (Individuals) | 63,64,272 | 19.60 |
| 9 | Trusts | 989 | 0.00 |
| | **TOTAL** | **3,24,82,529** | **100.00** |

**(xii) Distribution of shareholding as on 31st March, 2008**

| Shares Held | No. of Share holders | % to Share holders | No. of Shares | % to Shares |
|---|---|---|---|---|
| Up to - 500 | 22,043 | 90.77 | 25,59,199 | 7.88 |
| 501 - 1000 | 1,206 | 4.97 | 9,81,508 | 3.02 |
| 1001 - 2000 | 545 | 2.24 | 8,42,174 | 2.59 |
| 2001 - 3000 | 163 | 0.67 | 4,06,802 | 1.25 |
| 3001 - 4000 | 81 | 0.33 | 2,93,988 | 0.91 |
| 4001 - 5000 | 69 | 0.29 | 3,30,037 | 1.02 |
| 5001 – 10000 | 92 | 0.38 | 7,04,229 | 2.17 |
| 10001-and above | 85 | 0.35 | 2,63,64,592 | 81.16 |
| **TOTAL** | **24,284** | **100.00** | **3,24,82,529** | **100.00** |

**(xiii) Dematerialization of Shares and Liquidity as on 31st March, 2008.**

Physical Form : 3.94%
Dematerialized Form : 96.06%

Trading in equity shares of the Company is permitted in dematerialized form only as per the notification issued by Securities and Exchange Board of India (SEBI).

**(xiv) Outstanding ADRs/GDRs/ Warrants or any Convertible Instruments, conversion date and likely impact on Equity.**

The Company has not issued any ADRs/ GDRs/Warrants or any convertible instruments.

**(xv) Plant Locations :**

**1. Steel Division**
Jagdish Nagar,
Khopoli- 410 216,
District-Raigad, Maharashtra.

**2. Stampings Divisions:-**
a) 371, Takwe Road,
At & Post-Kanhe, Tal. Maval,
Dist. Pune- 412 106.
b) D-2, MIDC, Ambad, Nashik- 422 010.
c) Maharajapur Road, Lalpur, Rudrapur, (U.S. Nagar), Uttarakhand.

**(xvi) Address for correspondence**

Registered Office:-
74, Ganesh Apartment,
Opp. Sitaladevi Temple, L. J. Road,
Mahim(W), Mumbai-400 016.
Tel.: 022-24444287
Telefax: 022-24458196
E-mail: investors_relation@mahindra.com

For all investor related matters, Mr. Ajay Kadhao, Company Secretary & Compliance Officer or Mr. Pradeep Salian, Deputy Company Secretary can be contacted at the above address. Email:kadhao.ajay@mahindra.com and salian.pradeep@mahindra.com

**VII. OTHER DISCLOSURES**

1. Annual General Meetings held during the past three years:

| Year | Date | Time |
|---|---|---|
| 2004-05 | 29.07.2005 | 11.30 a.m. |
| 2005-06 | 24.07.2006 | 3.45 p.m. |
| 2006-07 | 26.07.2007 | 3.30 p.m. |

All the Meetings were held at Amar Gian Grover Auditorium, Lala Lajpatrai Marg, Mahalaxmi, Mumbai - 400 034.

The following Special Resolutions were passed in the previous three Annual General Meetings:

| Financial Year | Date of Meeting | Special Resolutions passed |
|---|---|---|
| 2004-2005 | 29.07.2005 | Approval for revision in remuneration payable to Mr. K. V. Ramarathnam as the Managing Director of the Company with effect from 1st April, 2004 for the remainder of his term of office. |
| 2005-2006 | 24.07.2006 | 1. Approval for payment of Commission to Mr. K.V. Ramarathnam-Managing Director for the year 2004-05.<br>2. Approval for revision in remuneration payable to Mr. K. V. Ramarathnam as the Managing Director of the Company with effect from 1st April, 2005 for the remainder of his term of office.<br>3. Approval for payment of Commission to Non- Executive Directors of the Company.<br>4. Approval for issue of Shares to Employees/Directors of the Company under Employee Stock Option Scheme (ESOS).<br>5. Approval for issue of Shares to Employees of Holding/Subsidiary Companies of the Company under Employees Stock Option Scheme (ESOS). |

| Financial Year | Date of Meeting | Special Resolutions passed |
|---|---|---|
| 2006-2007 | 26-07-2007 | 1. Appointment of Mr. Deepak Dheer as Executive Director of the Company for the period of 3 Years from 20-10-2006.<br>2. Amendment to Articles of Association of the Company in respect to increase in Authorised Share Capital of the Company.<br>3. To recover from the eligible employees, the fringe benefit tax in respect of options which are granted to or vested or exercised by, the eligible employee on or after the 1st day of April, 2007. |

**Postal Ballot**

The Company has not proposed any special resolution to be conducted through postal ballot. No resolutions were passed by the Postal Ballot in the year under review.

**2. Details of non-compliance etc.**

The Company has complied with all the requirements of regulatory authorities. During the last three years, there were no instances of non-compliance by the Company and no penalty or strictures were imposed on the Company by the Stock Exchanges or SEBI or any statutory authority, on any matter related to the capital markets.

**3. Means of Communication**

The quarterly, half yearly & yearly results are published in, Business Standard, and Sakal which are national and local dailies. These are not sent individually to the Shareholders. The Company results and official news releases are displayed on the Company's website http://www.muscoindia.com.

During the year ended 31st March, 2008, no presentations were made to institutional investors or analysts.

**4.** The Management Discussion and Analysis Report (MDA) has been attached and forms part of this Annual Report.

**5. Compliance with mandatory & non-mandatory requirements**

The Company has complied with all the mandatory requirements of Clause 49 of the Listing Agreement relating to Corporate Governance. Further, the Company has adopted the following non-mandatory requirements of the Clause:

- The Company has set up the Remuneration Committee.
- The financial statements of the Company are unqualified.

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

Mumbai: 29th April, 2008.

## DECLARATION BY THE MANAGING DIRECTOR PURSUANT TO CLAUSE 49 OF THE LISTING AGREEMENT

To

The Members of Mahindra Ugine Steel Company Limited

I, K.V.Ramarathnam, Managing Director of Mahindra Ugine Steel Company Limited, declare that all the members of the Board of Directors and Senior Management Personnel have affirmed compliance with the Codes of Conduct for the year ended 31st March, 2008.

**K.V. Ramarathnam**
**Managing Director**

Place : Mumbai
Date : 29th April, 2008.

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## CERTIFICATE

To the Members of Mahindra Ugine Steel Company Limited.

We have examined the compliance of conditions of Corporate Governance by Mahindra Ugine Steel Company Limited for the year ended 31st March, 2008 as stipulated in Clause 49 of the Listing Agreement of the said Company with stock exchanges in India.

The compliance of conditions 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 such compliance is neither an assurance as to the future viability of the Company nor the efficiency or effectiveness with which the management has conducted the affairs of the Company.

**For A. F. Ferguson & Co.**
Chartered Accountants

**B. P. Shroff**
Partner
Membership Number: 34382

Place : Mumbai
Date : 29th April, 2008

## AT A GLANCE

(Rupees in Crores)

| **Financial Summary** | **2007-08** | 2006-07 | 2005-06 | 2004-05 | 2003-04 | 2002-03 | 2001-02 | 2000-01 | 1999-2000 | 1998-99 |
|---|---|---|---|---|---|---|---|---|---|---|
| Sales | **922.18** | 717.23 | 615.04 | 522.00 | 356.57 | 242.67 | 256.21 | 238.93 | 273.12 | 238.90 |
| Other Income | **2.76** | 1.68 | 9.73 | 1.05 | 2.47 | 2.56 | 0.96 | 3.68 | 3.17 | 3.22 |
| Increase/(Decrease) in stocks | **16.13** | -4.39 | 24.92 | 6.79 | -1.45 | -5.90 | 8.34 | -5.08 | 3.97 | -3.97 |
| Manufacturing and other expenses | **841.54** | 617.79 | 526.07 | 443.46 | 328.19 | 233.23 | 247.06 | 226.37 | 265.36 | 236.88 |
| Depreciation | **26.71** | 16.73 | 13.08 | 9.62 | 9.26 | 9.61 | 9.29 | 9.19 | 10.35 | 10.10 |
| Interest | **28.63** | 11.83 | 11.15 | 11.38 | 13.51 | 13.71 | 15.40 | 16.21 | 20.26 | 17.90 |
| Profit/(Loss) for the year before tax | **44.19** | 68.17 | 99.38 | 65.38 | 6.63 | -17.22 | -6.23 | -14.23 | -15.72 | -26.73 |
| Provision for Taxation - Current Tax | **10.55** | 24.82 | 32.40 | 5.13 | 0.53 | — | -0.57 | — | — | — |
| - Deferred Tax | **4.15** | -1.55 | -2.13 | 12.09 | — | — | — | — | — | — |
| Premium on redemption of Pref.Shares | — | — | 4.04 | — | — | — | — | — | — | — |
| Profit/(Loss) after tax | **29.49** | 44.90 | 65.06 | 48.16 | 6.10 | -17.22 | -5.67 | -14.23 | -15.72 | -26.73 |
| Equity Dividend | **9.74** | 14.62 | 14.62* | 9.28 | — | — | — | — | — | — |
| Preference Dividend | — | 0.22 | 1.01 | 1.91 | — | 1.87 | 1.07 | 1.44 | — | — |
| Gross Fixed Assets | **410.22** | 317.05 | 269.63 | 200.09 | 200.85 | 202.11 | 200.05 | 194.85 | 190.74 | 183.15 |
| Net Fixed Assets | **292.40** | 233.00 | 115.82 | 68.61 | 70.34 | 81.24 | 87.26 | 92.31 | 99.24 | 103.96 |
| Investments | **0.42** | 0.52 | 0.52 | 3.09 | 3.11 | 3.29 | 3.34 | 3.34 | 3.19 | 3.29 |
| Net Current Assets | **229.80** | 156.93 | 146.04 | 95.08 | 73.17 | 44.98 | 52.91 | 46.50 | 58.01 | 67.43 |
| Miscellaneous Expenditure | **0.03** | 0.20 | 0.59 | 1.04 | 1.82 | 2.31 | 4.55 | 7.83 | 10.78 | 15.10 |
| Equity Share Capital | **32.48** | 32.48 | 32.48 | 30.93 | 30.93 | 30.93 | 30.93 | 30.93 | 30.93 | 30.93 |
| Share Capital | **32.48** | 32.48 | 37.94 | 47.39 | 47.39 | 47.39 | 47.39 | 43.93 | 43.93 | 42.43 |
| Reserves and Surplus | **155.39** | 137.30 | 110.77 | 43.92 | 8.78 | 6.10 | 71.30 | 74.82 | 74.82 | 78.44 |
| Profit & Loss Balance c/f | — | — | — | — | — | -3.68 | -51.66 | -45.99 | -31.76 | -18.54 |
| Net Worth | **189.00** | 170.16 | 148.12 | 90.28 | 54.35 | 47.5 | 62.48 | 64.93 | 76.21 | 87.22 |
| Borrowings | **316.60** | 207.42 | 99.55 | 64.41 | 92.26 | 82.00 | 81.02 | 77.22 | 84.22 | 87.45 |
| Profit before tax as a % of sales | **4.79** | 9.50 | 16.16 | 12.52 | 1.86 | — | — | — | — | — |
| Profit after tax as a % of sales | **3.20** | 6.26 | 10.58 | 9.22 | 1.71 | — | — | — | — | — |
| Earnings - Rs. per Equity Share | **9.08** | 13.75 | 19.68 | 15.03 | 1.81 | -6.17 | -2.18 | -5.07 | -5.08 | -8.64 |
| Dividend - Rs. per Equity Share | **3.00** | 4.50 | 4.50 | 3.00 | — | — | — | — | — | — |
| Book Value - Rs. per Equity Share | **58.18** | 52.39 | 43.93 | 23.86 | 12.26 | 10.03 | 14.88 | 16.79 | 20.43+ | 24.48+ |

* Including dividend proposed on new equity shares issued under merger of Pranay, Valueline & Console with the Company .
+ After adjusting for Preference Share Capital.

