



# SHANTHI GEARS LIMITED

*Annual Report 2012-13*

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## Cautionary Statement

Certain expectations and projections regarding the future performance of the Company referenced in the annual report constitute forward-looking statements. These expectations and projections are based on currently available competitive, financial and economic data, along with the Company's operating plans and are subject to certain future events and uncertainties, which could cause actual results to differ materially from those indicated by such statements.

## Message from the Chairman

Dear Shareholders,

It gives me immense pleasure to write to you and welcome you to be a part of the larger family – the Murugappa Group. The last one year has been an exciting time for me personally, commencing with the conclusion of the agreement to purchase 44.12% of the shares of your Company to being involved in shaping its direction and future.

At the outset, I would like to record my appreciation of Mr. P Subramanian for creating, growing and guiding this Company over the last four decades and being instrumental for the Company being acknowledged as one of the best in the industry. I also wish to express my gratitude to the members who served on the Board of Directors of Shanthi Gears Ltd for their guidance and counsel over the years.

Since the acquisition, building customer relationships and improving operational efficiencies have been the key focus of the new team. This helped us post a turnover of ₹ 146 crores and a Profit before Tax of ₹ 22 crores in FY2012-2013. The year was marked by a significant reduction in demand due to the depressed business conditions prevailing in the industry. The investment climate was also not conducive leading to delays in execution of large projects thereby impacting off-take.

As we embark on a new path leveraging brand “Shanthi”, adopting and integrating best practices, augmenting our product range and improving our service we hope to enhance the value proposition to all our stakeholders. Towards this, Shanthi’s main focus will be in the National market and key Industry segments like Steel, Cement, Mining, Construction and Metro Rail. Shanthi’s strength lies in its engineering and design capabilities, a large skill pool, state-of-the-art manufacturing infrastructure and the ability to innovate and re-engineer to provide solutions to our customers. The Company intends to leverage these to serve the standard and customised gearbox product segments.

Needless to mention, people make the difference and the team at Shanthi Gears, led by Dr. Sreeram Srinivasan, through its commitment and diligence is making this possible. I thank all our employees and stakeholders for their contribution and support and remain confident of their continued passion, enthusiasm and co-operation as we progress into the future.

I also thank my colleagues on the Board for their valuable contribution and guidance to take Shanthi to new heights of achievement.

Finally, my grateful thanks to you, the shareholders, for your continued support and confidence in the Company.

Sincerely,

**MM Murugappan**

## 10 Years Financials

₹ Crores

OPERATING RESULTS	2012-13	2011-12	2010-11	2009-10	2008-09	2007-08	2006-07	2005-06	2004-05	2003-04
Sales (Including excise duty)	160.94	186.67	173.46	129.07	276.90	274.73	227.97	184.26	138.07	97.54
Profit before Depreciation, Interest & Tax (PBDIT)	50.93	69.32	71.48	53.14	103.20	94.61	74.16	58.77	41.62	28.00
Profit before Interest & Tax (PBIT)	22.36	42.10	44.64	26.21	77.43	72.15	55.93	46.06	32.04	19.69
Profit before Tax (PBT)	22.07	41.60	43.76	24.33	68.81	67.49	51.15	43.06	30.66	19.04
Profit after Tax (PAT)	15.47	28.13	27.86	16.18	44.06	44.16	33.59	28.06	19.12	13.25
Earnings Per Share in (₹)	1.89	3.44	3.41	1.98	5.39	5.40	4.44	3.56	2.45	1.71
Dividend Per Share (₹)	0.60	1.00	1.00	0.80	1.20	1.20	1.00	1.00	0.50	0.75
Book Value Per Share (₹)	31.53	30.33	28.05	25.80	24.75	20.77	16.28	11.90	8.98	14.19
Interest	0.29	0.62	8.76	3.81	11.56	6.37	6.23	4.26	2.43	1.81

### SOURCES AND APPLICATION OF FUNDS

#### SOURCES OF FUNDS

Share Capital	8.17	8.17	8.17	8.17	8.17	8.17	8.08	7.88	7.80	3.90
Reserves & Surplus	249.41	239.67	221.04	202.68	194.12	161.53	123.45	85.90	62.25	51.48
Net Worth	257.58	247.84	229.21	210.85	202.29	169.70	131.53	93.79	70.05	55.38
Debt	0.00	3.96	9.75	25.63	89.27	92.79	118.68	120.46	54.95	45.24
Deferred Tax Liability (Net)	6.88	10.73	14.26	17.49	20.09	19.06	16.58	9.84	6.45	5.52
Total	264.46	262.53	253.22	253.97	311.64	281.55	266.78	224.09	131.45	106.14

#### APPLICATION OF FUNDS

Gross Fixed Assets	361.09	360.21	353.46	344.13	338.60	299.19	265.20	191.18	142.05	116.45
Accumulated Depreciation	245.34	222.00	195.54	169.20	142.45	118.04	95.81	77.95	65.74	57.56
Net Fixed Assets	115.75	138.21	157.91	174.92	196.15	181.15	169.38	113.23	76.31	58.89
Capital Work-in-Progress	3.62	5.59	7.54	5.17	7.07	16.16	13.19	8.65	3.86	0.00
Short Term Investments & Deposits	90.60	55.02	46.00	27.50	47.50	15.84	18.13	47.51	7.50	3.90
Net Working Capital	54.49	63.71	41.77	46.38	60.92	68.40	66.07	54.71	43.78	43.34
Total	264.46	262.53	253.22	253.97	311.64	281.55	266.78	224.09	131.45	106.14

#### RATIOS

PBDIT To Sales (%)	31.65	37.14	41.21	41.17	37.27	34.44	32.53	31.90	30.14	28.71
PBIT To Sales (%)	13.89	22.55	25.73	20.31	27.96	26.26	24.53	25.00	23.21	20.19
PBT To Sales (%)	13.71	22.28	25.23	18.85	24.85	24.57	22.44	23.37	22.21	19.52
PAT To Sales (%)	9.61	15.07	16.06	12.54	15.91	16.07	14.73	15.23	13.85	13.58
Interest Cover (times)	175.62	111.81	8.16	13.95	8.93	14.85	11.90	13.80	17.13	15.47
ROCE (%) #	12.86	20.29	21.54	11.57	29.32	27.15	22.49	26.08	25.85	19.26
Return on Networth (%)	6.01	11.35	12.16	7.67	21.78	26.02	25.54	29.92	27.30	23.93
Total Debt Equity Ratio	0.00	0.02	0.04	0.12	0.43	0.48	0.60	1.07	0.58	0.62
Long Term Debt Equity Ratio	0.00	0.00	0.02	0.05	0.08	0.13	0.18	0.30	0.02	0.06
Sales/Net Fixed Assets (times)	1.39	1.35	1.10	0.74	1.41	1.52	1.35	1.63	1.81	1.66
Net Working Capital Turnover (times)	2.95	2.93	4.15	2.78	4.55	4.02	3.45	3.37	3.15	2.25

# Return on Capital Employed (ROCE) is Profit before Interest and Tax divided by the Capital Employed, excluding Short Term Investments, as at the end of the year.

## **CORPORATE INFORMATION**

### **BOARD OF DIRECTORS**

M M MURUGAPPAN, Chairman  
L RAMKUMAR  
C R SWAMINATHAN  
J BALAMURUGAN  
V VENKITESWARAN  
SREERAM SRINIVASAN, President &Executive Director

### **COMPANY SECRETARY**

C SUBRAMANIAM

### **REGISTERED OFFICE**

304-A, Trichy Road,Singanallur,Coimbatore-641005

### **PLANTS**

A UNIT, Trichy Road,Singanallur, Coimbatore  
B UNIT, Trichy Road,Singanallur, Coimbatore  
C UNIT, Avanashi Road, Muthugoundenpudur, Coimbatore  
D UNIT, K.Krishnapuram,Coimbatore  
FOUNDRY DIVISION, Kannampalayam, Coimbatore

### **AUDITORS**

S LAKSHMINARAYANAN ASSOCIATES  
Chartered Accountants

### **BANKERS**

State Bank of India  
IDBI Bank Ltd  
Bank of Nova Scotia

## Directors' Profile

### **Mr. M M Murugappan,** Chairman

Mr. M M Murugappan (57 years) holds a Masters degree in Chemical Engineering from the University of Michigan, USA. He is currently the Chairman of Tube Investments of India Limited. He is also on the Board of various companies including Mahindra & Mahindra Limited and Wendt (India) Limited.

### **Mr. C R Swaminathan,** Non-Executive Director

Mr. C R Swaminathan (65 years) holds a graduate degree in Agriculture and a Masters degree in Business Administration. He had been associated with the PSG group of institutions as its Chief Executive Officer. Mr. C R Swaminathan is well experienced in the Foundry Industry and is the Past President of the Institute of Indian Foundrymen. He is also the Past President of the Confederation of Indian Industry (Southern Region).

### **Mr. L Ramkumar,** Non-Executive Director

Mr. L Ramkumar (57 years) is a Cost Accountant and has a Post Graduate Diploma in Management from Indian Institute of Management, Ahmedabad. He is currently the Managing Director of Tube Investments of India Ltd. He has over 33 years of rich and varied experience in management including 21 years in Tube Investments of India Ltd.

### **Mr. V Venkiteswaran,** Non-Executive Director

Mr. V Venkiteswaran (66 years) has business experience of over 40 years in diverse areas of operations. He is a Mechanical Engineer from the University of Madras and worked over 36 years with Tata Tea Limited and retired as Executive Director of Tata Tea Limited.

### **Mr. J Balamurugan,** Non-Executive Director

Mr. J Balamurugan (52 years) is an Electronics Engineer from Regional Engineering College, Trichy. He has also done the Management Programme for Entrepreneurial Firms in Indian Institute of Management, Bangalore. He has managing experience in the businesses of IT infrastructure, on-line services and aftermarket automotive enhancements and others. He was the past Chairman of Confederation of Indian Industry, Coimbatore Zone.

### **Dr. Sreeram Srinivasan,** President & Executive Director

Dr. Sreeram Srinivasan (50 Years) holds a B.Tech. degree from IIT, Madras and also holds a MS and Ph.D from NC State University, Raleigh, USA. He has over two and a half decades of rich and varied experience, having worked for several leading multinational and Indian companies.

## MANAGEMENT DISCUSSION AND ANALYSIS

The year 2012-13 witnessed a period of uncertainty across the globe. While the US economy showed signs of recovery in the early part of the year, there were mixed signals as the year progressed. Europe is likely to take some more time to return to normalcy. The Euro, as a common currency of Europe seems to be safe for now. Growth in some key economies such as China has slowed. However, recent developments in Japan with the new government appear to be positive.

The Indian economy too witnessed a year of gradual decline with the last quarter decline being particularly severe. Poor monsoons, high inflation leading to high interest rates, slowdown in infrastructure projects and overall drop in consumer confidence and supply side constraints led to the pace of growth coming down. Export of products from India dipped and combined with the high import of oil and gold the current account deficit became a matter of concern leading to a depreciating currency.

### Review of business

#### Industry scenario

Your Company is in the business of design, manufacture, supply and servicing of gears and gear boxes. The market size for these products is estimated to be around ₹ 3000 cr. The industry is growing at a rate of about 6% per annum and is expected to touch about ₹ 4000 cr. in the next five years. Within the industry, there are certain segments growing at a faster rate while a few are flat or declining. In the National Market, Steel, Cement, Sugar, Mining, Paper, Marine make up the conventional part of this Industry while off-highway (Construction), Windmill and Metro Rail constitute the relatively newer segments. The Metro and Off-highway segments are expected to grow at almost twice the average of the industry growth while the Windmill segment is not expected to register any growth at all in the next few years. There are five major players and a few regional players in the National market while a significant portion of gearboxes for critical applications are met through imports. Exports presents an opportunity for your Company but is limited at present due to the global economic scenario.

The National gearbox industry also constitutes two major segments, viz., standard and non-standard. Standard gearboxes constitute about 35% of the market and growing approximately at over 10% CAGR while the non-standard (customised) gear boxes constitute over 33% and growing below the Industry average. The remainder of the industry is made up of loose gears and are growing at the Industry level. The industry is witnessing a greater drive towards standardization thanks to the entry of multi-national players.

