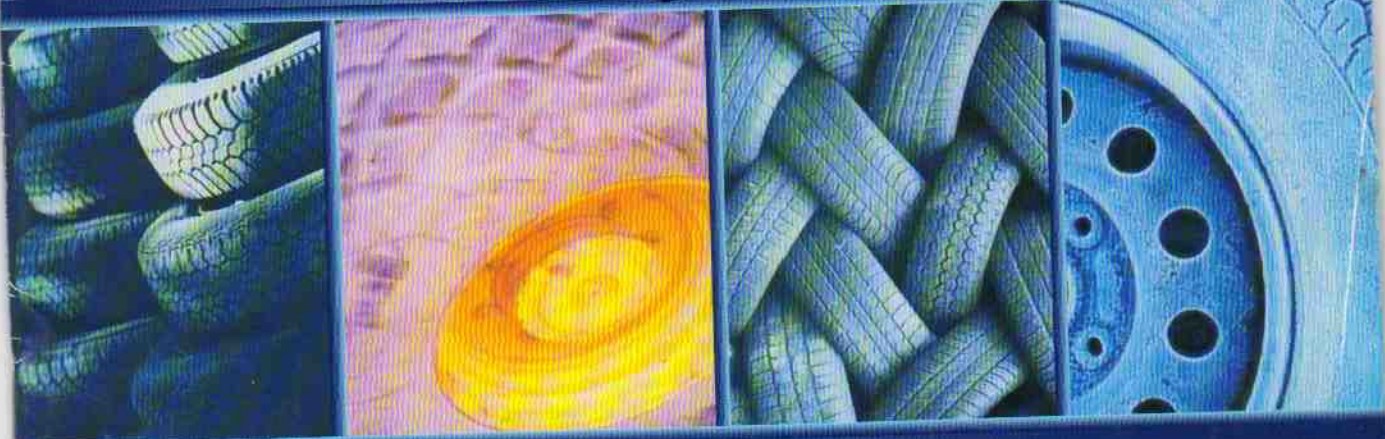




27th

Annual Report 2006

Shankar Gupta
Pawan Mahanta
Rajesh Mishra
Dr. M. S. Prasad



Indag Rubber Limited

- **BOARD OF DIRECTORS**

Nand Khemka
Chairman
S.L. Khemka
P.R. Khanna
R. Parameswar
K.K. Kapur
(Whole Time Director)
Prakash Kalothia
(Alternate Director to Mr. R. Parmeswar)

- **BANKERS**

Corporation Bank
State Bank of Bikaner & Jaipur

- **AUDITORS**

S.R. Batliboi & Associates
Chartered Accountants
B-26, Qutab Institutional Area,
New Delhi-110016 (India)

- **REGISTERED OFFICE**

11, Community Centre, Saket,
New Delhi-110017

- **WORKS**

1. Plot No. SP 86, Industrial Area,
Bhiwadi-301019, Dist. Alwar, (Rajasthan)
2. Village Jhiriwala, Hadbast No. 73,
Nalagarh, District Solan (HP)

Indag Rubber Limited *Quality Policy*

Indag is committed to

1. CONSISTENTLY deliver world class quality products and services.
2. CONTINUOUSLY improve upon its quality standards to meet the best expectation of customers.
3. Ensure that each employee is CONSCIOUS of the need to respect and participate in the quality improvement mission.

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NOTICE

NOTICE IS HEREBY GIVEN THAT THE TWENTY-SEVENTH ANNUAL GENERAL MEETING OF THE MEMBERS OF INDAG RUBBER LIMITED WILL BE HELD ON SATURDAY, 24TH JUNE 2006 AT 10:00 A.M AT DOLLY FARMS & RESORTS PVT. LTD., (NEAR THE EXECUTIVE CLUB), 439, VILLAGE SHAHOORPUR, P.O. FATEHPUR BERI, NEW DELHI-110030, TO TRANSACT THE FOLLOWING BUSINESS:

ORDINARY BUSINESS

1. To receive, consider and adopt the Audited Profit and Loss Account for the year ended 31st March 2006 and the Balance Sheet as on that date, together with the Reports of the Board of Directors and Auditors thereon.
2. To appoint a Director in place of Mr.P.R.Khanna, who retires by rotation and being eligible offers himself for re-appointment.
3. To appoint a Director in place of Mr.K.K.Kapur, who retires by rotation and being eligible offers himself for re-appointment.
4. To appoint Auditors of the Company and fix their remuneration and if thought fit, to pass with or without modification the following Resolution as a **SPECIAL RESOLUTION:**

"RESOLVED THAT S.R. Batliboi & Associates., Chartered Accountants be and are hereby appointed as Statutory Auditors of the Company to audit the Accounts for the Accounting Year 2006-2007 and to hold office from the conclusion of this Meeting until the conclusion of the next Annual General Meeting on a remuneration plus reimbursement of out-of-pocket expenses, as may be mutually agreed to between the Board of Directors and the Auditors."