## AUDITORS' REPORT
## TO THE MEMBERS OF MAHINDRA UGINE STEEL COMPANY LIMITED

1. We have audited the attached balance sheet of Mahindra Ugine Steel Company Limited, as at 31st March, 2008 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.
2. 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.
3. As required by the Companies (Auditor's Report) Order, 2003 issued by the Central Government of India in terms of sub-section (4A) of Section 227 of the Companies Act, 1956, we enclose in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.
4. Further to our comments in the Annexure referred to in paragraph 3 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 those books;
   (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, 2008, and taken on record by the Board of Directors, we report that none of the directors is disqualified as on 31st March, 2008 from being appointed as a director in terms of clause (g) of sub-section (1) of Section 274 of the Companies Act,1956;
   (f) in our opinion and to the best of our information and according to the explanations given to us, the said accounts 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 at 31st March, 2008;
      (ii) in the case of the profit and loss account, of the profit for the year ended on that date; and
      (iii) in the case of the cash flow statement, of the cash flows for the year ended on that date.

**For A.F.Ferguson & Co.**
Chartered Accountants

**B.P. SHROFF**
(Partner)
Membership Number: 34382

Mumbai: 29th April, 2008

## ANNEXURE TO THE AUDITORS' REPORT

## TO THE MEMBERS OF MAHINDRA UGINE STEEL COMPANY LIMITED

(Referred to in paragraph 3 thereof)

(i) (a) The company is maintaining proper records showing full particulars, including quantitative details and situation of fixed assets. In respect of furniture, fixtures and office equipment, location is broadly indicated unit-wise.

(b) As explained to us, the company has a phased programme designed to verify all fixed assets over a period of three years. Accordingly, certain class of assets at Khopoli, Kanhe and Rudrapur were verified by the management during the year. No material discrepancies between the book records and the physical inventory were noticed in respect of the assets physically verified.

(c) During the year, in our opinion, a substantial part of fixed assets has not been disposed off by the company.

(ii) (a) The inventory of the company has been physically verified by the management during the year and at the year end or after the year end. The stock of scrap, having regard to its nature and manner of storage, was verified at the year end by the management by visual estimation (relied upon by us). In respect of materials lying with third parties, these have been confirmed by them. In our opinion the frequency of verification is reasonable.

(b) In our opinion and according to the information and explanations given to us, having regard to the comment in respect of scrap in (ii) (a) above, the procedure of physical verification of stocks are reasonable and adequate in relation to the size of the company and the nature of its business.

(c) On the basis of our examination of records of inventory, in our opinion, the company has maintained proper records of inventory. As stock of scrap is verified by visual estimation (relied upon by us), no adjustments have been made for the difference between the stocks so determined and the book records as it has been explained to us by the management that such an adjustment would not be proper having regard to the method of verification and the quantum of discrepancy noticed. The discrepancies noticed on physical verification between the physical stocks and book records were not material in relation to the operations of the company.

(iii) (a) The company has not granted or taken any loans secured or unsecured to / from companies, firms or other parties covered in the register maintained under Section 301 of the Companies Act, 1956, and accordingly paragraphs (iii)(b), (c), (d), (f) and (g) of the Order are not applicable.

(iv) In our opinion and according to the information and explanations given to us, having regard to the explanations that some of the items are of a special nature or are at negotiated prices and therefore alternative quotations are not available, there are adequate internal control procedures commensurate with the size of the company and the nature of its business for the purchase of inventory, fixed assets and for the sale of goods and services. Further, on the basis of our examination, and according to the information and explanations given to us, we have neither come across nor have we been informed of any instance of major weaknesses in the aforesaid internal control system.

(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 Companies Act, 1956 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, having regard to the comments in (iv) above, where there have been transactions with other parties, the transactions made in pursuance of contracts or arrangements entered in the register maintained under Section 301 of the Companies Act, 1956 during the year have been made at prices, which are reasonable having regard to the prevailing market prices for such goods, materials or services at the relevant time.

(vi) In our opinion and according to the information and explanations given to us, the company has complied with the provisions of Sections 58A, 58AA and other relevant provisions of the Companies Act, 1956, and the Companies (Acceptance of Deposits) Rules, 1975 as applicable, with regard to the deposits accepted from the public. According to the information and explanations given to us, no order under the aforesaid Sections has been passed by the Company Law Board or National Company Law Tribunal or Reserve Bank of India or any Court or any other Tribunal, on the company.

(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 account maintained by the company relating to the manufacture of steel and automotive parts and accessories 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 we are of the opinion that prima facie the prescribed accounts and records have been maintained and are being made up. We have not, however, made a detailed examination of the records with a view of determining whether they are accurate or complete.

(ix) (a) According to the information and explanations given to us and according to the books and records as produced and examined by us, in our opinion, the 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 as applicable have generally been regularly deposited by the company during the year with the appropriate authorities. According to the information and explanations given to us, there are no arrears of outstanding statutory dues as mentioned above as at 31st March, 2008 for a period of more than six months from the date they became payable.

(b) As at 31st March, 2008 according to the records of the company and the information and explanations given to us, the following are the particulars of disputed dues on account of income tax, sales tax, wealth tax, service tax, custom duty, excise duty and cess matters that have not been deposited on account of any dispute.

| Name of the statute | Nature of the dues | Amount disputed Rs. Crores | Period to which the amount relates | Forum where pending [some of these can be clubbed] |
|---|---|---|---|---|
| Income Tax Laws | Income Tax | 0.09 | F.Y. 1989-90 | Income Tax Appellate Tribunal |
| | Income Tax | 0.14 | F.Y. 2000-01 | Income Tax Appellate Tribunal |
| | Income Tax | 0.09 | F.Y. 2002-03 | Commissioner of Income Tax (Appeal) |
| Custom Duty Laws | Custom Duty | 8.21@ | February 1994 | Custom, Excise & Service Tax Appellate Tribunal |
| Excise Duty Laws | Excise Duty | 3.65 | September 1998 to February 2006 | Custom, Excise & Service Tax Appellate Tribunal |
| | Excise Duty | 0.93 | July 2001 to June 2003 | Deputy Commissioner |
| | Excise Duty | 0.94 | July 2003 to February 2005 | Assistant Commissioner |
| | Excise Duty | 2.33 | April 1997 to September 1999 | High Court |
| | Excise Duty | 1.21 | March 2005 to October 2006 | Joint Commissioner |
| | Excise Duty | 0.73 | April 2000 to December 2003 and November 2006 to July 2007 | Commissioner |

@ The amount has been stayed for recovery by the relevant authority.

(x) The company does not have accumulated losses as at 31st March, 2008 and has not incurred cash losses during the financial year ended on that date or in the immediately preceding financial year.

(xi) In our opinion and according to the information and explanations given to us, the company has not defaulted in repayment of its dues to a financial institution, bank or to debenture holders during the year.

(xii) In our opinion and 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) The provisions of any special statute as specified under Clause (xiii) of the Order are not applicable to the company.

(xiv) In our opinion and according to the information and explanations given to us, the company is not a dealer or trader in securities.

(xv) According to the information and explanations given to us, the company has not given any guarantees for loans taken by others from banks or financial institutions, the terms and conditions, whereof, in our opinion, are prejudicial to the interests of the company.

(xvi) In our opinion and according to the information and explanations given to us, the term loans were applied for the purpose for which the loans were obtained.

(xvii) Based on the information and explanations given to us and on an overall examination of the balance sheet of the company, in our opinion, there are no funds raised on a short term basis which have been used for long term investment.

(xviii) The company has not made any preferential allotment of shares to parties and companies covered in the register maintained under Section 301 of the Companies Act, 1956 during the year.

(xix) As the company has no debentures outstanding at any time during the year, clause 4 (xix) of the Order is not applicable to the company.

(xx) The company has not raised any money by public issue during the year.

(xxi) According to the information and explanations given to us, during the year, no fraud on or by the company has been noticed or reported.

**For A. F. Ferguson & Co.**
Chartered Accountants

**B. P. Shroff**
(Partner)
Membership Number: 34382

Mumbai: 29th April, 2008

## BALANCE SHEET AS AT 31ST MARCH, 2008

| | Schedule | Rs. Crores | 31st March, 2008 Rs. Crores | 31st March, 2007 Rs. Crores |
|---|---|---|---|---|
| **SOURCES OF FUNDS** | | | | |
| **SHAREHOLDERS' FUNDS** | | | | |
| SHARE CAPITAL | A | 32.48 | | 32.48 |
| EMPLOYEES STOCK OPTIONS OUTSTANDING | | 1.16 | | 0.58 |
| RESERVES AND SURPLUS | B | 155.39 | | 137.30 |
| | | | 189.03 | 170.36 |
| **LOAN FUNDS** | | | | |
| SECURED LOANS | C | 178.49 | | 106.07 |
| UNSECURED LOANS | D | 138.11 | | 101.35 |
| | | | 316.60 | 207.42 |
| Deferred Tax Liability [Net] (see note 22) | | | 17.02 | 12.87 |
| | | | 522.65 | 390.65 |
| **APPLICATION OF FUNDS** | | | | |
| FIXED ASSETS | E | | | |
| Gross Block | | 410.22 | | 317.05 |
| Less : Depreciation | | 208.73 | | 183.80 |
| Net Block | | 201.49 | | 133.25 |
| Capital Work-in-progress | | 90.91 | | 99.75 |
| | | | 292.40 | 233.00 |
| INVESTMENTS | F | | 0.42 | 0.52 |
| CURRENT ASSETS, LOANS AND ADVANCES | G | | | |
| Inventories | | 143.53 | | 124.17 |
| Sundry Debtors | | 203.79 | | 165.02 |
| Cash and Bank Balances | | 25.47 | | 20.84 |
| Loans and Advances | | 43.93 | | 38.57 |
| | | 416.72 | | 348.60 |
| LESS : CURRENT LIABILITIES AND PROVISIONS | H | | | |
| Current Liabilities | | 169.64 | | 168.15 |
| Provisions | | 17.28 | | 23.52 |
| | | 186.92 | | 191.67 |
| Net Current Assets | | | 229.80 | 156.93 |
| MISCELLANEOUS EXPENDITURE (See note 25) (to the extent not written off or adjusted) | | | | |
| Special payments under Voluntary Retirement Scheme | | 0.03 | | 0.20 |
| | | | 0.03 | 0.20 |
| | | | 522.65 | 390.65 |
| Notes to the Accounts | L | | | |
| Significant Accounting Policies | M | | | |

The Schedules referred to herein form an integral part of the Balance Sheet

As per our report of even date attached
**For A. F. Ferguson & Co.**
*Chartered Accountants*

**B. P. Shroff**
*Partner*

**R. Sundaresan**
*Executive Vice President - Finance & MIS*

**Ajay Kadhao**
*Company Secretary*

Mumbai : 29th April, 2008

Mumbai : 29th April, 2008

**Keshub Mahindra** Chairman
**Anand G. Mahindra** Vice Chairman
**K. V. Ramarathnam** Managing Director
**Deepak Dheer** Executive Director
**Dr. Homi N. Sethna**
**M. R. Ramachandran**
**R.R. Krishnan**
**Hemant Luthra**
**Rajeev Dubey**
Directors

# PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH, 2008

| | Schedule | Rs. Crores | 31st March, 2008 Rs. Crores | 31st March, 2007 Rs. Crores |
|---|---|---|---|---|
| **INCOME** | | | | |
| SALE OF PRODUCTS/OTHER INCOME FROM OPERATIONS | | | | |
| Sale of products (Gross) (see note 12) | | 951.03 | | 729.15 |
| Less : Excise Duty | | 128.45 | | 102.02 |
| | | | 822.58 | 627.13 |
| Income from processing (Gross) (see note 12) | | 89.75 | | 80.73 |
| Less : Excise Duty | | 41.04 | | 34.79 |
| | | | 48.71 | 45.94 |
| Arising, dies and other sales(Gross) | | 55.30 | | 48.97 |
| Less : Excise Duty | | 7.09 | | 7.13 |
| | | | 48.21 | 41.84 |
| Miscellaneous Receipts (see note 13) | | | 2.68 | 2.32 |
| | | | 922.18 | 717.23 |
| Other Income | I | | 2.76 | 1.68 |
| Increase / (decrease) in stocks | J | | 16.13 | (4.39) |
| | | | 941.07 | 714.52 |
| **EXPENDITURE** | | | | |
| Manufacturing and other expenses | K | | 841.54 | 617.79 |
| Depreciation | E | | 26.71 | 16.73 |
| Interest (see note 8) | | | 28.63 | 11.83 |
| | | | 896.88 | 646.35 |
| **PROFIT BEFORE TAX** | | | 44.19 | 68.17 |
| Provision for tax | | | | |
| -Current Tax (and Fringe Benefit Tax) | | | 10.55 | 24.82 |
| -Deferred Tax (see note 22) | | | 4.15 | (1.55) |
| | | | 14.70 | 23.27 |
| **PROFIT AFTER TAX** | | | 29.49 | 44.90 |
| Balance of profit for earlier year | | | 49.07 | 37.33 |
| **PROFIT AVAILABLE FOR APPROPRIATION** | | | 78.56 | 82.23 |
| Proposed Dividend on Equity Shares | | | 9.74 | 8.12 |
| Interim Dividend Paid on Equity Shares | | | — | 6.50 |
| Interim Dividend Paid on Preference Shares | | | — | 0.22 |
| Tax on Dividend | | | 1.66 | 2.32 |
| Transfer to General Reserve Account | | | 2.95 | 16.00 |
| **BALANCE CARRIED FORWARD** | | | 64.21 | 49.07 |
| Earnings per share (basic) (face value Rs.10) | | | 9.08 | 13.75 |
| Earnings per share (diluted) (face value Rs.10) (see note 23) | | | 9.04 | 13.71 |
| Notes to the Accounts | L | | | |
| Significant Accounting Policies | M | | | |

The Schedules referred to herein form an integral part of the Balance Sheet

As per our report of even date attached to the Balance Sheet
**For A. F. Ferguson & Co.**
*Chartered Accountants*

**B. P. Shroff**
*Partner*

**R. Sundaresan**
*Executive Vice President - Finance & MIS*

**Ajay Kadhao**
*Company Secretary*

Mumbai : 29th April, 2008

Mumbai : 29th April, 2008

**Keshub Mahindra** Chairman
**Anand G. Mahindra** Vice Chairman
**K. V. Ramarathnam** Managing Director
**Deepak Dheer** Executive Director
**Dr. Homi N. Sethna**
**M. R. Ramachandran**
**R.R. Krishnan**
**Hemant Luthra**
**Rajeev Dubey**
Directors

## CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST MARCH, 2008

| | | Rs. Crores | 31st March, 2008 Rs. Crores | 31st March, 2007 Rs. Crores |
|---|---|---|---|---|
| **A.** | **CASH FLOW FROM OPERATING ACTIVITES** | | | |
| | Net Profit before tax and exceptional item | | 44.19 | 68.17 |
| | Adjustment for: | | | |
| | Depreciation | 26.71 | | 16.73 |
| | Dividend Income | (0.00)* | | (0.00)* |
| | Interest and commitment charges | 28.63 | | 11.83 |
| | Amortisation of expenses | 0.17 | | 0.97 |
| | Provision for Debts/Advances | 0.78 | | 1.61 |
| | Employees Stock Option Charge | 0.58 | | 0.58 |
| | Foreign Exchange Difference (Gain) | (0.36) | | — |
| | Profit on sale of investment | (1.39) | | — |
| | (Profit) / Loss on sale of fixed assets (net) | (0.17) | | 0.21 |
| | Interest income | (0.71) | | (0.76) |
| | Provision for premium payable on Redemption of Cumulative Preference Shares | — | | 0.20 |
| | | | 54.24 | 31.37 |
| | Operating Profit before Working Capital changes | | 98.43 | 99.54 |
| | Changes in | | | |
| | Trade and other receivables | (45.14) | | (23.29) |
| | Inventories | (19.36) | | (23.63) |
| | Trade and other Payables | (4.74) | | 46.64 |
| | | | (69.24) | (0.28) |
| | **Cash generated from operations** | | 29.19 | 99.26 |
| | Income-tax paid | | (20.40) | (22.08) |
| | **NET CASH FROM OPERATING ACTIVITIES** | | 8.79 | 77.18 |
| **B.** | **CASH FLOW FROM INVESTING ACTIVITIES** | | | |
| | Purchase of fixed assets | | (75.92) | (142.30) |
| | Sale of fixed assets | | 0.37 | 0.16 |
| | Sale of investments | | 1.49 | — |
| | Dividends received | | 0.00* | 0.00* |
| | Interest received | | 1.19 | 0.88 |
| | **NET CASH (USED IN) / FROM INVESTING ACTIVITIES** | | (72.87) | (141.26) |
| **C.** | **CASH FLOW FROM FINANCING ACTIVITIES** | | | |
| | Redemption of Preference Shares | | — | (5.46) |
| | Premium on Redemption of Preference Shares | | — | (1.05) |
| | Proceeds from borrowings | | 472.00 | 161.65 |
| | Repayment of borrowings | | (363.52) | (53.77) |
| | Dividends paid including Taxes | | (13.20) | (20.60) |
| | Interest and commitment charges paid | | (26.57) | (11.21) |
| | **NET CASH (USED IN) / FROM FINANCING ACTIVITIES** | | 68.71 | 69.56 |
| | **NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS** | | 4.63 | 5.48 |
| | **CASH AND CASH EQUIVALENTS :** | | | |
| | Opening Balance | | 20.84 | 15.36 |
| | Closing Balance | | 25.47 | 20.84 |

* denotes amounts less than Rs. 50,000

See Notes attached

# NOTES TO CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST MARCH, 2008

| | | 31st March, 2008 Rs. Crores | 31st March, 2007 Rs. Crores |
|---|---|---|---|
| 1 | Cash and cash equivalents include: | | |
| | Cash and cheques on hand | 0.08 | 2.73 |
| | Balance with scheduled banks: | | |
| | In Current Accounts | 25.06 | 17.80 |
| | In Deposit Accounts | 0.33 | 0.31 |
| | Total cash and cash equivalents | 25.47 | 20.84 |

2 Previous year's figures have been regrouped wherever necessary to conform to this year's classifications.

As per our report of even date attached
**For A. F. Ferguson & Co.**
*Chartered Accountants*

**B. P. Shroff**
*Partner*

**R. Sundaresan**
*Executive Vice President - Finance & MIS*

**Ajay Kadhao**
*Company Secretary*

Mumbai : 29th April, 2008

Mumbai : 29th April, 2008

| | |
|---|---|
| **Keshub Mahindra** | Chairman |
| **Anand G. Mahindra** | Vice Chairman |
| **K. V. Ramarathnam** | Managing Director |
| **Deepak Dheer** | Executive Director |
| **Dr. Homi N. Sethna** | Directors |
| **M. R. Ramachandran** | |
| **R.R. Krishnan** | |
| **Hemant Luthra** | |
| **Rajeev Dubey** | |

## SCHEDULES ANNEXED TO AND FORMING PART OF THE BALANCE SHEET

### SCHEDULE 'A' - SHARE CAPITAL

| | | Rs. Crores | 31st March, 2008 Rs. Crores | 31st March, 2007 Rs. Crores |
|---|---|---|---|---|
| AUTHORISED: | | | | |
| 119,000,000 | Equity Shares of Rs.10 each (2006-07: 34,000,000 equity shares of Rs. 10 each) | | 119.00 | 34.00 |
| — | 11% Redeemable Cumulative Preference Shares of Rs. 100 each (2006-07:100,000 preference shares of Rs. 100 each) | | — | 1.00 |
| 3,100,000 | Redeemable Cumulative Preference Shares of Rs. 100 each (2006-07: 3,000,000 shares of Rs. 100 each) | | 31.00 | 30.00 |
| | | | 150.00 | 65.00 |
| ISSUED, SUBSCRIBED AND PAID-UP (see note 1) | | | | |
| 32,482,529 | Equity Shares of Rs.10 each, fully paid-up | | 32.48 | 32.48 |
| | | | 32.48 | 32.48 |

(16,466,789 equity shares (2006-07: 16,466,789) are held by Mahindra Holdings & Finance Ltd, the holding company and the ultimate holding company is Mahindra & Mahindra Ltd.)

### SCHEDULE 'B' - RESERVES AND SURPLUS

| | Rs. Crores | 31st March, 2008 Rs. Crores | 31st March, 2007 Rs. Crores |
|---|---|---|---|
| Capital Reserve (on redemption of preference shares, being the amount originally paid-up on shares forfeited) : | | | |
| - As per last Balance Sheet | | 0.00* | 0.00* |
| Capital Redemption Reserve Account | | | |
| As per last Balance Sheet | 16.46 | | 11.00 |
| Add: Transferred from General Reserve Account | — | | 5.46 |
| | | 16.46 | 16.46 |
| Special Reserve (in terms of Section 45IC of the Reserve Bank Of India Act,1934) (on amalgamation) | | 0.17 | 0.17 |
| General Reserve | | | |
| As per last Balance Sheet | 71.60 | | 62.27 |
| Add : Transfer from Profit and Loss Account | 2.95 | | 16.00 |
| Less : Charge up to 31.3.2006 on adoption of Revised Accounting Standard 15 Employee Benefits (net of tax Rs. 0.62 crores) (see note 29) | — | | 1.21 |
| Less : Transferred to Capital Redemption Reserve Account | — | | 5.46 |
| | | 74.55 | 71.60 |
| Balance as per Profit and Loss Account | | 64.21 | 49.07 |
| | | 155.39 | 137.30 |

*denotes amounts less than Rs. 50,000

## SCHEDULES ANNEXED TO AND FORMING PART OF THE BALANCE SHEET

| | 31st March, 2008 Rs. Crores | 31st March, 2007 Rs. Crores |
|---|---|---|
| **SCHEDULE 'C' - SECURED LOANS** (see note 9) | | |
| Term loan from Banks (repayable within one year Rs. 23.43 crores 2006-07 : Rs. 23.80 crores) | 99.93 | 79.83 |
| Advances from Banks | 78.56 | 26.24 |
| | 178.49 | 106.07 |

The above loans include interest accrued and due of Rs. 0.70 crores; (2006-07 Rs. Nil)

**SCHEDULE 'D' - UNSECURED LOANS**

| | 31st March, 2008 Rs. Crores | 31st March, 2007 Rs. Crores |
|---|---|---|
| Fixed Deposits (repayable within a year Rs. 0.59 crores 2006-07: Rs. 2.74 crores) | 0.59 | 3.32 |
| Short Term Advances | | |
| - from Banks | 50.02 | 40.61 |
| Other Loans | | |
| - from Banks | 87.50 | 57.42 |
| | 138.11 | 101.35 |