Industrial growth in general and infrastructure growth in particular present the opportunity for growth of the gears and gearbox industry. Thus, import substitution by local players and overall economic growth would be the drivers for growth in the gear and gearbox industry. The former would however entail acquisition or development of technology from established players in the field. Skilled resources and state of the art facilities are critical success factors in this industry.

## Review of performance

Your Company has three focus areas: supply of internals and spares (loose gears), customised non-standard gearboxes and servicing of any make of gearbox. The Company reported a revenue of ₹ 146 Cr. in the year under review against ₹ 172 Cr. in the previous year. The decline was largely due to the lower demand for gearboxes, predominantly in the infrastructure related industries, significantly lower exports, and lower servicing revenue. The Profit before Tax for the year was also lower at ₹ 22.07 cr. against ₹ 41.60 cr. due to the lower turnover, higher input costs mainly on power which could not be recovered from customers and intense competition in the various segments. During the year there were also one-time charges to the Profit & Loss Account due to review and changes of certain accounting policies. This was consequent to the change in the management. The Company has embarked on a program of improving its operational efficiencies and also improving its cost base. These factors helped the Company partly mitigate the impact of the increased costs on the bottom line.

There was also a strong focus on reduction of resources employed in the business both on working capital and on fixed assets. This exercise helped in achieving a significant reduction in inventory holding. The Company generated cash of ₹ 60 Cr. from operations and remains debt free. Investments in essential capital expenditure towards enhanced productivity are ongoing.

The Company is focusing on developing a new range of products in the standard segment. These products are expected to provide greater value to customers while enhancing our competitiveness in this segment. Efforts are also on to enhance the range of planetary gear boxes. These gear boxes have made a positive impact on customers and the demand for such products is set to increase.

The Company remains confident that the future is positive given the confidence of its customers on the Company's products and service and the fact that the government is seized of the need to stimulate growth. Prospects of a better monsoon, lower inflation and reduction in interest rates could spur economic growth during the current financial year.

## Internal Control

The Company has an Internal Audit system commensurate with its size and operations. The internal audit is carried out by a firm of chartered accountants covering all aspects of the business. The internal audit team periodically evaluates the adequacy and effectiveness of internal controls. The Audit committee reviews the plan for Internal Audit, significant internal audit observations and functioning of the internal audit department on a periodical basis.

**By Order of the Board**

Chennai  
30<sup>th</sup> April, 2013

**Sreeram Srinivasan**  
President & Executive Director



## General Shareholder Information

**Registered Office** : 304-A, Trichy Road, Singanallur, Coimbatore-641005

### Annual General Meeting

Day : Wednesday  
Date : 24<sup>th</sup> July, 2013  
Time : 2.00 P.M.  
Venue : Registered Office of the Company  
304-A, Trichy Road, Singanallur, Coimbatore-641 005

### Financial Calendar

Annual General Meeting	24 <sup>th</sup> July, 2013
Results for the Quarter Ending 30 <sup>th</sup> June, 2013	24 <sup>th</sup> July, 2013
Results for the Quarter Ending 30 <sup>th</sup> September, 2013	23 <sup>rd</sup> October, 2013
Results for the Quarter Ending 31 <sup>st</sup> December, 2013	January/February, 2014
Results for the Year Ending 31 <sup>st</sup> March, 2014	April/May, 2014

**Book Closure Date** : 13<sup>th</sup> July, 2013 to 24<sup>th</sup> July, 2013 (Both days inclusive)

### Dividend

The Board of Directors has recommended the payment of a final dividend of ₹ 0.60 per equity share. The Dividend on equity shares will be paid to those members, whose names appear in the Register of Members on Wednesday, 24<sup>th</sup> July, 2013 and the same will be paid on 29<sup>th</sup> July, 2013.

In respect of shares held in electronic form, dividend will be paid on the basis of beneficial ownership as per details furnished by the depositories for the purpose.

### Unclaimed Dividend

The details of dividend paid by the Company and the respective due dates of transfer of the unclaimed/unencashed dividend to the Investor Education & Protection Fund ("IE&P Fund") of the Central Government are as below:

Financial Year to which dividend relates	Date of declaration	Due for Transfer to IE&P Fund
2005-06	14.07.2006	19.08.2013
2006-07	16.07.2007	21.08.2014
2007-08	14.07.2008	19.08.2015
2008-09	10.07.2009	15.08.2016
2009-10	13.08.2010	18.09.2017
2010-11	11.07.2011	16.08.2018
2011-12	23.07.2012	28.08.2019

As provided under the Companies Act, 1956, dividends remaining unclaimed for a period of seven years shall be transferred by the Company to the IE&P Fund. In the interest of the investors, the company is in the practice of sending reminders to the investors concerned, before transfer of unclaimed dividend to the IE&P Fund. Unclaimed/unencashed dividends up to 2004-05 have been transferred to the IE&P Fund.

## Instructions to Shareholders

### (a) Shareholders holding shares in physical form

Requests for change of address must be sent to the Company's Registrar & Transfer Agent viz., S.K.D.C. Consultants Limited, Kanapathy Towers, 3<sup>rd</sup> Floor, 1391/A-1, Sathy Road, Ganapathy, Coimbatore-641006 ("RTA"), not later than 13<sup>th</sup> July, 2013 to enable them to forward the dividend warrants to the latest address of Members. Members are also advised to intimate the RTA the details of their bank account to enable incorporation of the same on dividend warrants. This would help prevent any fraudulent encashment of dividend warrants.

### (b) Shareholders holding shares in demat form

Shareholders can make use of the National Electronic Clearing Services ("NECS") of Reserve Bank of India, offered at select centres, to receive dividend payment directly into their bank account, avoiding thereby the hassles relating to handling of physical warrants besides elimination of risk of loss in postal transit/ fraudulent encashment of warrants. The NECS operates on the account number allotted by the Bank post Core Banking Solution ("CBS") implementation. The new Bank account number may kindly be intimated by the shareholder to the Depository Participant (in case of the shares are held in demat mode) or to the Company's RTA viz., S.K.D.C. Consultants Limited (in case the shares held in physical mode) by sending a request letter along with a cancelled cheque, if not already done.

## Listing on Stock Exchanges and Stock Code

National Stock Exchange of India Ltd	:	SHANTIGEAR
Bombay Stock Exchange	:	522034
ISIN Number in NSDL & CDSL for equity shares	:	INE 631A01022

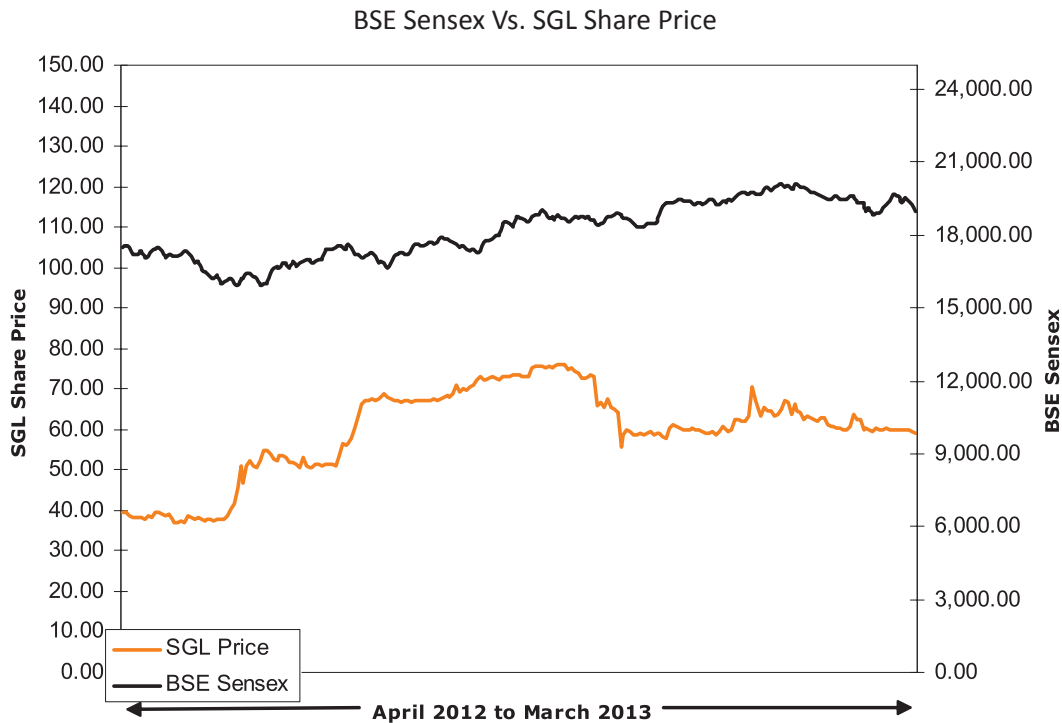
The Company has paid annual listing fees for the financial year 2013-2014 in respect of the above stock exchanges.

## Stock Market Data

Month	Bombay Stock Exchange Limited (BSE)		National Stock Exchange of India Limited (NSE)	
	High (₹)	Low (₹)	High (₹)	Low (₹)
April 2012	41.50	36.10	41.15	36.80
May 2012	53.35	36.70	53.45	36.50
June 2012	57.75	49.30	57.90	49.35
July 2012	69.60	50.50	69.50	50.70
August 2012	71.00	66.25	72.00	66.10
September 2012	75.50	69.50	75.75	69.25
October 2012	76.50	64.70	76.50	64.50
November 2012	67.95	50.25	68.00	50.00
December 2012	72.95	58.10	64.25	57.65
January 2013	72.40	60.60	72.50	60.00
February 2013	64.65	59.00	70.40	59.00
March 2013	61.75	53.50	61.75	53.50

**Performance in comparison to broad based indices**

SGL Share Performance (April 2012 to March 2013)

**Share Transfer System**

The Company's Shares are in the Compulsory Demat List and are transferable through Depository system. Both Dematerialisation requests and physical share transfers are handled by S.K.D.C. Consultants Limited.

The Share transfers which are received in physical form are processed and the Share Certificates are returned within 21 days from the date of receipt, subject to the Documents being valid and complete in all respects.

SEBI vide its circular dated 16<sup>th</sup> December, 2010 has amended clause 5A of the Listing agreement by laying down a uniform procedure for dealing with unclaimed shares in physical mode and getting the same dematerialized after completing the said procedure. The Company's Registrar and Share Transfer Agent is in the process of complying with the said amendment.

**Registrar and Share Transfer Agents**

S.K.D.C. CONSULTANTS LIMITED,  
Kanapathy Towers, 3<sup>rd</sup> Floor, 1391/A-1,  
Sathy Road, Ganapathy, Coimbatore-641006.

Tel : (0422) 6549995, 2539835-836

Fax : (0422) 2539837

Email : [info@skdc-consultants.com](mailto:info@skdc-consultants.com)

### Share holding pattern as on 31<sup>st</sup> March, 2013

SL. No.	Category	No. of Shares	% (Percentage)
1	Promoters	57302913	70.12
2	Mutual Funds, Banks, Financial Institution, Insurance Companies	2805714	3.43
3	Foreign Institutional Investors	1552000	1.90
4	NRI's / OCB's	800732	0.98
5	Private Corporate Bodies	2062002	2.52
6	Indian Public	17192492	21.05
	<b>Total</b>	<b>81715853</b>	<b>100.00</b>

### Distribution of Share holding as on 31<sup>st</sup> March, 2013

No. of Shares held	No. of Share holders	%	No. of Shares	%
1 to 500	13209	75.45	2066437	2.53
501 to 1000	1676	9.57	1429470	1.75
1001 to 5000	1993	11.39	5030411	6.15
5001 to 10000	416	2.38	2857963	3.50
10001 to 100000	188	1.07	4899445	6.00
100001 and above	24	0.14	65432127	80.07
<b>Total</b>	<b>17506</b>	<b>100.00</b>	<b>81715853</b>	<b>100.00</b>

### Dematerialisation of Shares and Liquidity

As on 31<sup>st</sup> March, 2013, 79213873 shares were in dematerialized form representing 96.938% of total shares.