SPECIAL BUSINESS

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

"RESOLVED THAT pursuant to the provisions of section 31 of the Companies Act, 1956 and other applicable provisions, if any, and subject to the transfer of entire shareholding in the company by Bandag Inc., to the Indian Promoters, the Articles of Association of the Company be altered in the following manner:

- (A) In Article 1: Interpretation, the word "Bandag" and its interpretation be deleted, and the definition of "Khemka" be amended as under :

"KHEMKA" means Mr.Nand Khemka of Speed Bird House, 41/2 M-Block, Connaught Place, New Delhi 110001, India including his successors, assignees, nominee or nominees.

- (b) Article 3 in respect of Company not to purchase its own share be deleted.
- (c) Article 61 in respect of Notice of meeting be amended as under
61. Save as provided in sub-clause (2) of section 171 of the Act, a General Meeting of the company be convened by giving not less than 21 days notice in writing specifying the place, the day and the hour of the meeting and in case of special business the general nature of such business shall be given to the members. Where under provisions of the Act, a special notice is required to any resolution, a notice of intention to move such resolution shall be given by the company not less than 14 days before the meeting at which it is to be moved.
- (d) Article 82 in respect of Number of Directors be amended as under.
82. The number of the Directors of the company shall not be less than three and not more than ten.
- (e) Article 90 be renumbered as 90 (1) and a new sub-clause be added as Article 90 (2) as under
90 (2). A person shall not be capable of being appointed as a Director if he has the disqualifications referred to in Section 274 of the Act.
- (f) Article 95 in respect of Appointment & retirement of directors be amended and substituted as under:
95. Not less than two-third of the total number of directors of the company shall be persons whose period of office is liable to termination by retirement of Directors by rotation. One-third of the total number of Directors appointed in accordance with the provisions of these Articles shall not be liable to retire by rotation.
- (g) Article 96(1) in respect of Bandag's right to appoint one Director be deleted and Article 96(2) be re-numbered as Article 96.
- (h) Article 97 in respect of appointment of Special Directors by Financial Institutions be deleted.

- (i) Article 104 in respect of appointment of Alternate Director be amended and substituted as under:
104. In the event that any Director is away from the State in which the registered office of the company is located for a continuous period of not less than three months, a suitable Alternate Director shall be appointed for such a Director as approved by Mr.Nand Khemka.
- (j) Article 114(2) be deleted and in its place the following new Article shall be substituted:
114(2). In respect of any of the matters specified below, the resolution of the Board of Directors to be effective shall be approved by the majority vote of the Directors, which majority shall include the affirmative vote of Khemka or the non-retiring Director (s) appointed by Khemka, who shall vote as per directions of Khemka, which may be communicated at the meeting of the Board or the Committee thereof at which the decision is taken, or if he is unable to be present at that meeting, the concurrence may be provided by cable, letter, e-mail.
- i. Appointment or reappointment of a Managing Director or Whole-time Director of the company.
 - ii. Borrowing monies for the business of the company in excess of Rs.60,00,000 excluding any long term loans.
 - iii. Acquisition of immovable property or rights in immovable property not connected with the business of the company.
 - iv. Appointment of Additional Directors or filling any casual vacancies on the Board of Directors.
 - v. Obtaining any long-term loan or altering of the terms and conditions of any such loan.
 - vi. Creating any mortgage, charge or other encumbrance in respect of the company's fixed properties and assets.
 - vii. Substantially changing the business of the company whether through acquisition or otherwise.
 - viii. Investment of surplus funds not immediately required for the business of the company.
 - ix. Any allotment of shares.
- (k) Article 147(2) in respect of Appointment and remuneration of Auditors be amended as under
147(2). The company at each Annual General Meeting shall appoint or reappoint an Auditor or Auditors to hold office from the conclusion of that meeting until the conclusion of next Annual General Meeting and shall within seven days of the appointment, give intimation thereof to every Auditor or Auditors so appointed, unless he is retiring Auditor or Auditors. The appointment, remuneration, rights and duties of the Auditor or Auditors shall be regulated by section 224 to 227 of the Act.