**SCHEDULE 'E' - FIXED ASSETS** **(Rs. Crores)**

| ASSETS | COST | | | | DEPRECIATION | | | | WRITTEN DOWN VALUE | |
|---|---|---|---|---|---|---|---|---|---|---|
| | As On 1.4.2007 | Additions and adjustments | Deductions and adjustments | As On 31.3.2008 | Up To 31.3.2007 | For the year | Adjustments | Upto 31.3.2008 | As on 31.3.2008 | As on 31.3.2007 |
| Freehold land | 1.12 | — | 0.11 | 1.01 | — | — | — | — | 1.01 | 1.12 |
| Leasehold land | 0.62 | 0.33 | — | 0.95 | 0.06 | 0.04 | — | 0.10 | 0.85 | 0.56 |
| Buildings | 38.94 | 3.92 | — | 42.86 | 15.10 | 1.27 | — | 16.37 | 26.49 | 23.84 |
| Plant and Machinery | 264.18 | 85.32 | 0.15 | 349.35 | 161.50 | 22.72 | 0.14 | 184.08 | 165.27 | 102.68 |
| Furniture, fixtures and office equipments | 8.88 | 4.28 | 1.53 | 11.63 | 5.58 | 2.08 | 1.49 | 6.17 | 5.46 | 3.30 |
| Vehicles | 2.83 | 0.74 | 0.19 | 3.38 | 1.42 | 0.48 | 0.15 | 1.75 | 1.63 | 1.41 |
| Software Expenditure | 0.48 | 0.56 | — | 1.04 | 0.14 | 0.12 | — | 0.26 | 0.78 | 0.34 |
| | **317.05** | **95.15** | **1.98** | **410.22** | **183.80** | **26.71** | **1.78** | **208.73** | **201.49** | |
| Previous year | 269.63 | 48.22 | 0.80 | 317.05 | 167.50 | 16.73 | 0.43 | 183.80 | | 133.25 |
| Capital work-in-progress | | | | | | | | | 90.91 | 99.75 |
| | | | | | | | | | 292.40 | 233.00 |

Notes :

Additions to Plant and Machinery includes exchange difference of Rs. Nil (2006-07 : Rs. 0.09 crores)

Additions to Plant and Machinery and Capital work in progress includes interest capitalised of Rs. 6.81 crores (2006-07 : 2.95 crores)

# SCHEDULES ANNEXED TO AND FORMING PART OF THE BALANCE SHEET

| | Rs. Crores | 31st March, 2008 Rs. Crores | 31st March, 2007 Rs. Crores |
|---|---|---|---|
| **SCHEDULE 'F' - INVESTMENTS (at cost- Long term)** | | | |
| (Unquoted, unless otherwise stated) | | | |
| Trade : | | | |
| Shares (fully paid up) | | | |
| — Orissa Sponge Iron Ltd. | | | |
| Nil equity shares of Rs. 10 each, (quoted) | | — | 0.03 |
| (21,739 equity shares sold during the year) | | | |
| — Dena Bank | | | |
| 9,917 equity shares of Rs. 10 each, (quoted) | | 0.03 | 0.10 |
| (24,583 equity shares sold during the year) | | | |
| Non -Trade : | | | |
| Shares (fully paid up) | | | |
| In other companies : | | | |
| — Mahindra Hotels and Resorts Ltd. | | | |
| 49,990 equity shares of Rs. 10 each | | 0.05 | 0.05 |
| — Mahindra & Mahindra Contech Ltd. | | | |
| 35,000 equity shares of Rs. 10 each | | 0.04 | 0.04 |
| — Window of the World Motels Pvt. Ltd. | | | |
| 2 equity shares of Rs. 100 each | | 0.00* | 0.00* |
| — Mahindra Construction Co. Ltd. | | | |
| 300,000 equity shares of Rs. 10 each | | 0.30 | 0.30 |
| — Kotak Mahindra Bank | | | |
| 3,000 equity shares of Rs. 10 each (quoted) | | 0.00* | 0.00* |
| — The Indian and Eastern Engineer Co. Ltd. | | | |
| 3 ordinary shares of Rs. 10 each | | 0.00* | 0.00* |
| 10,000 equity shares of Rs.10 each | | 0.02 | 0.02 |
| Other Investments : | | | |
| — Unit Trust of India - | | | |
| 33,230 6.75% Tax free Bonds of Rs.100 each (quoted) | | 0.33 | 0.33 |
| | | 0.77 | 0.87 |
| Less : Provision for diminution in value of investments | | 0.35 | 0.35 |
| | | 0.42 | 0.52 |
| Notes : (1) Aggregate of quoted investments : | | | |
| — Cost | | 0.36 | 0.46 |
| — Market Value | | 0.57 | 0.65 |
| (2) Aggregate of unquoted investments : | | | |
| — Cost | | 0.41 | 0.41 |
| * denotes amounts less than Rs. 50,000 | | | |
| **SCHEDULE 'G' - CURRENT ASSETS, LOANS AND ADVANCES** | | | |
| Inventories : | | | |
| Stores and spare parts | 28.78 | | 28.02 |
| Loose tools | 0.80 | | 0.14 |
| Raw materials | 51.75 | | 49.94 |
| Semi-finished goods | 55.73 | | 40.45 |
| Finished goods | 6.47 | | 5.62 |
| | | 143.53 | 124.17 |
| Sundry Debtors : (unsecured) | | | |
| Over six months | | | |
| — considered good | 15.05 | | 5.70 |
| — considered doubtful | 6.71 | | 5.72 |
| Others | | | |
| — considered good | 188.74 | | 159.32 |
| | 210.50 | | 170.74 |
| Less : Provision for doubtful debts | 6.71 | | 5.72 |
| | | 203.79 | 165.02 |

## SCHEDULES ANNEXED TO AND FORMING PART OF THE BALANCE SHEET

| | Rs. Crores | Rs. Crores | 31st March, 2008 Rs. Crores | 31st March, 2007 Rs. Crores |
|---|---|---|---|---|
| **SCHEDULE 'G' - (Contd)** | | | | |
| Cash and Bank Balances : | | | | |
| Cash on hand | | 0.08 | | 0.05 |
| Cheques on hand | | — | | 2.68 |
| Balances with Scheduled Banks | | | | |
| — in Current accounts | | 25.06 | | 17.80 |
| — in Fixed Deposit accounts | | 0.33 | | 0.31 |
| | | 25.39 | | 18.11 |
| | | | 25.47 | 20.84 |
| Loans and Advances : (unsecured) Advances recoverable in cash or in kind or for value to be received : | | | | |
| — considered good | | 36.64 | | 34.81 |
| — considered doubtful | | 2.75 | | 2.96 |
| | | 39.39* | | 37.77* |
| Less : Provision for doubtful advances | | 2.75 | | 2.96 |
| | | 36.64 | | 34.81 |
| Taxation - advance payments less provision | | 7.25 | | 3.31 |
| Balances - Excise, Port Trust, etc. | | 0.04 | | 0.45 |
| | | | 43.93 | 38.57 |
| | | | 416.72 | 348.60 |
| *including capital advance of | | | 4.32 | 8.01 |
| **SCHEDULE 'H' - CURRENT LIABILITIES AND PROVISIONS** | | | | |
| CURRENT LIABILITIES : ** | | | | |
| Acceptances | | 75.60 | | 77.98 |
| Sundry Creditors (see note 19) | | | | |
| Total outstanding dues of : | | | | |
| - micro enterprises and small enterprises | — | | | — |
| - creditors other than micro enterprises and small enterprises | 90.94 | | | 85.64 |
| | | 90.94 | | 85.64 |
| Dividend warrants posted but not encashed | | 0.28 | | 3.07 |
| Interest warrants posted but not encashed | | 0.06 | | 0.18 |
| Interest accrued but not due on loans | | 2.76 | | 1.28 |
| | | | 169.64 | 168.15 |
| PROVISIONS : | | | | |
| Provision for taxation (net of payments) | | — | | 5.91 |
| Provision for Employee Benefits (See note 29) | | 5.88 | | 3.74 |
| Provision for contingencies (See note 21) | | — | | 3.46 |
| Provision for dividend on equity shares | | 9.74 | | 8.12 |
| Provision for tax on dividend | | 1.66 | | 2.29 |
| | | | 17.28 | 23.52 |
| | | | 186.92 | 191.67 |

**There is no amount due and outstanding to be credited to the Investor Education and Protection Fund.

## SCHEDULES ANNEXED TO AND FORMING PART OF THE PROFIT AND LOSS ACCOUNT

| | | | |
|---|---|---|---|
| | | **31st March, 2008** | 31st March, 2007 |
| | **Rs. Crores** | **Rs. Crores** | Rs. Crores |
| **SCHEDULE 'I' - OTHER INCOME** | | | |
| OTHER INCOME | | | |
| Dividends from long term investments: | | | |
| — Trade | 0.00* | | 0.00* |
| — Non Trade - Others | 0.00* | | 0.00* |
| | | 0.00* | 0.00* |
| Interest : | | | |
| On long term investments | | | |
| — Non Trade | | 0.03 | 0.03 |
| — Others [including tax deducted/deductible at source Rs. 0.15 crore (2006-07 : Rs. 0.16 crores)] | | 0.68 | 0.73 |
| Rent | | 0.03 | 0.20 |
| Profit on sale of assets (net) | | 0.17 | — |
| Profit on sale of long term - trade investments | | 1.39 | — |
| Miscellaneous Income | | 0.46 | 0.72 |
| | | 2.76 | 1.68 |

* denotes amounts less than Rs. 50,000

| | | | |
|---|---|---|---|
| **SCHEDULE 'J' - INCREASE/(DECREASE) IN STOCKS** | | | |
| Increase / (Decrease) in stock of Finished goods and Semi-finished goods | | | |
| Opening stock : | | | |
| Semi-finished goods | 40.45 | | 46.84 |
| Finished goods | 5.62 | | 3.62 |
| Total | | 46.07 | 50.46 |
| Less: | | | |
| Closing stock : | | | |
| Semi-finished goods | 55.73 | | 40.45 |
| Finished goods | 6.47 | | 5.62 |
| | | 62.20 | 46.07 |
| Increase/(Decrease) in Stocks | | 16.13 | (4.39) |

## SCHEDULES ANNEXED TO AND FORMING PART OF THE PROFIT AND LOSS ACCOUNT

| | Rs. Crores | 31st March, 2008 Rs. Crores | 31st March, 2007 Rs. Crores |
|---|---|---|---|
| **SCHEDULE 'K' - MANUFACTURING AND OTHER EXPENSES** | | | |
| 1 Raw materials and bought out components consumed [including outside processing costs Rs. 18.81crores 2006-07 - Rs.6.37 crores (see note 10(a))] | | 547.76 | 376.14 |
| 2 Cost of dies sold | | 2.83 | — |
| 3 Goods purchased for resale [ see note 12(B)] | | 1.01 | 1.55 |
| 4 Payment to and provision for employees : | | | |
| (a) salaries, wages, bonus, etc. | 41.93 | | 31.98 |
| (b) company's contribution to provident and other funds | 3.04 | | 2.16 |
| (c) staff welfare expenses | 7.66 | | 5.97 |
| (d) gratuity | 1.92 | | 1.09 |
| | | 54.55 | 41.20 |
| 5 Operating and other expenses: | | | |
| (a) stores consumed | 61.02 | | 45.95 |
| (b) repairs and maintenance to buildings (including stores consumed : Rs. 0.73 crores 2006-07 : Rs.0.98 crores) | 1.42 | | 4.41 |
| (c) repairs and maintenance to machinery (including stores and spare parts consumed Rs.8.05 crores ; 2006-07 : Rs.12.80 crores) | 13.54 | | 17.45 |
| (d) repairs and maintenance to others | 3.64 | | 2.63 |
| (e) power and fuel | 122.89 | | 100.83 |
| (f) rent (net) | 1.57 | | 0.09 |
| (g) rates and taxes (net) | 1.78 | | 1.66 |
| (h) insurance charges | 0.71 | | 0.68 |
| (i) bad debts/advances written off | 1.71 | | — |
| (j) provision for doubtful debts/advances (net) | 0.78 | | 1.61 |
| (k) other expenses (see note 5) | 25.38 | | 22.79 |
| (l) amortisation of deferred revenue expenditure : | | | |
| — Building renovation and repairs expenses | — | | 0.00* |
| — Special payments under Voluntary Retirement Scheme | 0.17 | | 0.39 |
| | | 234.61 | 198.49 |
| 6 Loss on sale of assets (net) | | — | 0.21 |
| 7 Excise duty | | 0.78 | (0.00)* |
| 8 Provision for premium payable on redemption of cumulative preference shares | | — | 0.20 |
| | | 841.54 | 617.79 |