### Location and time of Last Three Annual General Meetings held are given below

Financial Year Ending	Date	Time	Venue
31.03.2010	13.08.2010	10.00 A.M.	Registered Office of the Company 304-A, Trichy Road, Singanallur, Coimbatore-641 005
31.03.2011	11.07.2011	9.30 A.M.	Registered Office of the Company 304-A, Trichy Road, Singanallur, Coimbatore-641 005
31.03.2012	23.07.2012	9.30 A.M.	Registered Office of the Company 304-A, Trichy Road, Singanallur, Coimbatore-641 005

**Details of the Special Resolutions passed during the last Three Annual General Meetings are given below**

Date of AGM	Whether any Special Resolution was passed	Resolution
13.08.2010	Yes	1) Alteration of Objects Clause of Memorandum of Association of the Company 2) To obtain the shareholders consent to commence Other Objects Clause of Memorandum of Association of the Company. Note: These two resolutions were passed by Postal Ballot and results were declared at AGM
11.07.2011	No	Not Applicable
23.07.2012	No	Not Applicable

**Resolution passed by Postal Ballot**

No Resolutions were passed by postal ballot in the previous year.

**Means of Communication**

The quarterly/annual results are published in the leading national English newspapers ("Business Line"/"Business Standard") and in one vernacular (Tamil) newspaper ("Dinathanthi"/"Dinamani").

The Quarterly/annual results are also available on the Company's website, [www.shanthigears.com](http://www.shanthigears.com)

The Company's website also displays shareholding pattern, compliance report on Corporate Governance, corporate presentations, etc.,

**Plant Locations**

**A Unit** : 304-A, Trichy Road, Singanallur, Coimbatore-641 005  
**B Unit** : 304-F, Trichy Road, Singanallur, Coimbatore-641 005  
**C Unit** : Avanashi Road, Muthugoundenpudur (PO), Coimbatore-641 406  
**D Unit** : K.Krishnapuram, Kamanaickenpalayam (PO), Coimbatore-641 658  
**Foundry Division** : Kannampalayam, Suler via, Coimbatore-641 402

**Contact Address**

Compliance Officer	For all matters relating to investors Services
Mr. C Subramaniam Company Secretary Shanthi Gears Limited 304-A, Trichy Road Singanallur, Coimbatore – 641 005. Tel : (0422) 2273722 to 34 Fax : (0422) 2273884 & 85 Email: <a href="mailto:cs@shanthigears.com">cs@shanthigears.com</a>	S.K.D.C. CONSULTANTS LIMITED Kanapathy Towers, 3 <sup>rd</sup> Floor 1391/A-1, Sathy Road Ganapathy Coimbatore-641006 Tel : (0422) 6549995, 2539835-836 Fax : (0422) 2539837 Email: <a href="mailto:info@skdc-consultants.com">info@skdc-consultants.com</a>

## REPORT ON CORPORATE GOVERNANCE

### 1. Company's Philosophy of Corporate Governance

Your Company believes that the fundamental objective of corporate governance is to enhance the interests of all stakeholders. The Company's corporate governance practices emanate from its commitment towards discipline, accountability, transparency and fairness. Key elements in corporate governance are timely and adequate disclosure, establishment of internal controls and high standards of accounting fidelity, product and service quality.

Your Company also believes that good corporate governance practices help to enhance performance and valuation of the Company.

### 2. Board of Directors

- The Board of Directors consists of 6 Directors as on 31<sup>st</sup> March, 2013, of whom 3 are Independent Non- Executive Directors. A Non- Executive Chairman heads the Board.
- The Board of Directors met seven times during the financial year 2012-13. The dates of the Board meetings were 25<sup>th</sup> May, 2012, 20<sup>th</sup> July, 2012, 30<sup>th</sup> July, 2012, 3<sup>rd</sup> September, 2012, 24<sup>th</sup> October, 2012, 30<sup>th</sup> January, 2013 and 27<sup>th</sup> March, 2013.
- There is no inter-se relationship between Directors.
- The attendance of each Director at the meetings, the last Annual General Meeting and number of other Directorships/Committee memberships held by them as on 31<sup>st</sup> March, 2013 are as follows:

Sl. No.	Name of Director	Board meetings attended (No. of meeting held)	Number of Directorships <sup>(a)</sup> excluding SGL (out of which as Chairman )	Number of Committee Memberships <sup>(b)</sup> excluding SGL (out of which as Chairman )	Attendance at last AGM	No. of Shares held as on 31 <sup>st</sup> March, 2013
1.	Mr. M M Murugappan <sup>(c)</sup>	4(4)	11(8)	5(4)	Not Applicable	-
2.	Dr. Sreeram Srinivasan <sup>(c)</sup>	4(4)	NIL	NIL	Not Applicable	-
3.	Mr. L Ramkumar <sup>(c)</sup>	4(4)	3(1)	1	Not Applicable	-
4.	Mr. C R Swaminathan <sup>(c)</sup>	4(4)	2	1	Not Applicable	5000
5.	Mr. J Balamurugan <sup>(c)</sup>	4(4)	4	NIL	Not Applicable	-
6.	Mr. V Venkiteswaran <sup>(d)</sup>	2(2)	1	1	Not Applicable	5000
7.	Mr. P Subramanian <sup>(e)</sup>	4(4)	Not Applicable	Not Applicable	Present	Not Applicable
8.	Dr. D Padmanaban <sup>(e)</sup>	4(4)	Not Applicable	Not Applicable	Absent	Not Applicable
9.	Mr. M J Vijayaraaghavan <sup>(e)</sup>	4(4)	Not Applicable	Not Applicable	Absent	Not Applicable
10.	Mr. C G Kumar <sup>(e)</sup>	4(4)	Not Applicable	Not Applicable	Present	Not Applicable
11.	Mr. M Alagiriswamy <sup>(e)</sup>	4(4)	Not Applicable	Not Applicable	Present	Not Applicable

- Excludes foreign companies, private limited companies, alternative Directorships and companies registered under section 25 of the Companies Act, 1956
- Includes only membership in Audit and Shareholders'/Investors' Grievance Committee
- Co-opted as Additional Director w.e.f. 3<sup>rd</sup> September, 2012
- Co-opted as Additional Director w.e.f. 30<sup>th</sup> January, 2013
- Resigned and relieved from the Board on 3<sup>rd</sup> September, 2012

### 3. Audit Committee

The Audit Committee Consists of 4 Directors.

The terms of reference to the Audit Committee are wide enough to cover all matters specified under the Listing Agreement and the Companies Act, 1956.

The Audit Committee met four times during the financial year 2012-13. The dates of the meetings were 24<sup>th</sup> May, 2012, 30<sup>th</sup> July, 2012, 24<sup>th</sup> October, 2012 and 30<sup>th</sup> January, 2013.

The Composition of the Audit Committee and attendance of each member at these meetings is as follows:

Sl. No.	Name of Member	No. of Meetings Attended ( No. of Meeting held )
1	Mr. C R Swaminathan, Chairman <sup>(a)</sup>	2(2)
2	Mr. J Balamurugan <sup>(a)</sup>	2(2)
3	Mr. M M Murugappan <sup>(a)</sup>	2(2)
4	Mr. V Venkiteswaran <sup>(b)</sup>	Not Applicable
5	Mr. M J Vijayaraaghavan <sup>(c)</sup>	2(2)
6	Dr. D Padmanaban <sup>(c)</sup>	2(2)
7	Mr. C G Kumar <sup>(c)</sup>	2(2)
8	Mr. M Alagiriswamy <sup>(c)</sup>	2(2)

(a) Co-opted as Member of the Committee w.e.f. 3<sup>rd</sup> September, 2012

(b) Co-opted as Member of the Committee w.e.f. 30<sup>th</sup> April, 2013

(c) Resigned and relieved from the Committee on 3<sup>rd</sup> September, 2012

### 4. Remuneration paid to Chairman & Managing Director

Mr. P Subramanian resigned from the Board on 3<sup>rd</sup> September, 2012. ₹ 0.10 Crores was paid to him as salary for the period from 01.04.2012 to 03.09.2012

### 5. Remuneration paid to Non Executive Directors

No Remuneration is paid to Non Executive Directors except Sitting Fees payable for attending Board Meetings/Committee Meetings which are as under.

(Amount ₹)

Name of the Director	Sitting Fees Paid
Mr. M M Murugappan	40,000
Mr. L Ramkumar	10,000
Mr. C R Swaminathan	40,000
Mr. J Balamurugan	40,000
Mr. V Venkiteswaran	10,000
Dr. D Padmanaban	35,000
Mr. M J Vijayaraaghavan	35,000
Mr. C G Kumar	35,000
Mr. M Alagiriswamy	35,000

## 6. Shareholders' / Investors' Grievance Committee

- (a) The Shareholders' / Investors' Grievance Committee consists of 3 Directors as on 31<sup>st</sup> March, 2013.
- (b) Composition of Shareholders' / Investors' Grievance Committee.

Sl. No.	Members
1	Mr. L Ramkumar Chairman <sup>(a)</sup>
2	Mr. C R Swaminathan <sup>(a)</sup>
3	Dr. Sreeram Srinivasan <sup>(a)</sup>
4	Mr M J Vijayaraaghavan <sup>(b)</sup>
5	Dr. D Padmanaban <sup>(b)</sup>
6	Mr. C G Kumar <sup>(b)</sup>
7	Mr. M Alagiriswamy <sup>(b)</sup>

- (a) Co-opted as Member of the Shareholders' / Investors' Grievance Committee w.e.f. 3<sup>rd</sup> September, 2012
- (b) Resigned from the Shareholders' / Investors' Grievance Committee on 3<sup>rd</sup> September, 2012
- (c) **Compliance Officer**  
Mr. C Subramaniam, Company Secretary
- (d) **Complaints**  
During the year 9 letters/complaints were received from the Investors, which were replied/resolved to the satisfaction of the investors and none of the complaints is pending as on date. None of the complaints required the attention of Investors Grievance Committee since they were routine in nature and the same were resolved by the Company officials / RTA.  
There was no Share Transfer and Dematerialisation pending as on 31<sup>st</sup> March, 2013.
- (e) The Company has exclusively designated an e-mail id for Investor Relations viz., [cs@shanthigears.com](mailto:cs@shanthigears.com)

## 7. Remuneration Committee

- (a) The Remuneration Committee Consists of 3 Directors as on 31<sup>st</sup> March, 2013.
- (b) The Committee met two times during the year ended 31<sup>st</sup> March, 2013.  
The Composition of the Remuneration Committee

Sl. No.	Name of Member	No. of Meetings Attended ( No. of Meeting held )
1	Mr. C R Swaminathan, Chairman <sup>(a)</sup>	2(2)
2	Mr. J Balamurugan <sup>(a)</sup>	2(2)
3	Mr. M M Murugappan <sup>(a)</sup>	2(2)
4	Mr. M J Vijayaraaghavan <sup>(b)</sup>	Not Applicable
5	Dr. D Padmanaban <sup>(b)</sup>	Not Applicable
6	Mr. C G Kumar <sup>(b)</sup>	Not Applicable
7	Mr. M Alagiriswamy <sup>(b)</sup>	Not Applicable

- (a) Co-opted as Member of the Remuneration Committee w.e.f. 3<sup>rd</sup> September, 2012
- (b) Resigned and relieved from the Remuneration Committee on 3<sup>rd</sup> September, 2012



8. CEO / CFO Certification under clause 41 and clause 49 of the Listing Agreement with Stock Exchanges have been submitted to the Board by the CEO and CFO.

9. a) Disclosure on Materially significant related party transaction

The Company had not entered into any transaction of a material nature, which will have a conflict with its interest during the year.

Full disclosure of related party transactions as per Accounting Standard 18 issued by the Institute of Chartered Accountants of India is given under Note No. 35 of Notes to Financial Statements. All the transactions covered under related party transaction were fair, transparent and at arms length.

b) There was no non-compliance by the Company, penalties, strictures imposed on the Company by the Stock Exchanges, SEBI or any statutory authorities on any matter related to capital markets during the last three years.

c) The Company has not implemented a formal Whistle-blower policy. However, no personnel have been denied access to the Audit Committee of the Company.

d) The Company has implemented all mandatory requirements of clause 49 of the listing agreement. Details of compliance with Non-mandatory requirements are given below.

i. Chairman of the Board

A Non-Executive Chairman heads the Board.

ii. Remuneration Committee

The Company has formed a Remuneration Committee. Details of the Committee are given in point No. 7 of the report on Corporate Governance.

iii. Audit Qualifications

The Financial Statements of the Company do not have any qualifications by Auditors.