For and on behalf of the Board of Directors

New Delhi
April 18, 2006

Manali D.Bijlani
Company Secretary

NOTES

1. The relative Explanatory Statement pursuant to Section 173(2) of the Companies Act, 1956 in respect of business set out at item nos. 4 and 5 of the Notice is annexed hereto.
2. A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE ON A POLL INSTEAD OF HIMSELF AND A PROXY NEED NOT BE A MEMBER OF THE COMPANY. PROXIES, IN ORDER TO BE EFFECTIVE, MUST BE RECEIVED AT THE REGISTERED OFFICE OF THE COMPANY NOT LESS THAN FORTY-EIGHT HOURS BEFORE THE TIME FIXED FOR THE ANNUAL GENERAL MEETING.
3. The Register of Members and Share Transfer Books of the Company will remain closed from 23rd June 2006 to 24th June 2006 (both days inclusive).
4. Members/Proxies must bring the Attendance Slip duly filled in for attending the meeting and hand it over at the entrance duly signed.
5. Members desiring any information on the Accounts are required to write to the company at its Registered Office giving at least seven days time before the date of the Annual General Meeting to enable the Management to collect and keep the information ready.
6. Members are requested to bring their copy of Annual Report with them, as the same will not be supplied again at the meeting as a measure of economy.
7. Pursuant to the prohibition imposed vide **Secretarial Standard on General Meetings (SS-2)** issued by ICSI, no gifts/coupon will be distributed at or in connection with the meeting.



Explanatory Statement

(Pursuant to Section 173(2) of the Companies Act, 1956)

Item No. 4

Pursuant to Article No. 147(2) of the Articles of Association of the Company, Special Resolution is to be passed for re-appointment of Statutory Auditors.

The resolution as set out in item no. 4 of the annexed notice is, therefore recommended for your approval.

None of the Directors is concerned or interested in the proposed resolution.

Item No. 5

Indag was formed as a joint venture company between Khemka group and Bandag Inc., USA for the manufacture and marketing of pre-cured retreads.

The joint venture partners have mutually agreed to terminate the Joint Venture Agreement and decided that Bandag shall transfer its entire shareholding in Indag to Indian promoters.

Accordingly, it is proposed to make necessary amendments in the Articles of Association of the company so as to ensure that the decisions taken by the Management are not ultra-vires and void, which are as under:

- An affirmative vote of Bandag will no more be required to take the decision on crucial matters
- Bandag will not have the right to appoint any Director on the Board.

As at present the company has not availed any loan from any of the Financial Institutions i.e. IDBI, IFCI, ICICI, UTI, or LIC, the power with the financial institutions to appoint a non-retiring director on the Board is deleted. Further the appointment of the statutory auditors of the company be approved by passing an ordinary resolution instead of special resolution.

Pursuant to section 31 of the Companies Act, 1956 your Directors recommend the proposed resolution for approval.

None of the directors are interested in the proposed resolution.

New Delhi
April 18, 2006

For and on behalf of the Board of Directors

Manali D.Bijlani
Company Secretary

DETAILS OF DIRECTORS SEEKING APPOINTMENT/ REAPPOINTMENT AT THE FORTHCOMING ANNUAL GENERAL MEETING**(IN PURSUANCE OF CLAUSE 49 OF THE LISTING AGREEMENT)**

Name of Directors	Shri P.R.Khanna	Shri K.K.Kapur
Date of Birth	2nd July 1933	15th October 1937
Date of Appointment	8th September 1983	9th April 2001
Qualifications	- Member of Institute of Chartered Accountants of India	- Post-graduate in Mathematics - Member of the Institute of Cost and Works Accountants of India
Names of other companies in which director and member of Committees	1. Ansal Properties & Industries Ltd. 2. DCM Shriram Ltd 3. Uniproducts India Limited 4. Control & Switchgears Contractors Limited	Nil
Number of shares held in the company	Nil	Nil

DIRECTORS' REPORT

TO
THE MEMBERS,

Your Directors are pleased to present the 27th Annual Report together with the Audited Statement of Accounts of the Company for the accounting year ended March 31, 2006. We have included, as a part of this report the Management Discussion and Analysis.

FINANCIAL RESULTS:

Particulars	2005-2006 (Rs.in lacs)	2004-2005 (Rs.in Lacs)
Profit before Interest & Depreciation	173.12	213.73
Finance Expenses	83.80	64.06
Profit before Depreciation	89.32	149.67
Depreciation	64.14	45.35
Profit before Income Tax	25.18	104.32
Provision for Minimum Alternate Tax	-	(2.50)
Fringe Benefit Tax	(7.71)	-
Deferred Tax Assets/(Liabilities)	(58.83)	(75.02)
Profit (Loss) for the year	(41.36)	26.80
(Debit) Balance brought forward from previous year	(55.86)	(82.66)
(Loss) carried to balance sheet	(90.29)	(55.86)

OPERATIONAL PERFORMANCE

During the year under review the gross turnover of your company amounted to Rs. 4343.82 lacs as against Rs. 3447.30 lacs in the previous year. While there was 26% increase in turnover, the profit before depreciation and interest, declined by nearly 19%. The main reason for reduction in profitability was that most of the increase in turnover was on account of sale to STU's where contribution is small which got further eroded due to unprecedented increase in the prices of raw materials over the period of the fixed price contracts. The unprecedented increase in prices of raw materials also adversely affected the profitability of sales to franchisee too. Further, there were certain items of expenditure incurred in connection with the setting up the Nalagarh project, which could not be capitalised to conform to the Accounting Standards.