* denotes amounts less than Rs. 50,000

## SCHEDULE 'L' NOTES TO ACCOUNTS

1. The Subscribed Capital includes:
   a) 30,000 Equity shares allotted as fully paid-up pursuant to contracts without payment having been received in cash;
   b) 600,000 Equity shares allotted consequent to the Scheme of Amalgamation with Bank of Baroda Ltd.;
   c) 821,319 Equity shares allotted on conversion of 10% Convertible Series 'G' Debentures of the face value of Rs. 2.05 Crores at a premium of Rs.15 per share. These debentures were originally issued consequent to the Scheme of Amalgamation with Bank of Baroda Ltd.;
   d) 11,000,000 Equity shares allotted as fully paid-up (at a premium of Rs. 35 per share) pursuant to a contract to discharge part of the consideration for acquisition of the Company's Stamping Unit at Kanhe;
   e) 3,650,866 Equity shares allotted as fully paid-up Bonus shares by way of capitalisation of share premium account and accumulated profits;
   f) 15,50,840 Equity shares allotted consequent to the Scheme of Amalgamation of Pranay Sheetmetal Stampings Limited (Pranay), Valueline Hotels and Resorts Limited (Valueline) and Console Estate and Investments Limited (Console) with the Company.
2. The Company has entered into a Shares Subscription Agreement with Wardha Power Company Private Ltd. on 29$^{th}$ February, 2008 to invest Rs. 22.75 Crores by way of subscription to 61,67,778 Class A Equity Shares of Rs. 10 each and 78,32,222 Class A 0.01% Redeemable Preference Shares of Rs. 10 each and 87,50,000 Class C 0.01% Redeemable Preference Shares of Rs. 10 each. The Company will be entitled to 35 MW of power generated from the Group Captive Power Plant as per the Power Delivery Agreement dated 29$^{th}$ February, 2008.
3. Estimated amount of contracts remaining to be executed on capital account and not provided for as on 31$^{st}$ March, 2008 is Rs. 22.33 Crores (2006-2007 : Rs. 21.48 Crores).
4. Invoices raised during the period for price differences/interest on delayed payments, which are under negotiation, are accounted for if and when realised.
5. Other expenses in Schedule 'K' include :

| | | **31$^{st}$ March, 2008 Rs. Crores** | 31$^{st}$ March, 2007 Rs. Crores |
|---|---|---|---|
| (a) | Remuneration of auditors ** | | |
| | Audit fees | **0.18** | 0.14 |
| | Company Law Matters | *** 0.00** | * 0.00 |
| | Other services | **0.09** | 0.07 |
| | Reimbursement of out of pocket expenses | *** 0.00** | 0.01 |
| (b) | (i) Cash discount on sales | **0.30** | 0.32 |
| | (ii) Commission to other selling agents | **0.67** | 0.77 |
| (c) | Donation | **0.25** | 0.27 |

Note: * Denotes amount less than Rs. 50,000/-

** Amounts mentioned are net of service tax

6. Managerial remuneration for directors included in the Profit and Loss Account is Rs. 1.65 Crores (2006-2007 : Rs. 1.25 Crores) including contribution to provident fund and other funds Rs. 0.12 Crores (2006-2007 : Rs. 0.10 Crores), perquisites Rs. 0.47 Crores (2006-2007 : Rs. 0.39 Crores) and commission Rs. 0.40 Crores (2006-2007 : Rs. 0.35 Crores) and sitting fees payable to non-whole-time directors Rs. 0.05 Crores (2006-2007 : Rs. 0.04 Crores). The above perquisites include amortisation of Employees Stock Option amounting to Rs. 0.11 Crores (2006-2007 : 0.11 Crores). The provisions for gratuity and leave encashment are not included above as separate figures are not available.

**Computation of Net Profit in accordance with Section 309(5) of the Companies Act, 1956 for the year ended 31$^{st}$ March, 2008**

| | | **31$^{st}$ March, 2008 Rs Crores** | 31$^{st}$ March, 2007 Rs Crores |
|---|---|---|---|
| Profit before taxation as per Profit and Loss Account | | **44.19** | 68.17 |
| Add : | Directors' Remuneration including Directors' Fees | **1.65** | 1.25 |
| : | Provision for Doubtful Debts / advances (net) | **0.78** | 1.61 |
| | | **46.62** | 71.03 |
| Less: | Capital profit from the sale of immovable property / assets | **0.15** | — |
| : | Profit on sale of Long term – trade Investments (net) | **1.39** | — |
| | Profit for the purpose of Directors' commission : | **45.08** | 71.03 |
| | Commission payable to managing and whole time directors | **0.40** | 0.35 |

7. Contingent Liabilities not provided for in respect of :

a) Bills discounted but not matured Rs. 6.57 Crores (2006-2007 : Rs. 4.71 Crores).

— Represents customers' bills discounted.

b) Excise duty:

i) Claims against the Company not acknowledged as debts Rs. 0.70 Crores (2006-2007 : Rs. 0.70 Crores).

ii) Other Excise matters for which the Company is contingently liable Rs. 9.68 Crores (2006-2007 : Rs. 8.37 Crores). This includes:

a) Rs. 0.62 Crores (2006-2007 : Rs. 0.62 Crores) - relating to the method of valuation of customer processed finished goods for the purpose of discharge of excise duty, where the customer supplies raw material. This matter has been settled by Custom, Excise & Service Tax Appellate Tribunal (CESTAT) in favour of the Company. The Department has gone in further appeal in the Supreme Court.

b) Rs. 2.33 Crores (2006-2007 : Rs. 2.33 Crores) - relating to inclusion of scrap credit in the assessable value for the purpose of payment of Excise Duty. The Supreme Court has remanded the case back to CESTAT who has decided against the company. The Company has filed a writ petition in the High Court.

c) Rs. 0.41 Crores (2006-2007 : Rs. 0.06 Crores) - being other matters.

In respect of (b) (ii) (b) above and other valuation issues, the Department has continued to issue show cause cum demand notices for subsequent periods aggregating Rs. 6.32 Crores (2006-2007 : Rs. 5.37 Crores).

c) Taxation demands against which the Company is in appeal Rs. 1.85 Crores (2006-2007 : Rs. 1.85 Crores) and, decisions in favour of the Company against which the Department is in appeal Rs. 1.50 Crores (2006-2007 : Rs. 1.50 Crores) .

d) Other claims against the Company not acknowledged as debts :

i. Rs. 8.21 Crores (2006-2007 : Rs. 7.67 Crores) pertaining to show cause notice for payment of custom duty in respect of the Value Based Advance Licenses (VBAL) purchased by the Company and used for import of goods. As the export obligation against the above VBAL was already fulfilled by the seller of the license, the Company appealed against the said notice with CESTAT who has granted a stay.

ii. Claim pertaining to material supply contract Rs. 8.82 Crores (2006-2007 : Rs. Nil).

e) Other matter for which the Company is contingently liable is Rs. 20.36 Crores (2006-2007 : Rs. 17.50 Crores). This represents the dispute in the rate of water charges demanded by the Irrigation Department based on a unilateral increase in rates and the amount which the Company has been paying. The above amount includes an initial demand raised by the Irrigation Department of Rs. 0.57 Crores up to 31st March, 1995 which was decided in favour of the Company in the court of the Civil Judge, Senior Division Panvel. The balance of Rs. 19.79 Crores (2006-2007 : Rs. 16.93 Crores) represents differential demands raised by the Irrigation Department for subsequent periods.

8. Interest:

| | **31st March, 2008 Rs. Crores** | 31st March, 2007 Rs. Crores |
|---|---|---|
| On fixed loans | **10.05** | 3.40 |
| On others | **18.58** | 8.43 |
| | **28.63** | 11.83 |

9. (a) Term loans from Banks are secured by a first equitable mortgage on all immovable property and plant and machinery attached to the earth, both present and future, ranking pari-passu.

(b) Advances for working capital from Banks are secured by hypothecation of raw materials, finished goods, goods in process, stores, book debts, specified movable assets, etc. These advances are also secured by a joint equitable mortgage on the immovable properties of the Company situated at Khopoli, Kanhe, Nasik and Rudrapur, the mortgage to rank second and subservient to the mortgage created in respect of (a) above.

10. Raw materials and bought out components consumed.

| | | 31st March, 2008 Qty M/T | 31st March, 2008 Value Rs. Crores | 31st March, 2007 Qty M/T | 31st March, 2007 Value Rs. Crores |
|---|---|---|---|---|---|
| a) | 1) Ferrous scrap | **151,178** | **263.37** | 133,734 | 202.61 |
| | 2) Ferro alloys | **6,521** | **163.11** | 5,930 | 117.89 |
| | 3) Other metals | **2,299** | **9.42** | 1,815 | 8.22 |
| | 4) Slag making materials | **10,946** | **5.30** | 10,676 | 4.39 |
| | 5) Metal Sheets | **12,502** | **58.99** | 7,427 | 27.89 |
| | 6) Purchased Billets | **2,640** | **13.02** | — | — |
| | 7) Components | **—** | **15.74** | — | 8.77 |
| | 8) Processing charges | **—** | **18.81** | — | 6.37 |
| | | | **547.76** | | 376.14 |

| | | 31st March, 2008 Rs. Crores | 31st March, 2008 % | 31st March, 2007 Rs. Crores | 31st March, 2007 % |
|---|---|---|---|---|---|
| b) | Imported – at landed cost | **184.81** | **34** | 123.40 | 33 |
| | Indigenously obtained | **362.95** | **66** | 252.74 | 67 |
| | | **547.76** | **100** | 376.14 | 100 |

11. Stores and spares consumed :

| | 31st March, 2008 Rs. Crores | 31st March, 2008 % | 31st March, 2007 Rs. Crores | 31st March, 2007 % |
|---|---|---|---|---|
| Imported – at landed cost | **5.61** | **8** | 5.86 | 10 |
| Indigenously obtained | **64.19** | **92** | 53.87 | 90 |
| | **69.80** | **100** | 59.73 | 100 |

Consumption in value is after adjusting excesses and shortages ascertained on physical verification and write off for deterioration, unserviceable items, etc.

12. Information for class of goods manufactured, traded in :

A. Particulars in respect of goods manufactured:

| Class of Goods | Unit of Measure-ment | Licensed Capacity Per Annum [see note (i) and (ii)] | Installed Capacity Per Annum [see note (iii)] | Actual production [see note (iv)] | Opening Stock Qty | Opening Stock Value Rs.Crores | Closing Stock Qty | Closing Stock Value Rs.Crores | Sales [see note (iv)] Qty | Sales [see note (iv)] Value Rs.Crores |
|---|---|---|---|---|---|---|---|---|---|---|
| Tool, alloy and | M/T | **180,000** | **180,000** | **131,452** | **779** | **3.62** | **829** | **4.38** | **131,402** | **734.54** |
| Special steel | M/T | (180,000) | (180,000) | (121,317) | (561) | (2.60) | (779) | (3.63) | (121,099) | (585.56) |
| Pressed Sheet metal components | M/T | **35,800** | **35,800** | **36,210** | **455** | **2.00** | **612** | **2.09** | **36,053** | **135.72** |
| and assemblies | M/T | (31,000) | (31,000) | (29,500) | (407) | (1.01) | (455) | (2.00) | (29,452) | (86.08) |

**Notes :**

(i) In respect of Tool, alloy and Special Steel, the industrial licence permits manufacture of castings and forgings up to 2000 M/T within the above overall licensed capacity.