10. General Share Holders Information

A separate section has been annexed to the Annual Report furnishing various details viz., previous Annual General Meetings, its time and venue, share price movement, distribution of shareholding, location of factories, means of communication, etc., for shareholders reference.

**On behalf of the Board**

**M M Murugappan**  
Chairman

Chennai  
30<sup>th</sup> April, 2013

## **CERTIFICATE OF COMPLIANCE WITH THE CODE OF CONDUCT FOR BOARD OF DIRECTORS AND SENIOR MANAGEMENT PERSONNEL**

To

The Members of Shanthi Gears Limited

This is to confirm that the Board has laid down a Code of Conduct for all Board members and Senior Management of the Company. The Code of Conduct has also been posted on the website of the Company.

It is further confirmed that all Directors and Senior Management Personnel of the Company have affirmed compliance with the Code of Conduct of the Company for the year ended 31<sup>st</sup> March, 2013, as envisaged in Clause 49 of the Listing agreement with Stock Exchanges.

Chennai  
30<sup>th</sup> April, 2013

**Sreeram Srinivasan**  
President & Executive Director

## **AUDITOR'S CERTIFICATE ON CORPORATE GOVERNANCE TO THE MEMBERS OF M/S SHANTHI GEARS LIMITED**

We have examined the compliance of the conditions of Corporate Governance by SHANTHI GEARS LIMITED for the year ended 31<sup>st</sup> March, 2013 as stipulated in Clause 49 of the Listing Agreement of the said company, with the stock exchanges.

The compliance of the conditions of Corporate Governance is the responsibility of the management. Our examination has been limited to a review of the procedures and implementations thereof, adopted by the Company for ensuring compliance with the conditions of Corporate Governance. It is neither an audit nor an expression of opinion on the financial statements of the company.

In our opinion and to the best of our information and according to the explanations given to us, and the representations made by the Directors and the management, we certify that the company has complied with the conditions of Corporate Governance as stipulated in Clause 49 of the above-mentioned Listing Agreement.

We state that no investor grievance is pending for a period exceeding one month against the company as per the records maintained by the Shareholders / Investor Grievance Committee.

We further 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.

Place: Chennai

Dated: 30<sup>th</sup> April, 2013

For **S Lakshminarayanan Associates**

Chartered Accountants

Firm Reg. No.6609S

**(S Lakshminarayanan)**

Membership No: 012024

Partner

## DIRECTORS' REPORT TO THE SHAREHOLDERS

Your Directors have pleasure in presenting to you the performance of the Company, for the year ended 31<sup>st</sup> March, 2013

### FINANCIAL RESULTS

PARTICULARS	( ₹ Crores)	
	YEAR ENDED 31.03.2013	YEAR ENDED 31.03.2012
<b>Revenue from Operations (Gross)</b>	<b>160.94</b>	<b>186.67</b>
Less : Excise Duty	15.29	14.35
<b>Revenue from Operations (Net)</b>	<b>145.65</b>	<b>172.32</b>
<b>Earnings Before Interest, Tax, Depreciation &amp; Amortisation</b>	<b>50.93</b>	<b>69.32</b>
Finance Cost	0.29	0.62
Depreciation & Amortisation Expense	28.57	27.10
<b>Profit Before Tax</b>	<b>22.07</b>	<b>41.60</b>
Less : Tax Expense	6.60	13.47
<b>Profit After Tax</b>	<b>15.47</b>	<b>28.13</b>
Add: Surplus brought forward	10.36	9.23
	25.83	37.36
Appropriations :		
Transfer to General Reserve	5.00	17.50
Proposed Dividend	4.90	8.17
Tax on Dividend	0.83	1.33
<b>Balance carried to Balance Sheet</b>	<b>15.10</b>	<b>10.36</b>

The year 2012-13 has been a landmark year for the Company. During this year the founder promoter of the Company Mr. P Subramanian decided to retire from active Corporate Responsibilities and focus on his other personal interests in the social sphere. Tube Investments of India Ltd (TII) acquired his entire stake and followed it up with an Open Offer in line with the regulations and acquired another 26% from the general public. Effective 19<sup>th</sup> November, 2012 Shanthi Gears Ltd (SGL) became a subsidiary of TII. The Board wishes to place on record its appreciation of the passionate and pioneering efforts by Mr. P Subramanian which helped build SGL into the company as it now exists. The Board also wishes to place on record its appreciation of the services rendered by the other members of the erstwhile Board of Directors of SGL for their valuable contribution to the growth and success of SGL.

## Review of Operations

During the year under review, the Company achieved a turnover of ₹ 146 crores as against ₹ 172 crores in the previous year, a decline of 15%. The year 2012-13 was challenging in many respects. The economic growth levels witnessed by the country in the previous years declined and the business sentiment remained largely negative. Poor monsoons, high interest rates, low growth, slowdown in infrastructure projects and overall drop in consumer confidence impacted the economy as a whole and consequently the sales of the Company as well. The Profit Before Tax was at ₹ 22.07 cr. against ₹ 41.60 cr. in the previous year. The decline in profit was due to the lower turnover, impact of input cost increases and higher fixed costs. The Company is focusing on enhancing customer base, improving its operational efficiencies and cost management to mitigate the effect of these factors. The benefit of these initiatives is expected to accrue in the current year.

## Management Discussion and Analysis

The Management Discussion and Analysis, which forms part of the Annual Report, sets out an analysis of the business, the industrial scenario and the performance.

## Dividend

Your Directors recommend a Dividend of ₹ 0.60 per Equity Share of ₹ 1 each fully paid up.

## Directors

Consequent to the acquisition of the Company by TII, the Board inducted the following Directors as additional Directors with effect from 3<sup>rd</sup> September, 2012

Mr. M M Murugappan

Mr. L Ramkumar

Mr. C R Swaminathan

Mr. J Balamurugan

Dr. Sreeram Srinivasan

Mr. V Venkiteswaran was inducted as an additional Director with effect from 30<sup>th</sup> January, 2013.

All the above Directors are seeking appointment at the ensuing Annual General Meeting.

Effective 3<sup>rd</sup> September, 2012 Mr. P Subramanian, Mr. M J Vijayaraaghavan, Dr. D Padmanaban, Mr. C G Kumar and Mr. M Alagiriswamy resigned from their position as Director. The Board wishes to thank them for their guidance & contribution.

## Corporate Governance

Your Company is committed to maintaining high standards of Corporate Governance. A report on Corporate Governance, along with a certificate from the Statutory Auditors on compliance with Corporate Governance norms forms a part of this report.

## Human Resources

The HR strategy and initiatives of your Company are designed to effectively partner the business in the achievement of its ambitious growth plans. During the few months since the take-over thrust has been on creating a more effective organization, induction of new talent and building capabilities across the organization.

The Company had 581 permanent employees on its rolls, as on 31<sup>st</sup> March, 2013.

## Social Commitment

As a corporate citizen, your Company is committed to the conduct of its business in a socially responsible manner. The Company made a small contribution from its profit for the promotion of worthy causes like education, healthcare, scientific research etc.

## Auditors

M/s. S Lakshminarayanan Associates, the Statutory Auditors of the Company retire at the conclusion of the ensuing Annual General Meeting. M/s. S Lakshminarayan Associates has expressed a desire not to seek re-appointment at this meeting. The Board wishes to place on record its appreciation of the services rendered by M/s. S Lakshminarayanan Associates as Statutory Auditors of the Company since its inception.

Mr. B Venkateswar, has been appointed as the Cost Auditor for audit of the Cost Accounting records for Engineering products for the financial year ended 31<sup>st</sup> March, 2013. The Cost Audit report relating to the above product will be filed within the stipulated period of 180 days from the close of the financial year.

The other information required to be furnished in the Directors' Report under the provisions of Section 217 of the Companies Act, 1956 relating to conservation of energy, technology absorption, foreign exchange earnings and outgo, particulars of employees and Directors' Responsibility Statement are annexed and form a part of this Report.

The Directors thank all Customers, Vendors, Banks, Central & State Governments and Investors for their continued support to your Company's performance and growth. The Directors also wish to place on record their appreciation of the contribution made by all the employees of the Company in delivering a good performance during the year.

**On behalf of the Board**

Chennai  
30<sup>th</sup> April, 2013

**M M Murugappan**  
Chairman

## **Annexure to the Directors' Report**

### **Directors' Responsibility Statement**

(Pursuant to Section 217 (2AA) of the Companies Act, 1956)

Pursuant to Section 217(2AA) of the Companies Act, 1956, the Directors to the best of their knowledge and belief confirm that:

- in the preparation of the Statement of Profit for the financial year ended 31<sup>st</sup> March, 2013 and the Balance Sheet as at that date ("financial statements"), applicable Accounting Standards have been followed.
- appropriate accounting policies have been selected and applied consistently and such judgments and estimates that are reasonable and prudent have been made so as to give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profit of the Company for that period.
- 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. To ensure this, the Company has established internal controls systems, consistent with its size and nature of operations. In weighing the assurance provided by any such system of internal controls its inherent limitations should be recognised. These systems are reviewed and updated on an ongoing basis. Periodic internal audits are conducted to provide reasonable assurance of compliances with these systems. The Audit Committee meets at regular intervals to review the internal audit function.
- the financial statements have been prepared on a going concern basis.
- the financial statements have been audited by M/s. S Lakshminarayanan Associates, Statutory Auditors and their report is appended thereto.

**On behalf of the Board**

Chennai  
30<sup>th</sup> April, 2013

**M M Murugappan**  
Chairman

## Annexure to the Directors' Report

**Information under section 217 (1) (e) of the Companies Act, 1956 read with Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 and forming part of the Directors' Report:**

### CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE EARNINGS AND OUTGO

The Company is making continuous efforts to conserve and optimise energy wherever practicable by economising on fuel and power.

During the year under review Electricity consumption has reduced when compared with the previous year. Adoption of Compact Fluorescent Lamp (CFL) and Light Emitting Diode (LED) lamps, replacement of copper chokes with electronic chokes, preventing leakages, providing better insulation and reduction of area under air conditioning, load optimization and structured maintenance programs are some of the measures adopted to conserve energy.

For the Company's existing product line, there is no technical collaboration/arrangement.

Foreign Exchange Earnings and Outgo	(₹ Crores)
Earnings in Foreign Currency- FOB value of Exports	10.85
Outgo in Foreign Currency	1.45

### Information under section 217 (2A) of the Companies Act, 1956 read with Companies (Particulars of Employees) Rules, 1975

There are no employees drawing salaries in excess of the limits prescribed under section 217 (2A) of the Companies Act, 1956, read with Companies (Particulars of Employees) Rules, 1975 as amended from time to time.

**On behalf of the Board**

Chennai  
30<sup>th</sup> April, 2013

**M M Murugappan**  
Chairman



## **Independent Auditor's Report To the Members of Shanthi Gears Limited**

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Shanthi Gears Limited ('the Company') which comprise the Balance Sheet as at 31<sup>st</sup> March, 2013 the Statement of Profit and the Cash Flow Statement for the year then ended and a summary of significant accounting policies and other explanatory information.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation of these financial statements that give a true and fair view of the financial position, financial performance and cash flows of the company in accordance with the Accounting Standards referred to in sub section (3C) of Section 211 of the Companies Act, 1956. ("the Act") This responsibility includes design, implementation and maintenance of internal control relevant to the preparation and presentation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Standards of Auditing issued by the Institute of Chartered Accountants of India. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An Audit involves performing procedures to obtain audit evidence about the amounts and disclosures in financial statements. The procedures selected depend on the auditor's judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An Audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of the accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion and to the best of our information and according to the explanations given to us, the financial statements give the information required by the Act 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 31<sup>st</sup> March, 2013 ;
- (ii) in the case of the Statement of Profit, of the Profit for the year ended on that date ; and
- (iii) in the case of Cash Flow Statement, of the Cash Flows for the year ended on that date

**Report on Other Legal and Regulatory Requirements:**

1. As required by the Companies (Auditor's Report) Order 2003 ("the Order"), as amended, issued by the Central Government of India in terms of Subsection (4A) of Section 227 of the Act, we give in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the order.
2. As required by Section 227(3) of the Act, 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 purpose 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, Statement of Profit and Cash Flow Statement dealt with by this Report are in agreement with the Books of Account;
  - d) In our opinion the Balance Sheet, Statement of Profit and Cash Flow Statement comply with the Accounting Standards referred to in Sub Section (3C) of Section 211 of the Companies Act, 1956 and
  - e) On the basis of written representation received from the Directors as on 31<sup>st</sup> March, 2013 and taken on record by the Board of Directors, we report that none of the Directors is disqualified as of 31<sup>st</sup> March, 2013 from being appointed as a Director in terms of clause (g) of Subsection (1) of Section 274 of the Companies Act, 1956.

