

**ANNEXURE IV TO DIRECTORS REPORT  
MANAGEMENT DISCUSSION AND ANALYSIS REPORT****Overview**

Hi-Tech Gears Limited is an auto component supplier, primarily operating in the technology intensive area of gears, transmissions and precision components. The current supplier base includes domestic and international original equipment manufacturers (OEM's) including Hero Honda Motors Limited, Honda Siel Power Products Limited, Honda Siel Cars India Limited, Honda Motorcycle & Scooter India Limited, Tata Cummins Limited, Cummins (India) Ltd., Cummins-USA, Getrag Corporation-USA, Lister Petter-UK, Yamaha Motors (India) Private Limited, Hindustan Motors and CAT.

The emphasis on exports has been steadily growing as the company's cost, quality and delivery criteria find an increasing market internationally. The company has been certified TS 16949, ISO 14001 & OHSAS 18001 compliant.

In nutshell the outlook for auto component manufacturers appears to be driven by increasing cost pressures from OEMs both domestically and internationally. On the other side, however, the opportunities are increasing with domestic OEM's consolidating their base and international customers growing interest to source out of India.

The years under review witnessed unprecedented spurt in the steel prices. The prices have risen more than 70% and affected the bottom line of the company adversely. The profit margins are lower as compared to the last year. The company is taking steps to embrace the latest shop floor technologies like Lean Manufacturing, 6 Sigma, 5 S, Just-in-Time, etc. The over all shop floor efficiency has increased. These efforts put together have helped the company to remain profitable.

**Shareholder wealth creation**

The company has been consistent in its conservative outlook. Out of this philosophy the company has steadily created and increased the wealth of shareholders. In the present year the company is paying out a dividend @ 45% as compared to last year's rate of dividend of 40%.

**Foreign Exchange Exposure**

The import content of the company during the financial year gone by was Rs. 379.57 lacs on Capital Goods, raw materials and consumables etc., an insignificant amount. In comparison the company had an exports earnings of (FOB) Rs. 1277.66 lacs.

**Internal Control system**

Hi-Tech Gears Limited has a proper and adequate system of internal controls to ensure that all assets are safeguarded and protected against loss from un-authorized use or disposition and that transactions are authorised, recorded and reported correctly.

An extensive program of internal audits and management reviews supplements the internal control. Properly documented policies, guidelines and procedures are laid down for this purpose. The internal control is designed to ensure that the financial and other records are reliable for preparing financial statements and other data, and for maintaining accountability of assets.

The company has an Audit Committee, comprising three Independent Non-Executive and professionally qualified directors and having interactions with the statutory auditors, internal auditors and auditees. The committee deals with accounting matters, financial reporting and internal controls.



## The Indian auto industry and the potential fore export.

Globally, as well as in India, the automotive industry is one of the largest industry sector in any economy. It is one of the few industries, which has deep forward and backward linkages with rest of the economy, and hence has a strong multiplier effect. It generates huge employment and great value addition, not only directly but also both at forward and backward linkages. Moreover, it is the leader in product and process technologies for the manufacturing sector. This results in automotive industry being the driver of economic growth. Developed countries like USA, Japan as well as newly industrialised countries like Korea, Thailand have used the automotive industry as an engine of growth.

The Indian automobile industry is at the threshold of rapidly increasing its growth multiplier on the economy. The key requirements to cross the threshold are:

**Sufficient Scale:** India is the second largest producer of two wheelers, fifth largest producer of commercial vehicles and manufactures around 1.03 million passenger cars.

**Sufficient Depth:** A wide component base of over 450 players in the organised sector involved in all major systems manufacturing, significant manufacturing base for key raw materials - steel, plastics, rubber, aluminum and machine tools, forward linkage industries like auto distribution and finance.

**Sufficient Product Proliferation:** There is a wide selection of products to choose from and growing acceptability of motorised transportation in the country.

### Future strategies & directions for exports

Though the present size of the Indian auto component industry has now grown to US \$ 6.7 billion, the opportunity for it to become a major player arises out of the increasing trend among global automobile manufacturers to outsource

components from low cost locations. Economic cycles, market and competitive pressures and transaction costs are expected to continue to fragment industry value chains and enable outsourcing of several manufacturing activities, including auto components, to low cost economies like China and India.

India's potential to become a major global outsourcing base for automobile components is strengthened by certain inherent advantages that include:

Stability in the basic input cost specially steel.

Availability of skilled & semi-skilled labour resources that are critical for manufacture of auto components;

Huge metal based natural resources that can support metal intensive manufacturing activities. Metals are easily available in India at prices that are more or less at par with international prices.