(ii) In respect of Pressed Sheet metal components and assemblies, the licensed capacity is as per the Memorandum filed with, and duly acknowledged by the Secretariat for Industrial Assistance.

(iii) Installed capacity on an integrated basis is certified by the Managing Director and not verified by the auditors since this is a technical matter.

(iv) Production and sales in respect of Pressed Sheet metal components and assemblies includes customer's materials processed.

(v) Installed and licensed capacities for Pressed Sheet metal components and assemblies are for 2 shift working. Nasik and Kanhe units have worked on 3 shift basis during the year.

B. Particulars in respect of goods traded in :

| Class of Goods | Unit of Measurement | Purchase Qty. | Purchase Value Rs. Crores | Closing Stock Qty. | Closing Stock Value Rs. Crores | Sales Qty. | Sales Value Rs. Crores |
|---|---|---|---|---|---|---|---|
| Others | Mix | **—** | **1.01** | **—** | **—** | **—** | **1.03** |
| | Mix | (—) | (1.55) | (—) | (—) | (—) | (1.43) |
| Total | | **—** | **1.01** | **—** | **—** | **—** | **1.03** |
| | | (—) | (1.55) | (—) | (—) | (—) | (1.43) |

Previous year's figures have been disclosed in parenthesis.

13. Miscellaneous receipts includes :

| | 31st March, 2008 Rs. Crores | 31st March, 2007 Rs. Crores |
|---|---|---|
| Income from services rendered | **1.29** | 1.53 |
| Credit Balance Written back | **0.96** | 0.79 |

14. C.I.F. Value of Imports

| | 31st March, 2008 Rs. Crores | 31st March, 2007 Rs. Crores |
|---|---|---|
| (a) Raw materials | **190.45** | 144.84 |
| (b) Stores and spares | **6.14** | 5.93 |
| (c) Capital goods | **1.27** | 21.98 |

These include imports on :

| | Raw Materials Rs. Crores | Stores & Spares Rs. Crores | Capital Rs. Crores |
|---|---|---|---|
| i) C & F Basis | **41.66** | **0.33** | **—** |
| | (13.79) | (0.13) | (21.70) |
| ii) F.O.B. Basis | **—** | **1.99** | **—** |
| | (—) | (1.07) | (0.08) |
| iii) High Seas | **51.16** | **—** | — |
| | (81.77) | (0.65) | (—) |
| Total | **92.82** | **2.32** | **—** |
| | (95.56) | (1.85) | (21.78) |

Previous year's figures have been disclosed in parenthesis.

15. Expenditure in foreign currency (on payment basis)

| | 31st March, 2008 Rs. Crores | 31st March, 2007 Rs. Crores |
|---|---|---|
| Interest | **4.26** | 0.94 |
| Others | **0.11** | 0.15 |

16. Earning in foreign exchange

| | 31st March, 2008 Rs. Crores | 31st March, 2007 Rs. Crores |
|---|---|---|
| (a) F.O.B. Value of exports | **5.02** | 2.01 |
| (b) Freight and insurance | **0.32** | 0.15 |

17. Research and Development expenditure debited to Profit and Loss Account aggregates Rs. 0.97 Crores (2006-2007 : Rs. 0.64 Crores) consisting of salaries and power, based on allocations made by the Company and materials.

18. The net difference in foreign exchange (i.e. the difference between the spot rates on the date of the transaction and the actual rates at which the transactions are settled/appropriate rates applicable at the year end) credited to the Profit and Loss Account is Rs. 9.18 Crores (2006-2007 : Credit of Rs. 1.48 Crores).

19. Sundry creditors include credit balances in current accounts with directors Rs. 2,403 (2006-2007 : Rs. 2,403).

20. No Companies have been identified under the Micro, Small and Medium Enterprises Development Act, 2006 as on 31st March, 2008 and hence the disclosures as required by Notification No. GSR 719(E) dated 16th November, 2007 issued by Ministry of Corporate Affairs are not applicable.

21. (a) Provision for contingencies Rs. Nil (2006-07 : Rs. 3.46 Crores) is in respect of employees. Labour demands were under negotiations at certain locations of the Company which were settled during the year.

(b) The movement in above provision is as follows:

| **Provisions** | **31st March, 2008 Rs. Crores** | 31st March, 2007 Rs. Crores |
|---|---|---|
| Balance as at beginning of the year | **3.46** | 3.65 |
| Add : Provision made during the year | **Nil** | 2.93 |
| Less : Utilisation during the year | **2.75** | 1.93 |
| Less : Provision reversed | **0.71** | 1.19 |
| Balance as at end of the year | **Nil** | 3.46 |

22. The components of Deferred tax liability and assets as at 31st March, 2008 are as under:

| | **31st March, 2008 Rs. Crores** | 31st March, 2007 Rs. Crores |
|---|---|---|
| Deferred tax liability : | | |
| — On fiscal allowances on fixed assets | **21.27** | 17.05 |
| | **21.27** | 17.05 |
| Less: Deferred tax assets : | | |
| — On employee separation and retirement | **2.00** | * 1.31 |
| — On provision for doubtful debts | **2.02** | 1.69 |
| — On provision for Contingencies | **—** | 1.18 |
| — On other timing differences | **0.23** | — |
| Net Liability | **17.02** | 12.87 |

* Includes Deferred Tax Asset of Rs. 0.62 Crores taken to general reserve (Also refer note 29 (D) ).

23. Earnings per share have been computed as under:

| | | | **31st March, 2008 Rs. Crores** | 31st March, 2007 Rs. Crores |
|---|---|---|---|---|
| a) | Net Profit for the year after tax (Rs. Crores) | | **29.49** | 44.90 |
| | Less: Preference Dividend for the year including tax thereon (Rs. Crores) | | **—** | 0.25 |
| | Adjusted profit (Rs. Crores) | (A) | **29.49** | 44.65 |
| b) | Weighted Average Equity Shares (Nos.) | | **32,482,529** | 32,482,529 |
| c) | Diluted Equity Shares (Nos.) | | **32,635,680** | 32,569,922 |
| d) | i) Basic Earnings per share (Rs.) | (A)/(b) | **9.08** | 13.75 |
| | ii) Diluted Earning per share (Rs.) | (A)/(c) | **9.04** | 13.71 |

24. Related parties disclosures:

a) Related parties where Control exists:

| | |
|---|---|
| Holding Company | Mahindra Holdings and Finance Limited |
| Ultimate Holding Company | Mahindra & Mahindra Limited |

b) Names of other related parties with whom transactions have taken place during the year

| | |
|---|---|
| 1) Fellow subsidiaries | Mahindra Forgings Ltd w.e.f 27.12.2007 |
| | Mahindra Intertrade Limited |
| | Mahindra International Limited |
| | Bristlecone India Limited |
| | Mahindra Gujarat Tractors Ltd |
| | Mahindra Renault Pvt Ltd |
| | Mahindra Sona Ltd |

2) Key Management Personnel — Mr. K. V. Ramarathnam, Managing Director

Mr. Deepak Dheer, Executive Director

c) Transactions carried out with the related parties referred to in (a) and (b) above in the ordinary course of business:

Rs. in crores

| | | Holding Company | Ultimate Holding Company | Associate Company | Fellow Subsidiaries | | | | | | | | Key Management Personnel | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Sr. No. | Particulars | Mahindra Holdings & Finance Ltd. | Mahindra & Mahindra Ltd. | Mahindra Forgings Ltd./ MAS Ltd. | Mahindra Forgings Ltd./ MAS Ltd. | Mahindra Gujarat Tractors Ltd. | Mahindra Intertrade Ltd. | Bristlecone India Ltd. | Mahindra Sona Ltd. | Mahindra International Ltd. | Mahindra Steel Service Centre Ltd. | Mahindra Renault Pvt. Ltd. | Mr. K. V. Ramarathnam | Mr. Deepak Dheer |
| 1 | Purchases of Goods or Services | — (—) | 0.01 (—) | 14.18 (18.94) | 0.95 (—) | — (—) | 51.86 (83.69) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) |
| 2 | Receiving of Services | — (—) | 1.82 (1.29) | — (—) | — (—) | — (—) | — (—) | 1.89 (0.59) | — (—) | — — | — (0.00)* | — (—) | — (—) | — (—) |
| 3 | Sale of Goods | — (—) | 41.25 (2.71) | 60.61 (47.47) | 15.85 (—) | — (—) | 47.61 (36.06) | — (—) | 1.48 (—) | — (—) | — (—) | 14.98 (—) | — (—) | — (—) |
| 4 | Rendering of Services | — (—) | 87.02 (79.75) | — (0.12) | — (—) | 0.01 (—) | — (—) | — (—) | — (—) | 2.08 (2.25) | — (—) | 1.02 (0.59) | — (—) | — (—) |
| 5 | Reimbursement of expenses | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) |
| 6 | Sale of Fixed Assets | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) |
| 7 | Recovery of charges | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) |
| 8 | Deputation of Personnel charge | — (—) | 1.66 (0.97) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) |
| 9 | Remuneration to key managerial personnel | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) | 0.85 (0.81) | 0.75 (0.39) |
| 10 | Finance: | | | | | | | | | | | | | |
| | Inter Corporate Deposits taken | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) |
| | Inter Corporate Deposits Repaid | — (—) | — (2.00) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) |
| | Equity Dividend Paid | 4.12 (10.70) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) |
| | Equity Dividend Received | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) |
| | Preference Dividend Paid | — (0.38) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) |
| | Interest expenses | — (—) | — (0.23) | — (—) | — (—) | — (—) | 0.95 (1.76) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) |
| | Interest income | — (—) | — (—) | — (—) | — (—) | — (—) | — (0.02) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) |
| | Preference Shares issued | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) |
| | Redemption of Preference Shares Including Premium | — (6.51) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) |
| | Equity Shares sold | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) |
| 11 | Guarantees and Collaterals Received | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) |
| 12 | Guarantees and Collaterals lapsed/ returned | — (—) | 10.00 (34.00) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) |
| 13 | Security Deposit paid | — (—) | 0.57 (—) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) |
| 14 | Outstandings | | | | | | | | | | | | | |
| | Payables | | | | | | | | | | | | | |
| | i) Inter Corporate Deposits taken (including interest) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) |
| | ii) Other payables | — (—) | 0.77 (1.91) | — (1.56) | — (—) | — (—) | 11.36 (15.14) | 0.30 (0.28) | — (—) | — (—) | — (—) | — (0.61) | — (—) | — (—) |
| | Receivables | | | | | | | | | | | | | |
| | i) Investments in fully convertible debentures (including interest) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) |
| | ii) Other receivables | — (—) | 21.07 (14.41) | — (12.20) | 14.39 (—) | 0.00* (—) | — (—) | — (0.00)* | 1.48 (—) | 0.49 (0.47) | — | 3.94 (0.58) | — (—) | — (—) |
| | iii) Provision for doubtful debts and advances | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) |
| | Guarantees and Collaterals Received | — (—) | — (10.00) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) |
| | Guarantees and Collaterals given | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) | — (—) |

* Denotes amount less than Rs. 50,000.
Previous year's figures have been disclosued in parenthesis.

25. Miscellaneous Expenditure
(to the extent not written off or adjusted)

Rs. Crores

| Sr. No. | Particulars | Opening Balance | Incurred during the Year | Amortisation | Closing Balance |
|---|---|---|---|---|---|
| 1 | Building Renovation and repair expenses | — | — | — | — |
| | | *(—) | (—) | *(—) | (—) |
| 2 | Special payments under Voluntary Retirement Scheme | **0.20** | — | **0.17** | **0.03** |
| | | (0.59) | (—) | (0.39) | (0.20) |
| | Total | **0.20** | — | **0.17** | **0.03** |
| | | (0.59) | — | (0.39) | (0.20) |

Previous year's figures have been disclosed in parenthesis.