For **S Lakshminarayanan Associates**  
Chartered Accountants  
Firm Reg. No.6609S

**(S Lakshminarayanan)**  
Membership No: 012024  
Partner

Place: Chennai  
Dated: 30<sup>th</sup> April, 2013

### **Annexure to the Auditors' Report :**

The Annexure referred to in our report to the members of Shanthi Gears Limited ('the Company') for the year ended 31<sup>st</sup> March, 2013. We report that:

- (i) (a) The Company has maintained proper records showing full particulars including quantitative details and situation of its fixed assets.  
(b) The fixed assets of the Company have been physically verified by the Management during the year and no material discrepancies were noticed on such verification.  
(c) The company has not disposed off substantial part of fixed assets.
- (ii) (a) The Stock in trade (including raw material) and stores, spare parts of the Company at all its locations have been physically verified by the Management during the year.  
(b) In our opinion, the procedures for physical verification of stock followed by the Management are reasonable and adequate in relation to the size of the Company and nature of its business.  
(c) The Company is maintaining proper records of inventory. The discrepancies noticed on verification between the physical stock and book records were not material.
- (iii) (a) The Company has not granted any loans, secured or unsecured, to companies, firms and other parties listed in the register maintained under section 301 of the Companies Act, 1956.  
(b) The Company has not taken any loans, secured or unsecured, from companies, firms and other parties listed in the register maintained under section 301 of the Companies Act, 1956.
- (iv) In our opinion, the internal control procedures of the company relating to purchases of stores, raw materials including components, plant & machinery, equipment and other similar assets and for sale of goods & services are commensurate with its size and nature of its business. During the course of our audit, we have not observed any continuing failure to correct major weakness in internal control systems.
- (v) (a) According to the information and explanations given to us, we are of the opinion that the particulars of contracts or arrangements that need to be entered into the register maintained under section 301 of the Companies Act, 1956 have been so entered.  
(b) In our opinion and according to the information and explanations given to us, the transactions in pursuance of such contracts or arrangements have been made at prices which are reasonable having regard to prevalent market prices at the relevant time.
- (vi) The company has not accepted any deposits from the Public during the year.
- (vii) In our opinion, the Company's internal audit system is commensurate with its size and nature of its business.
- (viii) We have broadly reviewed the cost records maintained by the Company pursuant to the Companies ( Cost Accounting Records ) Rules, 2011, prescribed by the Central Government under Section 209 (1) (d) of the Companies Act, 1956 and are of the opinion that prima facie the prescribed cost records have been maintained. We have, however, not made a detailed examination of the cost records with a view to determining whether they are accurate or complete.

- (ix) (a) The Company is regular in depositing with the appropriate authorities the undisputed statutory dues relating to provident fund, employees state insurance, investor education protection fund, income tax, sales tax, wealth tax, service tax, custom duty, excise duty, cess and other material statutory dues applicable to it.
- (b) According to the information and explanations given to us and the records of the company examined by us there are no dues of income tax, wealth tax, cess and service tax, excise duty, customs duty which have not been deposited on account of any dispute. Particulars of dues to sales tax as at 31<sup>st</sup> March 2013 which have not been deposited on account of any dispute, the amounts involved and the forum where the dispute is pending are given vide annexure below.

SL. No.	Name of the Statute	Nature of the Due	Amount (₹)	Period to which the amount relates	Forum where the dispute is pending	Remarks
1	Tamil Nadu Sales Tax Act	Additional Sales Tax on Central Sales Tax	1,17,718	Year Ended 31.03.1999	Assistant Commissioner Fast Track Assessment Circle I, Coimbatore	Tax Paid under Protest and Writ Petition pending with High Court, Chennai
2	Tamil Nadu Sales Tax Act	Additional Sales Tax on Central Sales Tax	1,04,013	Year Ended 31.03.2000	Assistant Commissioner Fast Track Assessment Circle I, Coimbatore	Tax Paid under Protest and Writ Petition pending with High Court, Chennai
3	The Central Excise Act	Excise Duty on Inter-Unit transfer of Machinery	Duty - 76,16,281 Penalty - 76,16,281	NIL	The Appellate Tribunal, South Zonal Bench, Chennai.	Duty not paid

- (x) The Company has no accumulated losses. The Company has not incurred cash losses during the financial year covered by our audit and 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 dues to financial institutions and banks.
- (xii) The Company has not granted loans and advances on the basis of security of pledge of shares, debentures and other securities.
- (xiii) The provisions of any special statute applicable to a chit fund/nidhi/mutual benefit fund/society are not applicable to the company.

- (xiv) The Company has maintained records on all transactions regarding purchase & redemption of mutual funds. Timely entries have been made in such records and the investment in mutual funds was made in company's name.
- (xv) The Company has not given guarantees for loans taken by others from bank or financial institutions.
- (xvi) The Company has not obtained any long-term loans during the year under report.
- (xvii) According to the cash flow statement and other records examined by us and the information and explanations given to us and on an overall examination of the balance sheet of the company, we report that no funds raised on short term basis have been used for long term investment.
- (xviii) The company has not made preferential allotment of shares to parties and companies covered in the register maintained under section 301 of the Companies Act.
- (xix) The company has not issued any debentures.
- (xx) The company has not raised funds by public issues during the year covered by our audit report.
- (xxi) According to the information and explanations given to us and on the basis of our examination of books & records of the company in accordance with the generally accepted auditing practices, no fraud on or by the company has been noticed or reported during the year.

For **S Lakshminarayanan Associates**

Chartered Accountants

Firm Reg. No.6609S

**(S Lakshminarayanan)**

Membership No: 012024

Partner

Place: Chennai

Dated: 30<sup>th</sup> April, 2013

## Balance Sheet

₹ Crores

### PARTICULARS

Note  
No.

As At  
31.03.2013

As At  
31.03.2012

### I. EQUITY AND LIABILITIES

#### (1) Shareholder's Funds

(a) Share Capital	2	8.17	8.17
(b) Reserves and Surplus	3	249.41	239.67

#### (2) Non-current Liabilities

(a) Long term Borrowings		-	-
(b) Deferred Tax Liabilities (Net)	4	6.88	10.73
(c) Other Long Term Liabilities	5	0.09	0.09
(d) Long-term Provisions	6	0.10	0.30

#### (3) Current Liabilities

(a) Trade Payables	7	3.49	1.56
(b) Other Current Liabilities	8	13.43	18.30
(c) Short-Term Provisions	9	6.80	10.37

#### TOTAL

288.37 289.19

### II. ASSETS

#### (1) Non-current Assets

(a) Fixed Assets			
(i) Tangible Assets	10	114.32	137.69
(ii) Intangible Assets	11	1.43	0.52
(iii) Capital Work-in-Progress		3.62	5.59
(b) Long-term Loans and Advances	12	3.05	2.37

#### (2) Current Assets

(a) Current Investments	13	37.99	-
(b) Inventories	14	42.03	57.00
(c) Trade Receivables	15	25.16	23.87
(d) Cash and Cash Equivalents	16	53.31	55.93
(e) Short-term Loans and Advances	17	2.22	3.68
(f) Other Current Assets	18	5.24	2.54

#### TOTAL

288.37 289.19

Significant Accounting Policies

1

The Notes referred to above form an integral part of the Financial Statements

As per our report of even date

On Behalf of the Board

For S Lakshminarayanan Associates

M M Murugappan

Chartered Accountants

Chairman

Firm Reg.No 006609S

S Lakshminarayanan

C Subramaniam

Sreeram Srinivasan

L Ramkumar

Partner

Company Secretary

President & Executive Director

Director

F-012024

Chennai

30<sup>th</sup> April, 2013

## Statement of Profit

₹ Crores

Particulars	Note No.	Year Ended 31.03.2013	Year Ended 31.03.2012
Revenue from Operations (Gross)	19	160.94	186.67
Less: Excise Duty		15.29	14.35
Revenue from Operations (Net)		145.65	172.32
Other Operating Income	20	0.88	0.67
		146.53	172.99
Other Income	21	7.64	4.94
<b>Total Revenue</b>		<b>154.17</b>	<b>177.93</b>
<b>Expenses</b>			
Cost of Materials Consumed	22	43.71	56.77
Change in Inventories of Finished Goods and Work in Process	23	6.55	(4.79)
Other Direct Manufacturing Expenses	24	11.16	12.47
Employee Benefits Expense	25	26.11	23.47
Other Expenses	26	15.71	20.69
<b>Total</b>		<b>103.24</b>	<b>108.61</b>
<b>Earnings Before Interest, Tax, Depreciation &amp; Amortisation</b>		<b>50.93</b>	<b>69.32</b>
Finance Costs	27	0.29	0.62
Depreciation and Amortisation Expense		28.57	27.10
<b>Profit Before Tax</b>		<b>22.07</b>	<b>41.60</b>
<b>Tax Expense</b>			
Income Tax			
Current Year		10.90	17.02
Prior Years		(0.44)	(0.02)
Deferred Tax		(3.86)	(3.53)
<b>Profit for the Year</b>		<b>15.47</b>	<b>28.13</b>
<b>Earnings per Equity Share</b>			
Basic		1.89	3.44
Diluted		1.89	3.44

Significant Accounting Policies

1

**The Notes referred to above form an integral part of the Financial Statements**

As per our report of even date

**On Behalf of the Board**

**For S Lakshminarayanan Associates**

**M M Murugappan**

Chartered Accountants

Chairman

Firm Reg.No 006609S

**S Lakshminarayanan**

**C Subramaniam**

**Sreeram Srinivasan**

**L Ramkumar**

Partner

Company Secretary

President & Executive Director

Director

F-012024

Chennai

30<sup>th</sup> April, 2013

## Cash Flow Statement

	Year Ended 31.03.2013	₹ Crores Year Ended 31.03.2012
<b>A CASH FLOW FROM OPERATING ACTIVITIES</b>		
<b>NET PROFIT BEFORE TAX AND EXTRAORDINARY ITEMS</b>	<b>22.07</b>	41.60
<b>Adjustments for :</b>		
Depreciation	<b>28.57</b>	27.10
Finance Cost	<b>0.29</b>	0.62
Interest Income	<b>(5.46)</b>	(4.17)
Dividend / Gain on redemption of Units in Mutual Funds	<b>(0.94)</b>	(0.31)
Profit on sale of fixed assets (net)	<b>(0.83)</b>	(0.04)
<b>OPERATING PROFIT BEFORE WORKING CAPITAL CHANGES</b>	<b>43.70</b>	64.80
<b>Adjustments for:</b>		
(Increase) / Decrease in Trade and other Receivables	<b>(1.63)</b>	0.73
Decrease/(Increase) in Inventories	<b>14.97</b>	(13.46)
Increase / (Decrease) in Trade Payables and Other Payables	<b>3.31</b>	(4.62)
<b>Changes in Working Capital</b>	<b>16.65</b>	(17.35)
<b>Cash Generated From Operations</b>	<b>60.35</b>	47.45
Direct Taxes Paid	<b>(11.29)</b>	(19.17)
<b>Net Cash Generated from Operating Activities</b>	<b>49.06</b>	28.28
<b>B CASH FLOW FROM INVESTING ACTIVITIES</b>		
Purchase of fixed assets	<b>(6.71)</b>	(8.09)
Proceeds from Sale of Fixed Assets	<b>1.09</b>	0.08
Dividend / Gain on redemption of Units in Mutual Funds	<b>0.94</b>	0.31
Interest Received	<b>4.71</b>	3.65
<b>Net Cash from / (Used) in Investing Activities</b>	<b>0.03</b>	(4.05)
<b>C CASH FLOW FROM FINANCE ACTIVITIES</b>		
Finance Cost Paid	<b>(0.29)</b>	(0.62)
Proceeds from Borrowings	<b>(3.95)</b>	(5.80)
Dividend Paid	<b>(8.15)</b>	(8.11)
Tax on Dividend	<b>(1.33)</b>	(1.33)
<b>Net Cash (used in) / generated from Financing Activities</b>	<b>(13.72)</b>	(15.86)
<b>D NET INCREASE / (DECREASE) IN CASH &amp; CASH EQUIVALENTS</b>	<b>35.37</b>	8.37
<b>E CASH &amp; CASH EQUIVALENTS (OPENING)</b>		
as on 1 <sup>st</sup> April, 2012 / 1 <sup>st</sup> April, 2011	<b>55.93</b>	47.56
<b>F CASH &amp; CASH EQUIVALENTS (CLOSING)</b>	<b>91.30</b>	55.93