High quality technology and software oriented design and engineering skills that can result in high domestic value addition of raw material by converting into finished products.

In recognition of the above, several global automotive companies have initiated sourcing programs from India. The 31.5% growth in exports of auto components in 2003-04 is to an extent reflective of this. As many as about 15 global OEM's and Tier 1 suppliers have set up International Purchasing Offices (IPO's) in India. Their sourcing target from Indian manufacturers during 2004-05 is understood to be US\$ 1.5 billion. Though it is difficult to meet this target in 2004-05, many more companies are waiting to set up IPO's in India, an indication of the tremendous potential that they see in the Indian auto component industry.

### Hi-Tech Gears - Future outlook

The product profile and the customer base of the company are expanding. The company has started construction of its second plant at IMT Manesar, Gurgaon. Existing customers in all the markets continue to show growth and the exports are also on the increase. The company is spending on upgrading technology and this



would enable the company to service the internal requirements of all its customers. The company has also got recognition of its Research & Development Center from the Ministry of Science and Technology, Department of Scientific & Industrial Research Center (DSIR).

The company is continuously engaged in new product development, both for existing and new customers. The exports of the company are into the USA and UK. During the present financial year the company has successfully developed components for large second tier customers. These and the products which are under development have the potential of significantly increasing the turnover of the company in the next couple of years.

The present domestic customers too are on an upswing. The domestic profile of the customers very broadly are two wheeler transmission components and timing gears for diesel engines.

#### Comparison of fiscal 2003-04 over 2002-03

##### Operating Results

During the current fiscal the total income of the company increased from Rs. 11,874.73 lacs to Rs. 13,912.05 lacs, an increase of 17.16%. Other key financial parameters are:

Sr. No.	Particulars	(Amt Rs. In Lacs)	
		2003-04	2002-03
a.	Gross Sales	13,887.76	11,798.04
	Excise Duty	1,630.07	1,528.38
	Net Sales	12,257.69	10,269.66
	Other Income	24.28	76.68
B.	Expenditure Analysis-		
1.	Increase/Decrease in stock -in-trade	(48.37)	(112.43)
2.	Material consumed	5834.47	4592.53
3.	Staff cost	1,366.36	1,121.38
4.	Stores & Spares	1,695.67	1,698.39
5.	Others Expenditures	1,583.99	1,287.39
6.	Profit before Interest, Depreciation & Tax	1,849.85	1759.08

7. Interest and depreciation	1,007.72	740.83
8. Provision for tax	316.92	348.93
9. Net Profit	525.21	669.32
10. Dividend (Including Proposed Dividend)	211.14	187.68

#### Risks and concerns

**1. External Risks:** At present the company is exposed to the risk of rising steel prices having major impact on the profit margins of the company. The company supplies the forged as well as the finished components to the original equipment manufacturers (OEMs). Therefore largely, the external risks for the company are the same as in the case of OEMs. To address these risk the company gives top priority to the satisfaction of the customers in terms of quality and timely delivery of the component. The company keeps close interaction with the customers and keeps watch over the market demand for the vehicles. Hero Honda Motors Limited is the biggest customer of the company, the business with Hero Honda accounts approximately 70% of the total business of the company. The company is making conscious efforts to increase its customer base.

**2. Internal Risks:** The risks generally associated with the internal working of a company are also applicable in case of Hi-Tech Gears Limited. Specifically, the company is not exposed to any major internal risk.

#### Material Developments in Human Resources/Industrial Relation.

As a part of our people agenda, we continue to focus on staff development. Our desire is to make Hi-Tech Gears a great place to work. Several health and safety features have been incorporated into the company to create a comfortable and safe working environment for staff.

We continue to measure how employees relate to the organisation. While the overall employee



satisfaction in the company is good, we do believe that there is scope to improve. Focussed programs are in place to support our plan to make Hi-Tech Gears a truly aspirational place to work in. Our relations with employees continued to remain cordial during the year. The total number of people employed in the company as on April 30, 2004 was 678 as compared to 636 in May 2003.

### **Segment Reporting**

The company is primarily engaged in the business of gears and transmission components. Inherent nature of both the activities is governed by the same set of risk and returns, hence these have been grouped as a

single segment. The said treatment is in accordance with the guiding principle enunciated in the Accounting Standard on 'Segment Reporting' (AS-17).

### **Note**

This report contains certain statements that the company believes, or may be considered to be forward looking statements. These forward looking statements may be identified by their use of words like 'plan', 'hope', 'will', 'expect', 'aim' or such similar words or phrases. All such statements are subject to risks and uncertainties which could cause actual results to differ materially from those contemplated by the relevant forward looking statements.