* Denotes amounts less than Rs. 50,000/-

26. Derivative Instruments:

The Company has entered into Forward Exchange Contracts [being a derivative instrument], which are not intended for trading or speculative purpose, but for hedge purpose, to establish the amount of reporting currency required or available at the settlement date of certain payables and receivables. The following are the outstanding Foreign Exchange Contracts entered into by the Company as on 31st March, 2008:

| Currency | Amount in Crores | Buy/Sell | Cross Currency |
|---|---|---|---|
| **US Dollar** | **0.02** | **Buy** | **Rupees** |
| (—) | (—) | (—) | (—) |

The year end foreign currency exposures that have not been hedged by a derivative instrument or otherwise are given below:

a. Amounts payable in foreign currency on account of the following:

| | Indian Rupees Crores | Foreign Currency Crores |
|---|---|---|
| • Import of goods and services | **68.80** | **US $ 1.71** |
| | (47.62) | (US $ 1.09) |
| | (0.01) | * (GBP 0.00) |
| | (0.03) | * (EURO 0.00) |

b. Amounts receivable in foreign currency on account of the following:

| | Indian Rupees Crores | Foreign Currency Crores |
|---|---|---|
| • Export of goods and services | **1.07** | **US $ 0.03** |
| | **0.03** | ***EURO 0.00** |
| | (0.81) | (US $ 0.02) |

The Company has outstanding borrowings of JPY 235.72 Crores which is equivalent of US $ 2.00 Crores (2006-2007 : JPY 122.75 Crores which is equivalent of US $ 1.05 Crores) under the External Commercial Borrowing facility. These foreign currency loans and interest thereon have been completely hedged using a swap structure converting the liability into a full fledged Rupee liability.

Previous year's figures have been disclosed in parenthesis.

* Denotes amounts less than 50,000/-

27. SEGMENT REPORTING

a) PRIMARY SEGMENT INFORMATION

(BUSINESS SEGMENT)

Rs. Crores

| | | 2007-08 | 2006-07 | 2007-08 | 2006-07 | 2007-08 | 2006-07 |
|---|---|---|---|---|---|---|---|
| | | External Sales | | Inter-segment Sales | | Total | |
| 1 | Segment Revenue (Net) | | | | | | |
| | -Steel | **746.66** | 597.57 | - | - | **746.66** | 597.57 |
| | -Stamping | **175.52** | 119.66 | - | - | **175.52** | 119.66 |
| | -Segment Total | **922.18** | 717.23 | - | - | **922.18** | 717.23 |
| 2 | Segment Result | | | | | | |
| | -Steel | - | - | - | - | **55.34** | 47.64 |
| | -Stamping | - | - | - | - | **19.61** | 35.58 |
| | -Segment Total | - | - | - | - | **74.95** | 83.22 |
| | Unallocated corporate expenses net of Unallocated income | - | - | - | - | **(2.84)** | (3.98) |
| | Profit before interest & taxation | - | - | - | - | **72.11** | 79.24 |
| | Interest expenditure | - | - | - | - | **(28.63)** | (11.83) |
| | Interest Income | - | - | - | - | **0.71** | 0.76 |
| | Provision for Taxation | - | - | - | - | **(14.70)** | (23.27) |
| 3 | Profit/(loss) After Taxation | - | - | - | - | **29.49** | 44.90 |
| | Other Information | | | | | | |
| | 1 Segment Assets | | | | | | |
| | -Steel | - | - | - | - | **499.02** | 410.38 |
| | -Stamping | - | - | - | - | **192.46** | 162.32 |
| | -Segment Total | - | - | - | - | **691.48** | 572.70 |
| | Unallocated corporate assets | - | - | - | - | **18.09** | 9.62 |
| | Total Assets | - | - | - | - | **709.57** | 582.32 |
| | 2 Segment Liabilities | | | | | | |
| | -Steel | - | - | - | - | **146.69** | 156.91 |
| | -Stamping | - | - | - | - | **25.14** | 13.91 |
| | -Segment Total | - | - | - | - | **171.83** | 170.82 |
| | Unallocated corporate liabilities | - | - | - | - | **331.69** | 228.27 |
| | Total Liabilities | - | - | - | - | **503.52** | 399.09 |
| | 3 Capital Expenditure | | | | | | |
| | -Steel | - | - | - | - | **72.50** | 77.35 |
| | -Stamping | - | - | - | - | **13.81** | 56.94 |
| | -Segment Total | - | - | - | - | **86.31** | 134.29 |
| | 4 Depreciation | | | | | | |
| | -Steel | - | - | - | - | **12.22** | 5.57 |
| | -Stamping | - | - | - | - | **14.49** | 11.16 |
| | -Segment Total | - | - | - | - | **26.71** | 16.73 |
| | 5 Non cash expenditure other than depreciation | | | | | | |
| | -Steel | - | - | - | - | **0.83** | 2.00 |
| | -Stamping | - | - | - | - | **0.12** | - |
| | -Segment Total | - | - | - | - | **0.95** | 2.00 |
| b) | SECONDARY SEGMENT INFORMATION (GEOGRAPHICAL SEGMENT) | | | | | | |
| 1 | Segment Revenue | | | | | | |
| | -Within India | | | | | **916.12** | 715.07 |
| | -Outside India | | | | | **6.06** | 2.16 |
| | -Total Revenue | | | | | **922.18** | 717.23 |
| 2 | Segment Assets | | | | | | |
| | -Within India | | | | | **708.50** | 581.51 |
| | -Outside India | | | | | **1.07** | 0.81 |
| | -Total Segment Assets | | | | | **709.57** | 582.32 |
| 3 | Capital Expenditure | | | | | | |
| | -Within India | | | | | **85.04** | 112.31 |
| | -Outside India | | | | | **1.27** | 21.98 |
| | Total Capital Expenditure | | | | | **86.31** | 134.29 |

NOTES:

1. The Company has considered business segment as primary segment for disclosure. The segments have been identified taking into account the organisational structure as well as the differing risk and returns of the segments. Steel segment comprises sale of alloy steel. Stamping segment comprises sale of pressed metal components. Inter segment revenue is market led.
2. The geographical segments considered for disclosure are :
   — Sales within India
   — Sales outside India

28. The Company had granted 1,42,500 and 9,55,500 Options during the year ended 31st March, 2008 and 31st March, 2007 respectively to eligible employees including Directors of the Company. Out of the above Options granted, 53,500 Options have lapsed during the year.

The equity settled Options vest one year from the date of the grant and are exercisable on specified dates in 4 tranches within a period of 5 years from the date of vesting. The eligible employee must exercise a minimum of 50 (Fifty Only) Options or Options vested, whichever is lower; and the Options in respect of each tranche may be exercised on the date of vesting or at the end of each year from the date of vesting, provided that at the end of five (5) years from the date of vesting (or such extended period as may be decided by the Remuneration Committee), the eligible employee may exercise all Options vested but not exercised by him/her failing which all the unexercised Options shall lapse.

The Compensation costs of stock Options granted to employees are accounted by the Company using the intrinsic value method.

| **Summary of stock options** | **No. of stock options** | **Weighted average exercise price (Rs.)** |
|---|---:|---:|
| Options outstanding on 1st April, 2007 | 8,98,500 | 99.00 |
| Options granted during the year | 1,42,500 | 73.00 |
| Options forfeited/lapsed during the year | 53,500 | 90.00 |
| Options exercised during the year | — | — |
| Options outstanding on 31st March, 2008 | 9,87,500 | 96.00 |
| Options vested but not exercised on 31st March, 2008 | 2,15,875 | 99.00 |

Information in respect of options outstanding as at 31st March, 2008:

| **Exercise price** | **Number of Options** | **Weighted average Remaining life** |
|---|---:|---:|
| Rs. 99.00 | 8,63,500 | 3.5 Yrs |
| Rs. 73.00 | 1,24,000 | 3.5 Yrs |

The fair value of options granted on 18th August, 2006 is Rs.67.25 per share.

The fair value of options granted during the year on 24th October, 2007 is Rs.43.39 per share.

The fair value has been calculated using the Black Scholes Options Pricing model and the significant assumptions made in this regard are as follows:

| | **Grant dated 24th October, 2007** | **Grant dated 18th August, 2006** |
|---|---:|---:|
| Risk free interest rate | 7.95% | 7.27% |
| Expected Life | 3.5 Yrs | 3.5 Yrs |
| Expected Volatility | 60.00% | 73.54% |
| Expected dividend yield | 4.32% | 4.65% |
| Exercise price | Rs. 73.00 | Rs. 99.00 |
| Stock Price | Rs. 85.50 | Rs. 117.45 |

In respect of options granted under the Employee Stock Options Plan, in accordance with guidelines issued by the SEBI, the accounting value of the options is accounted as deferred employee compensation, which is amortised on a straight line basis over a period between the date of grant of options and eligible dates for conversion into equity shares. Consequently salaries, wages, bonus, etc. includes Rs. 0.58 Crores (2006-07 : Rs. 0.58 Crores) being the amortization of deferred employees compensation, after adjusting for reversals on account of options lapsed.

Had the Company adopted fair value method in respect of Options granted, the employee compensation cost would have been higher by Rs.1.03 Crores (2006-07 : Rs. 0.99 Crores), Profit After Tax lower by Rs. 0.68 Crores (2006-07 : Rs. 0.66 Crores) and the diluted earning per share would have been lower by Rs 0.20.

The above disclosures have been made consequent to the issue of Guidance Note on Accounting for Employee Share-based Payments issued by the Institute of Chartered Accountants of India in the year 2005 and applicable for the period on or after 1st April, 2005.

**29 A Defined Benefit Plans / Long Term Compensated Absences – As per Actuarial Valuation on 31st March, 2008**:

| | A Defined Benefit Plans – As per Actuarial Valuation | GRATUITY 31st March, 2008 Rs. Crores | GRATUITY 31st March, 2007 Rs. Crores |
|---|---|---|---|
| I | Expenses recognised in the statement of Profit and Loss Account for the year ended 31st March, 2008 (Disclosed in schedule 'K' under the head 'Payment to and provision for employees') | | |
| | 1. Current Service Cost | **0.47** | 0.43 |
| | 2. Interest Cost | **0.71** | 0.64 |
| | 3. Expected return on plan assets | **(0.69)** | (0.70) |
| | 4. Actuarial (Gains)/ Losses | **1.24** | (0.04) |
| | 5. Total Expense | **1.73** | 0.33 |
| II | Net Assets / (Liability) recognised in the Balance Sheet as at 31st March, 2008 | | |
| | 1. Present Value of Defined Benefit Obligation as at 31st March, 2008 | **11.61** | 9.49 |
| | 2. Fair value of plan assets as at 31st March, 2008 | **(10.28)** | (9.89) |
| | 3. Funded Status [Surplus/(Deficit)] | **(1.33)** | 0.40 |
| | 4. Net Asset/(liability) as at 31st March, 2008 | **(1.33)** | 0.40 |
| III | Change in Obligation during the year ended 31st March, 2008 | | |
| | 1. Present Value of Defined Benefit Obligation at the beginning of the year | **9.49** | 9.05 |
| | 2. Current Service Cost | **0.47** | 0.43 |
| | 3. Interest Cost | **0.71** | 0.64 |
| | 4. Actuarial (Gains)/ Losses | **1.64** | (0.17) |
| | 5. Benefit Payments | **(0.70)** | (0.46) |
| | 6. Present Value of Defined Benefit Obligation as at the end of the year | **11.61** | 9.49 |
| IV | Change in Assets during the year ended 31st March, 2008 | | |
| | 1. Plan assets at the beginning of the year | **9.89** | 9.75 |
| | 2. Expected return on plan assets | **0.69** | 0.70 |
| | 3. Contributions by employer | **-** | 0.03 |
| | 4. Actual benefits paid | **(0.70)** | (0.46) |
| | 5. Actuarial gains/ (losses) | **0.40** | (0.13) |
| | 6. Plan assets at the end of the year | **10.28** | 9.89 |
| V | The major categories of plan assets as a percentage of total Plan Funded with LIC of India | **100%** | 100% |
| VI | Actuarial Assumptions: | **As at 31st March, 2008** | As at 31st March, 2007 |
| | 1. Discount Rate | **7.70%** | 8.00% |
| | 2. Expected rate of return on plan assets | **8.00%** | 7.50% |
| | 3. Mortality pre-retirement | **1994-96 Mortality base** | 1994-96 Mortality base |
| | 4. Mortality post-retirement | **—** | — |
| | 5. Turnover rate | **1 to 2%** | 1 to 2% |
| | 6. Salary escalation rate | **6.00%** | 5.00% |

B. Basis used to determine expected rate of return on assets:
This is based on expectation of the average long term rate of return expected on investments of the Fund during the estimated term of the obligation.