## Cash Flow Statement (Contd.,)

	Year Ended 31.03.2013	₹ Crores Year Ended 31.03.2012
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS WITH THE BALANCE SHEET</b>		
Cash and cash equivalents as per balance sheet (Refer Note 16)	<b>53.31</b>	55.93
Current Investments considered as Cash Equivalents (Refer Note 13)	<b>37.99</b>	-
<b>Total Cash &amp; Cash Equivalents</b>	<b>91.30</b>	55.93
Bank balances not considered as Cash and cash equivalents as defined in AS 3 Cash Flow Statements		
- Deposits for margin money	<b>(1.50)</b>	(1.50)
- Unpaid Dividend Accounts	<b>(0.43)</b>	(0.40)
<b>Net Cash and Cash Equivalents (as defined in AS 3 Cash Flow Statements)</b>	<b>89.37</b>	54.03

As per our report of even date

On Behalf of the Board

**For S Lakshminarayanan Associates**

**M M Murugappan**

Chartered Accountants

Chairman

Firm Reg.No 006609S

**S Lakshminarayanan**

**C Subramaniam**

**Sreeram Srinivasan**

**L Ramkumar**

Partner

Company Secretary

President & Executive Director

Director

F-012024

Chennai

30<sup>th</sup> April, 2013

## Notes to Financial Statements

### 1. Significant Accounting Policies

#### 1.1. Accounting Convention

The financial statements of the Company are prepared under the historical cost convention, on an accrual basis, in accordance with the Generally Accepted Accounting Principles in India (Indian GAAP) to comply with the Accounting Standards notified by the Government of India / issued by the Institute of Chartered Accountants of India (ICAI), as applicable, and the relevant provisions of the Companies Act, 1956. The accounting policies adopted in the preparation of the financial statements are consistent with those followed in the previous year.

#### 1.2. Presentation and disclosure of financial statements

From the year ended 31<sup>st</sup> March, 2012 the revised Schedule VI notified under the Companies Act 1956, has become applicable to the Company, for preparation and presentation of its financial statements. The presentation and disclosures made in the financial statements are in accordance with the requirements of the revised Schedule VI.

An asset has been classified as current when it satisfies any of the following criteria;

- a) It is expected to be realized in, or is intended for sale or consumption in, the Company's normal operating cycle;
- b) It is held primarily for the purpose of being traded;
- c) It is expected to be realized within twelve months after the reporting date; or
- d) It is cash or cash equivalent unless it is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting date.

A liability has been classified as current when it satisfies any of the following criteria;

- a) It is expected to be settled in the Company's normal operating cycle;
- b) It is held primarily for the purpose of being traded;
- c) It is due to be settled within twelve months after the reporting date; or
- d) The company does not have an unconditional right to defer settlements of the liability for at least twelve months after the reporting date. Terms of a liability that could, at the option of the counter-party, result in its settlement by the issue of equity instruments do not affect its classification.

All other assets and liabilities have been classified as non-current.

#### 1.3. Use of Estimates

The preparation of the financial statements in conformity with Indian GAAP requires the Management to make estimates and assumptions considered in the reported amounts of assets and liabilities (including contingent liabilities) as of the date of the financial statements and the reported income and expenses like provision for employee benefits, provision for doubtful trade receivables / advances / contingencies, provision for warranties, allowance for slow/non-moving inventories, useful life of fixed assets, provision for taxation, etc., during the reporting year. The Management believes that the estimates used in the preparation of the financial statements are prudent and reasonable. Future results may vary from these estimates.

## Notes to Financial Statements

### 1.4. Tangible Fixed Assets

Fixed Assets are stated at historical cost less accumulated depreciation and impairment losses, if any. Cost includes related taxes, duties, freight, insurance, etc. attributable to the acquisition and installation of the fixed assets but excludes duties and taxes that are recoverable from tax authorities. Borrowing costs are capitalised as part of qualifying fixed assets. Exchange differences arising on restatement / settlement of long term foreign currency borrowings relating to acquisition of depreciable fixed assets are recognized in the Statement of Profit and Loss.

Machinery spares which can be used only in connection with an item of fixed asset and whose use is expected to be irregular are capitalised and depreciated over the useful life of the principal item of the relevant assets. Subsequent expenditure relating to fixed assets is capitalised only if such expenditure results in an increase in the future benefits from such asset beyond its previously assessed standard of performance.

Fixed assets retired from active use and held for sale are stated at the lower of their net book value and net realisable value and are disclosed separately in the Balance Sheet.

Capital Work-in-Progress: Projects under which assets are not ready for their intended use and other capital work-in-progress are carried at cost, comprising direct cost and attributable interest.

### 1.5. Impairment of Assets

The carrying values of assets/cash generating units are reviewed at each Balance Sheet date to determine whether there is any indication of impairment of the carrying amount of the Company's assets. If any indication exists, an asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of the asset exceeds the recoverable amount. The recoverable amount is the greater of the net selling price and their value in use. Value in use is arrived at by discounting the future cash flows to their present value based on an appropriate discount factor. When there is indication that an impairment loss recognised for an asset in earlier accounting periods no longer exists or may have decreased such reversal of impairment loss is recognised in the Statement of Profit and Loss.

### 1.6. Investments

- a) Investments, which are readily realisable and intended to be held for not more than one year from the date on which such investments are made, are classified as Current Investments. All other investments are classified as Non-Current investments.
- b) Non-Current investments are carried at cost. Diminution in the value of such investments, other than temporary, is provided for.
- c) Current investments are carried at lower of cost and fair value.

### 1.7. Inventories

- a) Raw materials, stores & spare parts and traded goods are valued at lower of weighted average cost (net of allowances) and estimated net realisable value. Cost includes freight, taxes and duties and is net of credit under VAT and CENVAT scheme, where applicable.

## Notes to Financial Statements

- b) Work-in-process and finished goods are valued at lower of weighted average cost (net of allowances) and estimated net realisable value. Cost includes all direct costs and appropriate proportion of overheads to bring the goods to the present location and condition.
- c) Due allowance is made for slow/non-moving items, based on Management estimates.

### 1.8. Revenue and Other Income

- a) Sales are recognised on shipment or on unconditional appropriation of goods and comprise amounts invoiced for the goods, including excise duty, but excluding Sales Tax/Value Added Tax.
- b) Service revenues are recognised when services are rendered.
- c) Dividend income is accounted for when the right to receive it is established as on the date of Balance Sheet.
- d) Interest Income is recognised on time proportion basis.

### 1.9. Government Grants, Subsidies and Export Incentives

Government grants and subsidies are recognised when there is reasonable assurance that the Company will comply with the conditions attached to them and the grants/subsidy will be received.

When the grant or subsidy from the Government relates to revenue, it is recognised as income on a systematic basis in the statement of profit or loss over the period necessary to match them with the related costs, which they are intended to compensate.

When the grant or subsidy from the Government is in the nature of promoters' contribution, where no repayment is ordinarily expected in respect thereof, it is credited to Capital Reserve and treated as a part of the Shareholders' funds on receipt basis.

Export benefits are accounted for in the year of exports based on eligibility and when there is no uncertainty in receiving the same.

### 1.10. Employee Benefits

#### I. Defined Contribution Plan

##### a. Provident Fund

Contributions are made to the Regional Provident Fund in accordance with the fund rules. The interest rate payable to the beneficiaries every year is being notified by the Government.

#### II. Defined Benefit Plan

##### Gratuity

The Company makes annual contribution to a Gratuity Fund administered by trustees and managed by LIC. The Company accounts its liability for future gratuity benefits based on actuarial valuation, as at the Balance Sheet date, determined every year using the Projected Unit Credit method. Actuarial gains/losses are immediately recognised in the Statement of Profit and Loss.

## Notes to Financial Statements

### III. Short Term Employee Benefits

Short term employee benefits includes short term compensated absences which is recognized based on the eligible leave at credit on the Balance Sheet date, and the estimated cost is based on the terms of the employment contract.

### IV. Voluntary Retirement Scheme

Compensation to employees under Voluntary Retirement Schemes is expensed in the period in which the liability arises.

#### 1.11. Operating Leases

Leases where the lessor effectively retains substantially all the risks and benefits of ownership of the leased assets are classified as operating leases. Operating lease payments are recognised as an expense in the revenue account as per the lease terms.

#### 1.12. Foreign Currency Transactions

##### Initial recognition

Transactions in foreign currencies entered into by the Company are accounted at the exchange rates prevailing on the date of the transaction or at rates that closely approximate the rate at the date of the transaction.

##### Measurement

Foreign currency monetary items (other than derivative contracts) of the Company outstanding at the Balance Sheet date are restated at year end exchange rates.

Non-monetary items are carried at historical cost.

##### Treatment of exchange differences

Exchange differences arising on settlement/restatement of short-term foreign currency monetary assets and liabilities of the Company are recognised as income or expense in the Statement of Profit and Loss.

##### Accounting of forward contracts

The Company enters into forward exchange contracts and other instruments that are in substance a forward exchange contract to hedge its risks associated with foreign currency fluctuations. The premium or discount arising at the inception of a forward exchange contract (other than for a firm commitment or a highly probable forecast transaction) or similar instrument is amortised as expense or income over the life of the contract. Exchange differences on such a contract are recognised in the Statement of Profit and Loss in the year in which the exchange rates change. Any profit or loss arising on cancellation of such a contract is recognised as income or expense for the year.

## Notes to Financial Statements

### 1.13. Depreciation and Amortisation

Till the year ended 31<sup>st</sup> March, 2012 the Company followed a policy of providing for Depreciation as follows:

With respect to Plant & Machinery purchased and commissioned for the year ended 30/06/1978 to 30/11/1987 and on Buildings for the period ended 30/11/1986 and for the year ended 30/11/1987 on equated number of years.

With respect to Plant & Machinery and Buildings added during the accounting period ended 31/03/1989 and onwards on the Straight Line Method as per the rates prescribed under Schedule XIV of the Companies Act, 1956.

With respect to all other assets based on the Written Down Value method at rates prescribed under Schedule XIV of the Companies Act, 1956.

The Company has decided to change the method of providing for Depreciation, effective 1<sup>st</sup> April, 2012, in accordance with the Straight Line Method as per the rates prescribed in Schedule XIV to the Companies Act, 1956 except in respect of the following categories of assets, where depreciation is provided based on useful life of the assets assessed as under:

Description of Assets	Useful life and Basis of depreciation/amortisation
Furniture and fixtures	5 Years
Motor cars	4 Years
Office Equipment (including Data Processing Equipment)	3 Years
Individual fixed assets whose actual cost does not exceed ₹ 5000/-	Fully depreciated in the year of acquisition
Computer Software	3 years

Depreciation is provided pro-rata from the day of Capitalisation.

The Company also has a system of providing additional depreciation, where, in the opinion of the Management, the recovery of the fixed asset is likely to be affected by the variation in demand and/or its condition/usability.

### 1.14. Taxes on Income

Current tax is the amount of tax payable on the taxable income for the year and is determined in accordance with the provisions of the Income Tax Act, 1961.