DIVIDEND

In view of the carry forward losses, your Directors are not in a position to recommend any dividend for the year under review.

INDUSTRY EXPERIENCE

While the medium and long term prospects of the industry appear to be good. However, they are dependant on improvement in the quality of roads, effective check on over-loading of vehicles and radialisation of tyres in the bus, truck and tanker sections. Although retreading of tyres is done world over, as it reduces costs substantially, in India there is danger of retreading getting bad name as there is mushrooming growth of parties not conforming to any standards both in the manufacture of tread rubber as well as in retreading. It is necessary for the government to enforce quality standards in these areas for transport sector to derive benefits of retreading.

OPPORTUNITIES AND THREATS

Government of India during the last few years has paid special attention to the construction of good quality roads in the country. The Golden Quadrilateral and the corridor forming part of NHDP phases I and II are scheduled to be completed December, 2008. The budget for the year 2006-2007 envisaged construction of 1000 KM of Express Ways between major cities of the country. With the completion of these projects, road transport is expected to become cheaper and faster. Privatisation of construction, maintenance and operation of road work is expected to effectively check overloading. There has also been healthy growth in auto sector in the last few years. These factors give hope for good growth in the retread industry.

The threats to this industry come from unprecedented increase in raw material prices and unfair and unhealthy competition from units who make retreading unreliable by marketing cheap products of unreliable quality.

NALAGARH PROJECT

During the last quarter of the financial year 2005-2006, the state of art plant was completed and commissioned at Nalagarh, Himachal Pradesh, showing your company's confidence in the future and its continued commitment to develop this industry.

TERMINATION OF JOINT VENTURE

Indag was formed as a joint venture company between Khemka group and Bandag Inc., USA for the manufacture and marketing of pre-cured retreads, in the year 1978.

The joint venture partners have mutually agreed to terminate the Joint Venture Agreement and decided that Bandag shall transfer its entire shareholding in Indag to Indian promoters.

Both the partners signed the Settlement Agreement for termination of JVA in March 2006. Other steps involved for completing the termination of JVA are expected to be completed shortly.

RISKS AND THEIR MITIGATION

The Company is exposed to various risks which are normal in any business enterprise. The main ones and the steps undertaken to mitigate these risks are mentioned below:-

- (i) Financial risk: Credit risk on account of material supplied to customers has been mitigated by insisting on most of the parties to pay in advance before supplies are made. In the case of others, PDC's are taken against supplies. The risk of delayed payment from STU's is reduced by cutting down the supplies if payment is delayed much beyond the contracted period.
- (ii) Increase in price of raw materials: Normal increase in prices of raw materials is generally factored while fixing products prices to the franchisees. Unexpected increases however do affect the profitability for some time till prices are revised to pass on the cost increases to the customers. In the case of fixed price, fixed period contracts, unprecedented increase in raw material prices do affect profitability.
- (iii) Changes in governments policies: Changes in government policies can at times materially effect company's financial position or investments. There is little that can be done about it.
- (iv) Operational risk: Preventive maintenance is carried out to achieve high level of machine availability. Adequate inventory of stocks at each stage of operation is maintained to keep production going on in case of any breakdown.
- (v) Product risk: Research and development is being undertaken to deliver better products, service and value to end-customers.

HUMAN RESOURCE DEVELOPMENT

During the year, the Company had generally cordial industrial relations. Focus on efficient shop floor management, strengthening Sales and Marketing team, continuous training to enhance the human capital has resulted in amiable association with our 272 employees.

We believe in empowering our employees through greater knowledge, opportunity, responsibility and accountability.

INTERNAL CONTROL SYSTEM

The Company has adequate control systems and procedures designed to effectively control the operations at its Head Office, Plants and depots. The internal control systems are designed to ensure that the financial and other records are reliable for the preparation of financial statements and for maintaining accountal of assets. The Company has adequate Budgetary Control System and actual performance is constantly monitored by the management. The Company has well designed organization structure, authority levels and internal guidelines and rules.

Independent internal auditors conduct audit covering a wide range of operational matters and ensure compliance with specified standards. Planned periodic reviews are carried out resulting in identification of control deficiencies, opportunities for bridging gaps with best practices. The findings of Internal audit are reviewed by the top management and by the Audit Committee of the Board of Directors.