C. The estimates of future salary increases, considered in actuarial valuation, takes into account the inflation, seniority, promotion and other relevant factors.

D. During the year ended 31st March, 2007, the company had undertaken an early adoption of Accounting Standard 15 (Revised 2005) "Employee Benefits" and in accordance with the transitional provision in the revised Accounting Standard, Rs 1.21 Crores (Net of deferred tax Asset of Rs. 0.62 Crores) had been adjusted to the general reserve.

E. Company's contribution paid/payable during the year to Officer's Superannuation Fund and Provident Fund are recognized in the Profit and Loss Account. There are no other obligations other than stated above. These amounts are recognized as an expense and included in the Schedule 'K' of the Profit and Loss Account under the heading "Payment to and provision for employees" in line item Company's contribution to provident and other funds.

| | 31st March, 2008 Rs. Crores | 31st March, 2007 Rs. Crores |
|---|---|---|
| i) Officer's Superannuation Fund | **0.68** | 0.28 |
| ii) Provident Fund | **2.05** | 1.65 |

30. Additional information pursuant to the provisions of Part IV of Schedule VI to the Companies Act, 1956 (See Schedule 'N')

31. Previous year's figures have been regrouped wherever necessary to conform to this year's classification.

## SCHEDULE ‘M’ - SIGNIFICANT ACCOUNTING POLICIES

1. Basis for preparation of accounts :

   The accounts have been prepared to comply in all material respects with applicable accounting principles in India, the relevant provisions of the Companies Act, 1956 including Accounting Standards notified under the said Act.

2. (A) Fixed Assets :

   Fixed assets are recorded at historical cost of purchase and do not reflect current values. Cost includes interest and other financial charges attributable to the acquisition of fixed assets.

   Fixed assets acquired under finance leases are recognised at the lower of fair value of the leased assets at inception and the present value of minimum lease payment. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to periods during the lease term at a constant periodic rate of interest on the remaining balance of the liability.

   Depreciation is provided for as follows:

   a) In respect of the assets of the Company’s Stamping Units at Kanhe, Nasik and Rudrapur, depreciation is provided on Straight Line Method at the rates and in the manner prescribed in Schedule XIV to the Companies Act, 1956, except as stated in note b(ii) below.

   b) In respect of all other units / divisions :

      i) The Company provides depreciation on Straight Line Method in respect of buildings, railway sidings and plant and machinery, heavy vehicles, other vehicles and data processing equipment, and on reducing balance method in respect of furniture, fixtures and office equipment at the rates and in the manner specified in Schedule XIV to the Companies Act, 1956, except as stated in note b(ii).

      ii) The Company provides depreciation on Straight Line Method on heavy vehicles, other vehicles and data processing equipment at 25%, 20% and 33% of cost respectively.

      iii) In respect of extra shift, depreciation is provided on the basis of the actual utilisation of assets. In determining actual utilisation, it has been assumed that the individual items of plant in each shop have worked for the same number of hours as the main plant in that shop, except where separate records are maintained for any item.

      When an asset is disposed off, the cost and related depreciation are removed from the books of account and the resultant profit (including capital profit) or loss is reflected in the Profit and Loss Account.

   (B) Intangible Assets

   Software expenditure incurred is amortised over the period of 36 months equally commencing from the year in which the expenditure is incurred.

3. Investments :

   All long term investments are valued at cost. Provision for diminution is made to recognise a decline, other than temporary, in the value of long term investments. Dividend income is recognised when the right to receive payment is established.

4. Inventories :

   Inventories are stated at cost or net realisable value, whichever is lower. Cost of inventories is arrived at on a weighted average basis and is inclusive of overheads and duties, where appropriate.

5. Foreign Exchange Transactions :

   Foreign exchange transactions are initially recognised at the exchange rate prevailing on the transaction date. At each balance sheet date foreign currency monetory items are translated at the relevant rates of exchange prevailing at the date. In respect of forward contracts, the premium or discount arising at the inception of such a contract is amortised as expense or income over the life of the contract.

   In case of monetary items, the exchange differences are recognised in the Profit and Loss Account.

6. Miscellaneous Expenditure :
   (to the extent not written off or adjusted)

   i) Special payments under Voluntary Retirement Scheme are amortised over a period of five years from the accounting year in which the liability is incurred.

   ii) Expenditure incurred on major renovation and repairs of buildings is being written off over a period of five years from the year in which the expenditure is incurred.

7. Revenue Recognition :

   Sales of products and services are recognised when the products are shipped or the services rendered.

   Excise Duties (including education cess) recovered are included in the Sale of Products (Gross). Excise Duty (including education cess) in respect of Finished Goods are shown seperately as an item of Manufacturing and Other Expenses and included in the valuation of finished goods.

8. Retirement Benefits :

   i) Defined Contribution Plan:

      Company's contributions paid/payable during the year to Provident Fund, Officer's Superannuation Fund, ESIC and Labour Welfare Fund are recognised in the Profit and Loss Account.

   ii) Defined Benefit Plan:

      Company's liability towards gratuity and compensated absences is determined using the projected unit credit method which considers each period of service as giving rights to an additional unit of benefit entitlement and measure each unit separately to build up the final obligation. Past services are recognised on straight line basis over the average period until the benefits become vested. Actuarial gain and losses are recognised immediately in the statement of Profit and Loss Account as income or expense. Obligation is measured at the present value of estimated future cash flow using discounted rate i.e. determined by reference to market yield at the balance sheet date on government bonds where the currency and terms of the government bonds are consistent with the currency and the estimated terms of the defined benefit obligation.

9. Taxes on income :

   Current tax is determined as the amount of tax payable in respect of taxable income for the year. Deferred tax assets and liabilities are 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 losses under tax laws are recognised only to the extent that there is virtual certainty supported by convincing evidence that sufficient future taxable income will be available against which such deferred tax assets can be realised. Deferred tax assets on account of other timing differences are recognised to the extent that there is a reasonable certainty of its realisation.

10. Segment Reporting :

   The accounting policies adopted for segment reporting are in line with the accounting policies of the Company and are identified having regard to the dominant nature of risks and returns and internal organisation and management structure.

   Revenues and expenses have been identified to the segments based on their relationship to the business activity of the segment. Expenses relating to the enterprise as a whole and not allocable on a reasonable basis to the business segments are reflected as unallocated corporate expenses.

**SCHEDULE 'N' 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. 12542 State Code 11

Balance Sheet Date 31 (Date) 03 (Month) 2008 (Year)

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

| | |
|---|---|
| Public Issue | Rights Issue |
| NIL | NIL |
| Bonus Issue | Private Placement |
| NIL | NIL |

**III. Position of Mobilisation and Deployment of funds (Amount in Rs. Crores)**

| | |
|---|---|
| Total Liabilities (including Shareholders' Funds) | Total Assets (including Miscellaneous Expenditure not written-off and adverse balance of profit and loss account) |
| 713.82 | 713.82 |

Sources of Funds :

| | |
|---|---|
| Paid-up Capital | Reserves & Surplus |
| 32.48 | 155.39 |
| Secured Loans | Unsecured Loans |
| 178.49 | 138.11 |

Application of Funds :

| | |
|---|---|
| Net Fixed Assets | Investments |
| 292.40 | 0.42 |
| Net Current Assets | Miscellaneous Expenditure |
| 229.80 | 0.03 |
| Accumulated Losses | |
| NIL | |

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

| | |
|---|---|
| Turnover (Sales and Other income) | Total Expenditure [Including decrease/(increase) in Stocks] |
| 924.94 | 880.75 |
| +/- Profit/Loss before Tax | +/- Profit/Loss after Tax |
| 44.19 | 29.49 |
| Earnings per Share in Rupees | Dividend Rate % |
| 9.08 | 30 |

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

| | |
|---|---|
| Item Code No. (ITC Code) | 7228 |
| Product Description | Other bars and rods of other alloy steel |
| Item Code No. (ITC Code) | 8708 |
| Product Description | Parts and accessories of motor vehicles |
| Item Code No. (ITC Code) | 7214 |
| Product Description | Other bars and rods of iron or non-alloy steel |

**Signature to Schedules 'A' to 'N'**

**R. Sundaresan**
*Executive Vice President - Finance & MIS*

**Ajay Kadhao**
*Company Secretary*

**Keshub Mahindra** Chairman
**Anand G. Mahindra** Vice Chairman
**K. V. Ramarathnam** Managing Director
**Deepak Dheer** Executive Director
**Dr. Homi N. Sethna**
**M. R. Ramachandran**
**R. R. Krishnan**
**Hemant Luthra**
**Rajeev Dubey**
} Directors

Mumbai : 29th April, 2008.

# MAHINDRA UGINE STEEL COMPANY LIMITED

MUSCO

Registered Office : 74, Ganesh Apartment, Opp. Sitaladevi Temple, L. J. Road, Mahim, Mumbai - 400 016.

## Attendance Slip

I hereby record my presence at the 45th Annual General Meeting of the Company at Amar Gian Grover Auditorium, Lala Lajpat Rai Memorial Trust, Lala Lajpat Rai Marg, Haji Ali, Mumbai – 400 034 on Thursday, the 24th July, 2008 at 3.00 p.m.

Name of the Member

Registered Folio No. No. of Shares

Client ID No.

DP ID No.

Name of the Proxy

Signature of the Member or Proxy

***Note:*** *The Member/Proxy/Representative attending the 45th Annual General Meeting is requested to bring this slip duly filled in and present the same at the entrance to the Meeting.*


# MAHINDRA UGINE STEEL COMPANY LIMITED

MUSCO

Registered Office : 74, Ganesh Apartment, Opp. Sitaladevi Temple, L. J. Road, Mahim, Mumbai - 400 016.


## Proxy Form

I/We ........................................................................................ of ........................................................................................

in the District of .................................................................................. being a member/members of the above named Company

hereby appoint ................................................................. of ........................................................................................

in the District of .................................................. or failing him/her ..................................................................

of ........................................................................... in the district of .................................................................. as

my/our proxy/proxies to vote for me/us on my/our behalf at the 45th Annual General Meeting of the Company to be held at Amar Gian Grover Auditorium, Lala Lajpat Rai Memorial Trust, Lala Lajpat Rai Marg, Haji Ali, Mumbai – 400 034 on Thursday, the 24th July, 2008 at 3.00 p.m. and at any adjournment thereof.

Signed this .....................................................day of ......................................2008

Registered Folio No. ................................

Client ID No. ............................................

DP ID No. ................................................

No. of Shares ..........................................

Fifteen Paise Revenue Stamp

Signature of the Member

*Note : This Proxy Form in order to be effective should be duly filled in, stamped and signed and must be deposited at the Registered Office of the Company not less than 48 hours before the time for holding the meeting. The Proxy need not be a member of the Company.*