Deferred tax is recognised on timing differences; being the differences 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 in respect of unabsorbed depreciation and carry forward of losses are recognised only if there is virtual certainty that there will be sufficient future taxable income available to realise such assets. Other deferred tax assets are recognised if there is reasonable certainty that there will be sufficient future taxable income available to realise such assets.

## Notes to Financial Statements

### 1.15. Provisions, Contingent Liabilities and Contingent Assets

Provisions are recognised when there is a present obligation as a result of past events and when a reliable estimate of the amount of obligation can be made. Contingent liability is disclosed for (i) Possible obligation which will be confirmed only by future events not wholly within the control of the Company or (ii) Present obligations arising from past events where it is not probable that an outflow of resources will be required to settle the obligation or a reliable estimate of the amount of the obligation cannot be made. Contingent assets are not recognised in the financial statements since this may result in the recognition of income that may never be realised.

### 2. Share Capital

	₹ Crores	
	31-03-2013	31-03-2012
Authorised	.	
10,00,00,000 Equity Shares of ₹ 1/- each	10.00	10.00
Issued Subscribed and fully Paid-Up		
8,17,15,853 Equity Shares of ₹ 1/- each	8.17	8.17
a) Reconciliation of Share Capital:		
Shares outstanding as at 1 <sup>st</sup> April, 2012 and 31 <sup>st</sup> March, 2013 – 8,17,15,853		
b) Terms / Rights attached to class of shares		
The Company has only one class of shares referred to as equity shares having a par value of ₹ 1/-.		
The holders of equity shares are entitled to one vote per share.		
c) Details of Shareholder(s) holding more than 5 Percent of equity shares in the Company as on 31 <sup>st</sup> March, 2013		
	No of Shares	
Shareholder	31-03-2013	31-03-2012
Tube Investments of India Ltd (Holding Company)	5,72,96,413	-
HDFC Standard Life Insurance Company Ltd	-	41,09,754
Mr. P. Subramanian	-	2,82,50,291
Shanthi Social Services	-	71,00,000

## Notes to Financial Statements

### 3. Reserves and Surplus

	₹ Crores	
	31-03-2013	31-03-2012
Capital Reserves (₹ 16,700)	0.00	0.00
Capital Redemption Reserve	0.02	0.02
Securities Premium Account	24.29	24.29
General Reserve		
Opening Balance	205.00	187.50
Transfer from surplus in Statement of Profit	5.00	17.50
Closing Balance	210.00	205.00
Surplus in Statement of Profit		
Opening Balance	10.36	9.23
Profit for the year	15.47	28.13
	25.83	37.36
Transfer to General Reserve	(5.00)	(17.50)
Proposed Dividend – ₹ 0.60 per share (PY ₹ 1/- per share)	(4.90)	(8.17)
Tax on Proposed Dividend	(0.83)	(1.33)
Closing Balance	15.10	10.36
<b>Total Reserves &amp; Surplus</b>	<b>249.41</b>	<b>239.67</b>

### 4. Deferred Tax Liabilities (Net)

The net deferred tax liability of ₹ 6.88 Cr. as at 31<sup>st</sup> March, 2013 (Previous Year ₹ 10.73 Cr.) has arisen on account of the following:

a) Deferred Tax Liabilities		
Depreciation on Fixed Assets	9.02	13.16
b) Deferred Tax Assets		
Employee Benefits	2.14	2.43
<b>Net Deferred Tax Liabilities</b>	<b>6.88</b>	<b>10.73</b>

### 5. Other Long Term Liabilities

Payable on Purchase of Fixed Assets	0.03	0.03
Rental Deposits	0.06	0.06
<b>Total</b>	<b>0.09</b>	<b>0.09</b>



## Notes to Financial Statements

### 6. Long Term Provisions

Provision for warranty is recognised based on past experience of claims received during the warranty period provided by the Company.

	₹ Crores	
	31-03-2013	31-03-2012
Provision for Warranty		
At the beginning of the year	0.30	0.30
Add: Provision created during the year	0.03	0.05
	0.33	0.35
Less: Utilised during the year	0.03	0.05
Less: Provision no longer required written back	0.20	-
At the end of the year	0.10	0.30

### 7. Trade Payables

Dues to Micro, Small & Medium Enterprises	-	-
Goods & Services	3.49	1.56
Total	3.49	1.56

Based on, and to the extent of information received from the suppliers regarding their status under the Micro, Small & Medium Enterprises Development Act, 2006 (MSMED Act), and relied upon by the Auditors, there are no dues to such suppliers.

### 8. Other Current Liabilities

Current Maturities of Long Term Debt	-	3.96
Advances from customers	7.57	7.02
Unpaid Dividends	0.43	0.40
Un-encashed Fixed Deposits including Interest	-	0.00
Statutory Liabilities	0.14	0.13
Creditors for Capital Goods	0.22	2.55
Others *	5.07	4.24
Total	13.43	18.30

\*Includes amount due to Holding Company – ₹ 0.66 Cr. (Net of Tax)

### 9. Short Term Provisions

Provision for Compensated Absences	1.01	0.87
Provision for Wealth Tax	0.06	-
Proposed Dividend	4.90	8.17
Dividend Distribution Tax	0.83	1.33
Total	6.80	10.37

## Notes to Financial Statements

### 10. Tangible Assets

₹ Crores

Particulars	GROSS BLOCK			DEPRECIATION				NET BLOCK	
	Cost as on 01.04.2012	Additions during the year	Sales/ Transfer	Cost As on 31.03.2013	Depreciation upto 01.04.2012	For the Year ended 31.03.2013	Withdrawn during the year	Depreciation as on 31.03.2013	Value as on 31.03.2013
Land	5.50	-	-	5.50	-	-	-	-	5.50
	5.50	-	-	5.50	-	-	-	-	5.50
Buildings	31.52	2.48	-	34.00	8.38	0.95	-	9.33	24.67
	30.58	0.94	-	31.52	7.46	0.92	-	8.38	23.14
Plant & Machinery	306.11	1.94	4.15	303.90	200.79	24.83	4.06	221.56	82.34
	302.16	4.25	0.30	306.11	175.91	25.16	0.28	200.79	105.32
Furniture & Fittings	1.89	0.06	0.02	1.93	1.14	0.34	0.02	1.46	0.47
	1.36	0.56	0.03	1.89	1.04	0.12	0.02	1.14	0.75
Office Equipment	8.40	0.32	0.46	8.26	6.26	1.77	0.45	7.58	0.68
	7.80	0.71	0.11	8.40	5.84	0.53	0.11	6.26	2.14
Vehicles	3.66	-	0.85	2.81	2.82	0.04	0.71	2.15	0.66
	3.43	0.47	0.24	3.66	2.79	0.25	0.22	2.82	0.84
<b>TOTAL</b>	<b>357.08</b>	<b>4.80</b>	<b>5.48</b>	<b>356.40</b>	<b>219.39</b>	<b>27.93</b>	<b>5.24</b>	<b>242.08</b>	<b>114.32</b>
Previous Year	350.83	6.93	0.68	357.08	193.04	26.98	0.63	219.39	137.69
									157.78

#### Notes:

- During the year the method of providing Depreciation was changed from Written Down Value to Straight Line method with respect to all categories of assets, other than Plant & Machinery. Consequently, the Depreciation charge for the year is higher by ₹ 0.23 Cr. Please also refer Note 1.13.
- Additions to Depreciation includes depreciation amounting to ₹ 1.22 Cr. (Previous Year NIL) charged additionally on certain assets.

## Notes to Financial Statements

### 11. Intangible Assets

₹ Crores

Particulars	GROSS BLOCK			DEPRECIATION				NET BLOCK	
	Cost as on 01.04.2012	Additions during the year	Sales/ Transfer	Cost As on 31.03.2013	Depreciation upto 01.04.2012	For the Year ended 31.03.2013	Withdrawn during the year	Depreciation as on 31.03.2013	Value as on 31.03.2012
Computer Software	3.13	1.56	-	4.69	2.62	0.64	-	3.26	0.52
<b>TOTAL</b>	<b>3.13</b>	<b>1.56</b>	<b>-</b>	<b>4.69</b>	<b>2.62</b>	<b>0.64</b>	<b>-</b>	<b>3.26</b>	<b>0.52</b>
Previous Year	2.63	0.50	-	3.13	2.49	0.12	-	2.61	0.13

## Notes to Financial Statements

### 12. Long Term Loans and Advances

(Unsecured, Considered Good)

	₹ Crores	
	31-03-2013	31-03-2012
Capital Advances	0.47	0.39
Security Deposits	0.97	0.77
Loans & Advances to Employees	0.23	0.66
Advance Income Tax (Net of Provision)	1.32	0.49
Rental Advances	0.06	0.06
<b>Total</b>	<b>3.05</b>	<b>2.37</b>

### 13. Current Investments

₹ Crores

Particulars	Nominal Value	31-03-2013		31-03-2012	
		No of Units	Value	No of Units	Value
DSP Blackrock Liquidity Fund – Direct Plan – Daily Dividend	1000	30186.66	3.02	-	-
HSBC Cash Fund – Daily Dividend Direct Plan	1000	20089.84	2.01	-	-
HDFC Cash Management Fund – Direct Plan – Daily Dividend	10	12556829.73	13.36	-	-
ICICI Prudential Liquid Direct Plan – Daily Dividend	100	301967.04	3.02	-	-
SBI Premier Liquid Fund – Regular Plan – Daily Dividend	1000	97522.33	9.78	-	-
UTI – Treasury Advantage Fund – Direct Plan – Daily Dividend	1000	68003.59	6.80	-	-
<b>Total</b>			<b>37.99</b>		

#### Notes:

During the year, the Company has invested an aggregate of ₹ 80.31 Cr. (Previous Year ₹ 46 Cr.) and redeemed an aggregate of ₹ 44.59 Cr. (Previous Year ₹ 46 Cr.) of units in various Cash Management Schemes of Mutual Funds, invested for the purpose of deployment of temporary cash surpluses.

## Notes to Financial Statements

### 14. Inventories

(Lower of Cost (Net of Allowances) and estimated Net Realisable Value)

	31-03-2013	31-03-2012
Raw Material and Consumables	18.01	26.42
Semi Finished Goods	21.65	27.04
Finished Goods	2.37	3.54
<b>Total</b>	<b>42.03</b>	<b>57.00</b>

### 15. Trade Receivables

(Unsecured, Considered Good)

Outstanding for a period exceeding six months from the day they are due for payment

Others \*

**Total**

4.69	5.03
20.47	18.84
<b>25.16</b>	<b>23.87</b>

\* Includes an amount of ₹ 0.03 Cr. (PY NIL) receivable from Holding Company

### 16. Cash and Cash Equivalents

Cash on Hand	0.05	0.06
Balance with Banks		
Current Accounts	0.22	0.45
Fixed Deposit Accounts	51.11	53.52
Fixed Deposit Accounts held as Margin Money	1.50	1.50
Unpaid Dividend Accounts	0.43	0.40
<b>Total</b>	<b>53.31</b>	<b>55.93</b>

### 17. Short Term Loans and Advances

(Unsecured, Considered Good)

Advances recoverable in cash or kind or for value to be received

    Goods & Services

    Prepaid Expenses

    Balance with Government Authorities

**Total**

0.47	0.06
0.28	0.31
1.47	3.31
<b>2.22</b>	<b>3.68</b>

### 18. Other Current Assets

Interest Accrued on Deposits

Receivable from Statutory Authorities

**Total**

1.54	0.79
3.70	1.75
<b>5.24</b>	<b>2.54</b>

## Notes to Financial Statements

### 19. Revenue from Operations (Gross)

	31-03-2013	31-03-2012
Sale of Products	154.69	181.16
Sale of Services – Machining Charges	4.32	4.76
Sale of surplus energy	1.93	0.75
<b>Total</b>	<b>160.94</b>	<b>186.67</b>

### 20. Other Operating Income

Sale of scrap	0.87	0.67
Duty Drawback	0.01	-
<b>Total</b>	<b>0.88</b>	<b>0.67</b>

### 21. Other Income

Interest Income		
Fixed Deposits with Banks	5.35	4.08
Overdue receivable from customers	0.00	0.00
Others	0.15	0.28
Profit on Sale of Assets (Net of Loss on Sale ₹ 0.06 Cr.)	0.83	0.04
Rental Income	0.35	0.23
Dividend Income from Mutual Funds	0.75	-
Gain on Redemption of Units in Mutual Funds	0.19	0.31
Exchange Fluctuation (Net)	0.02	0.00
<b>Total</b>	<b>7.64</b>	<b>4.94</b>

### 22. Cost of Materials Consumed

Opening Stock	26.42	17.75
Purchases	35.30	65.44
	61.72	83.19
Closing Stock	(18.01)	(26.42)
<b>Cost of Material Consumed</b>	<b>43.71</b>	<b>56.77</b>

Cost of Material Consumed comprises of:

Steel Rods & Forgings	15.01	16.93
Bearings	6.08	5.81
Other items (not exceeding 10% of total consumption)	22.62	34.03
<b>Total</b>	<b>43.71</b>	<b>56.77</b>

## Notes to Financial Statements

### 23. Changes in Inventories of Finished Goods and Work in Process

	₹ Crores	
	31-03-2013	31-03-2012
Opening Stock		
Work-in-Process	27.04	23.77
Finished Goods	3.54	2.02
	30.58	25.79
Closing Stock		
Work-in-Process	21.66	27.04
Finished Goods	2.37	3.54
	24.03	30.58
Depletion / (Accretion) to Stock	6.55	(4.79)

### 24. Other Direct Manufacturing Expenses

Power, Fuel & Water	8.45	8.30
Conversion Charges	2.71	4.17
Total	11.16	12.47

### 25. Employee Benefits Expense

Salaries, Wages & Bonus	22.51	20.06
Contribution to Provident & Other Funds	1.60	1.27
Welfare Expenses	2.00	2.14
Total	26.11	23.47

## Notes to Financial Statements

### 26. Other Expenses

	31-03-2013	31-03-2012
	₹ Crores	
Consumption of Stores & Spares	0.13	0.15
Rent	0.15	0.07
Managing Directors Remuneration	0.10	2.19
Repairs & Maintenance – Building	0.53	0.77
Repairs & Maintenance – Machinery	4.32	5.25
Repairs & Maintenance – General	2.61	3.08
Insurance	0.20	0.14
Rates & Taxes	1.17	1.04
Travelling & conveyance	1.08	1.00
Printing stationery & Communication	0.61	0.54
Freight, Delivery & shipping Charges	0.84	0.70
Commission on Sales	0.77	0.42
Discounts/Incentives on Sales	0.71	0.56
Trade Receivable Debts Written Off	-	0.09
Advertisement & Publicity	0.69	2.39
Auditors' Remuneration	0.06	0.05
Directors' sitting Fees	0.03	0.01
Loss on Exchange Fluctuation (Net)	-	0.97
Bank Charges	0.32	0.39
Donations to Charitable & Other Institutions	0.14	0.03
Administration & Other Expenses	1.25	0.85
<b>Total</b>	<b>15.71</b>	<b>20.69</b>

### Auditors' Remuneration

As Auditor		
Audit Fee	0.04	0.03
Tax Audit Fee	0.01	0.01
Limited Review	0.00	-
In Other Capacity		
Taxation Matters	0.01	-
Other services	0.00	0.01
Reimbursement of Expenses	0.00	0.00
<b>Total</b>	<b>0.06</b>	<b>0.05</b>

### 27. Finance Costs

Interest Expense	0.19	0.51
Other Borrowing Costs	0.10	0.11
<b>Total</b>	<b>0.29</b>	<b>0.62</b>



## Notes to Financial Statements

### 28. Commitments and Contingent Liabilities

	31-03-2013	₹ Crores 31-03-2012
<b>Commitments</b>		
Estimated amount of contracts remaining to be executed on Capital Account and not provided for	2.06	3.02
<b>Contingent Liabilities</b>		
Bills Discounted	-	1.91
Claims against the Company not acknowledged as debt	7.25	7.25

**Note:**

Show Cause Notices received from various Government Agencies pending formal demand notices have not been considered as contingent liabilities.

### 29. Imported and Indigenous Materials Consumed

Consumption of Raw Materials (Refer Note 22)

	31-03-2013		31-03-2012	
	%	₹ Crores	%	₹ Crores
Imported	1.58	0.69	3.08	1.75
Indigenous	98.42	43.02	96.92	55.02
<b>Total</b>	<b>100.00</b>	<b>43.71</b>	<b>100.00</b>	<b>56.77</b>

### 30. Value of Imports on CIF Basis

Raw Material	0.54	0.88
Consumable Stores & Tools	0.19	1.06
Spares	0.09	0.48
Capital goods	-	0.14
<b>Total</b>	<b>0.82</b>	<b>2.56</b>

### 31. Earnings in Foreign Exchange

FOB value of exports	10.85	20.06
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### 32. Expenditure in Foreign Currency

Interest on Foreign Currency Loans	0.19	0.50
Advertisement	0.10	0.27
Technical Consultancy Charges	0.34	0.04
Others	-	0.10
<b>Total</b>	<b>0.63</b>	<b>0.91</b>

## Notes to Financial Statements

### 33. Employee Benefits under Defined Benefit Plans

#### GRATUITY

#### Details of Actuarial Valuation

#### Change in Benefit Obligation

	2012-2013	2011-2012
Projected Benefit Obligation as at Year Beginning	2.99	2.29
Service Cost	0.26	0.27
Interest Cost	0.24	0.18
Actuarial (Gains) / Losses	0.10	0.26
Benefits Paid	-0.08	-0.01

#### Projected Benefit Obligation as at Year End

#### Change in Plan Assets

Fair Value of Plan Assets as at Year Beginning	3.27	2.50
Expected Return on Plan Assets	0.31	0.26
Actuarial (Gains) / Losses	0.00	-0.26
Employer's Contribution	0.30	0.55
Benefits Paid	-0.08	-0.01

#### Fair Value of Plan Assets as at Year End

#### Amounts Recognised in the Balance Sheet

Projected Benefit Obligation at the Year End	3.51	2.99
Fair Value of the Plan Assets at the Year End	3.80	3.04

#### Asset Recognised in the Balance Sheet

#### Cost of the Defined Benefit Plan for the year

Current Service Cost	0.26	0.28
Interest on Obligation	0.24	0.18
Expected Return on Plan Assets	-0.31	-0.26
Net Actuarial (Gains) / Losses Recognised in the Year	0.10	0.52

#### Net Cost Recognised in the Profit and Loss Account

#### Other Disclosures

#### Benefit

Projected Benefit Obligation	3.51	2.99
Fair Value of Plan Assets	3.80	3.04

#### Surplus / (Deficit)

Discount Rate	8%	8%
Future Salary Increase	8%	8.30%
Attrition Rate	3%	3%
Expected Rate of Return on Plan Assets	9.25%	9.30%

#### Notes:

- The entire Plan Assets are managed by Life Insurance Corporation of India (LIC).
- The expected return on Plan Assets is as furnished by Life Insurance Corporation of India
- The estimate of future salary increase takes into account inflation, likely increments, promotions and other relevant factors.

## Notes to Financial Statements

### 34. Segment Reporting

The Company's main business is manufacture of Gears & Gear Products. There are no separate reportable segments as per Accounting Standard 17 (AS 17).

### 35. Disclosure in respect of Related Parties pursuant to Accounting Standard 18

#### a) List of Related Parties

##### I. Entity with Significant Influence

Tube Investments of India Ltd (between 3<sup>rd</sup> September, 2012 and 19<sup>th</sup> November, 2012)

##### II. Holding Company

Tube Investments of India Ltd (with effect from 19<sup>th</sup> November, 2012)

##### III. Fellow Subsidiaries (with effect from 19<sup>th</sup> November, 2012)

a. Cholamandalam MS General Insurance Company Limited

b. Cholamandalam Investment and Finance Company Limited

I. Cholamandalam Distribution Services Limited

ii. Cholamandalam Factoring Limited and

iii. Cholamandalam Securities Limited

(Subsidiaries of Cholamandalam Investment and Finance Company Limited)

c. TI Financial Holdings Limited

d. TICI Motors (Wuxi) Company Limited

e. Financiere C10 SAS

I. Sedis SAS

ii. Societe De Commercialisation De Composants Industriels SARL and

iii. Sedis Co. Ltd.

(Subsidiaries of Financiere C10 SAS)

##### IV. Key Management Personnel (KMP)

Mr. P. Subramanian – Chairman and Managing Director (upto 3<sup>rd</sup> September, 2012)

Mr. Sreeram Srinivasan - President & Executive Director

(with effect from 3<sup>rd</sup> September, 2012)

#### Note:

Related party relationships are as identified by the Management and relied upon by the Auditors.

#### b) During the year, the following transactions were carried out with the related parties in the ordinary course of business:

Transaction	Related Party	₹ Crores	
		2012-13	2011-12
Sale of goods	Tube Investments of India Ltd	0.12	-
Management Fee	Tube Investments of India Ltd	0.74	-
Reimbursement of Expenses	Tube Investments of India Ltd	0.00	-
Receivable	Tube Investments of India Ltd	0.03	-
Payable	Tube Investments of India Ltd	0.66	-

## Notes to Financial Statements

c) Details of remuneration to Key Management Personnel is given below:

Transaction	Related Party	₹ Crores	
		2012-13	2011-12
Salary (Upto 3 <sup>rd</sup> September, 2012)	Mr. P Subramanian	0.10	0.24
Commission	Mr. P Subramanian	-	1.95

No remuneration is payable to Mr. Sreeram Srinivasan

### 36. Earnings Per Share

	31-03-2013	31-03-2012
Profit After Tax (₹ Cr)	15.47	28.13
Weighted Average Number of Shares		
Basic	8,17,15,853	8,17,15,853
Diluted	8,17,15,853	8,17,15,853
Earnings per share of ₹ 1/-		
Basic	1.89	3.44
Diluted	1.89	3.44

#### Note:

Earnings per Share calculations are done in accordance with Accounting Standard 20 (AS 20) "Earnings per Share".

**37.** The working capital facility with State Bank of India is secured by hypothecation of Inventory, Book Debts, Land & Buildings of A and C Units and certain items of Plant & Machinery. The working capital facility with IDBI Bank is secured by an exclusive charge on certain items of Plant & Machinery.

**38.** Previous period figures have been re-grouped wherever necessary to correspond with the current years' classification / disclosure.

Signatures to Notes to Financial Statements

**On behalf of the Board**

**For S Lakshminarayanan Associates**

Chartered Accountants  
Firm Reg.No 006609S

**M M Murugappan**

Chairman

**S Lakshminarayanan**

Partner  
F-012024

**C Subramaniam**

Company Secretary

**Sreeram Srinivasan**

President & Executive Director

**L Ramkumar**

Director

Chennai

30<sup>th</sup> April, 2013

# SHANTHI GEARS LIMITED

Registered Office : 304-A, Trichy Road, Singanallur, Coimbatore - 641 005

## PROXY FORM

I/We ..... of  
..... being a Member / Members of Shanthi Gears Limited  
hereby appoint ..... of .....  
..... or failing him ..... of .....  
..... or failing him ..... of .....  
as my / our proxy to vote for me / us and on my / our behalf, at the Fortieth Annual General Meeting of  
the Company to be held on Wednesday, the 24<sup>th</sup> July, 2013 at 2.00 p.m. and any adjournment thereof.

Signed this ..... day of ..... 2013

Affix  
1 Rupee  
Revenue  
Stamp

Folio No. :

DP ID No. :

Client A/c No. :

No. of Shares :

Signed by the said .....

**Note :** This form duly completed should be deposited at the Registered Office of the Company not later  
than 48 hours before the commencement of the meeting

# SHANTHI GEARS LIMITED

Fortieth Annual General Meeting

## ATTENDANCE SLIP

Folio No. :

DP ID No. :

Client A/c No. :

No. of Shares :

Please complete this attendance slip and hand it over at the entrance of the Meeting Hall.  
Only members or their proxies are entitled to be present at the Meeting.

Name and Address : .....  
.....

I hereby record my presence at Fortieth Annual General Meeting held at .....  
.....

Signature of the Members / Proxy\* .....

\* Strike out whichever is not applicable.



**murugappa**

304-A, Trichy Road, Singanallur, Coimbatore - 641 005  
[www.shanthigears.com](http://www.shanthigears.com)