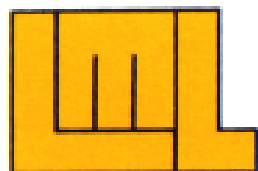


**ANNUAL REPORT  
2009-2010**



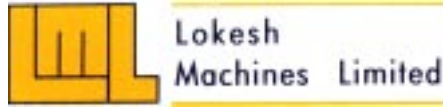
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**Lokesh  
Machines Limited**

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## BOARD OF DIRECTORS

<b>Mr. M Lokeswara Rao</b>	————	Managing Director
<b>Mr. K Krishna Swamy</b>	————	Director (Technical)
<b>Mr. B Kishore Babu</b>	————	Executive Director
<b>Mr. M Srikrishna</b>	————	Director (CNC Machine Division)
<b>Mr. M Srinivas</b>	————	Director
<b>Mr. B R Mahesh</b>	————	Director
<b>Dr. Y Satyanarayana</b>	————	Director
<b>Mr. R Mohan Reddy</b>	————	Director

### STATUTORY COMMITTEES

#### Audit Committee

Mr. B R Mahesh	- Chairman
Dr. Y Satyanarayana	- Member
Mr. R Mohan Reddy	- Member

#### Remuneration Committee

Dr. Y Satyanarayana	- Chairman
Mr. R Mohan Reddy	- Member
Mr. B R Mahesh	- Member

#### Shareholders'/Investors' Grievance Committee

Mr. R Mohan Reddy	- Chairman
Mr. B. Kishore Babu	- Member
Mr. M. Srikrishna	- Member

#### Company Secretary

Ms. A. Lalita Swarup

### BANKERS

State Bank of Hyderabad  
 Punjab National Bank  
 State Bank of Indore  
 Barclays Bank PLC  
 IndusInd Bank Limited

### AUDITORS

M/s Brahmayya & Co.,  
 Chartered Accountants  
 Flat no 403 & 404, Golden Green Apartments  
 Irrum Manzil Colony  
 Hyderabad- 500 082

### INTERNAL AUDITORS

M V Narayana Reddy & Co.  
 Chartered Accountants  
 Ameerpet, Hyderabad

### REGISTRARS & TRANSFER AGENTS

Karvy Computershare Private Limited.  
 Karvy House, 46, Avenue 4,  
 Street No: 1, Banjara Hills,  
 Hyderabad- 500 034

### REGISTERED OFFICE

B-29, EEIE, Stage II  
 Balanagar  
 Hyderabad – 500 037 (A.P.) India

### WORKS

Temple Road, Bonthapally, Medak District, A. P.	B – 25 & 36, EEIE, Stage II, Balanagar, Hyderabad, A. P.	Ravalkol village, Medchal Mandal. Rangareddy Distt, A. P.	Plot No 41, IDA Balanagar, Hyderabad A. P.	B – 15 & 17, EEIE, Stage II, Balanagar, Hyderabad, A. P.
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## NOTICE OF THE 26TH ANNUAL GENERAL MEETING

NOTICE is hereby given that the Twenty Sixth Annual General Meeting of **Lokesh Machines Limited** will be held on Tuesday, September 28, 2010 at 10:30 a.m. at Jubilee Hills International Centre, Near Jubilee Hills Check Post, Road No. 14, Hyderabad-500 033 to transact the following business:

### ORDINARY BUSINESS

1. To receive, consider and adopt the Balance Sheet as at March 31, 2010 and the Profit and Loss Account for the year ended on that date together with the Reports of Directors' and Auditors' thereon.
2. To declare dividend.
3. To appoint a Director in place of Mr. K Krishna Swamy, who retires by rotation and is eligible for re-appointment.
4. To appoint a Director in place of Dr. Y Satyanarayana who retires by rotation and is eligible for re-appointment.

In this connection, your company has received an intimation pursuant to Section 257(1) of the Companies Act, 1956 from a member signifying his intention to propose the following resolution:

"RESOLVED that Mr. M. Hariprasada Rao be and is hereby appointed as Director of the Company in place of Dr. Y Satyanarayana who retires by rotation at the Annual General Meeting, scheduled in September 2010."

This information to the members is given in accordance with the provisions of Section 257(1A) of the Companies Act, 1956. The member proposing the candidature has also forwarded the consent of Mr. M Hariprasada Rao to act as Director of the Company, if so appointed, as required by Section 264(1) of the Companies Act, 1956. The resume of Mr. M Hariprasada Rao as forwarded by the said member is also included in the notice.

5. To appoint Auditors and fix their remuneration.

### SPECIAL BUSINESS

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

"RESOLVED that pursuant to the provisions of Sections 198, 269, Schedule XIII and other applicable provisions of the Companies Act, 1956, if any, the reappointment of Mr. K. Krishna Swamy as Whole time Director for a period of five years with effect from 29<sup>th</sup> June, 2010 at a monthly remuneration of Rs. 45,000/- be and is hereby approved."

"FURTHER RESOLVED THAT the above remuneration be paid as minimum remuneration in the absence or inadequacy of profits in any year, provided the stipulations prescribed in Schedule XIII to the Companies Act, 1956 are fulfilled."

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

"RESOLVED that pursuant to the provisions of Sec. 198, 269, Schedule XIII and other applicable provisions of the Companies Act 1956, if any, the reappointment of Mr. M. Srikrishna as Whole-time Director of the Company, designated as Director (CNC Machine Division), for a period of 5 years w.e.f. 1<sup>st</sup> October 2010 at the following remuneration be and is hereby approved:

**Salary:** Rs. 1, 75,000 /- per month

#### Perquisites as follows:

**Provident Fund:** Company's contribution to the provident fund and Super Annuation Fund to the extent the same are not taxable under the Income Tax Act.

**Gratuity** of half month's salary for each completed year of service, subject to the ceilings as may be prescribed by the Income Tax Act from time to time.

**Encashment of leave** at the end of the tenure.”

“FURTHER RESOLVED THAT the above remuneration be paid as minimum remuneration in the absence or inadequacy of profits in any year, provided the stipulations prescribed in Schedule XIII to the Companies Act, 1956 are fulfilled.”

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

“RESOLVED that pursuant to the provisions of Sec. 198, 269, Schedule XIII and other applicable provisions of the Companies Act 1956, if any, the reappointment of Mr. B. Kishore Babu as Executive Director of the Company, for a period of 5 years w.e.f. 1<sup>st</sup> October 2010 at the following remuneration be and is hereby approved:

**Salary:** Rs. 1,75,000 /- per month

**Perquisites as follows:**

**Provident Fund:** Company’s contribution to the provident fund and Super Annuation Fund to the extent the same are not taxable under the Income Tax Act.

**Gratuity** of half month’s salary for each completed year of service, subject to the ceilings as may be prescribed by the Income Tax Act from time to time.

**Encashment of leave** at the end of the tenure.”

“FURTHER RESOLVED THAT the above remuneration be paid as minimum remuneration in the absence or inadequacy of profits in any year, provided the stipulations prescribed in Schedule XIII to the Companies Act, 1956 are fulfilled.”

9. To consider and if thought fit, pass with or without modification the following resolution as a Special Resolution:

“RESOLVED that pursuant to the provisions of Sections 198, 269, Schedule XIII and other applicable provisions of the Companies Act 1956, if any, the reappointment of Mr. M. Lokeswara Rao as Managing Director for a period of five years with effect from 1<sup>st</sup> October 2010 at the following remuneration be and is hereby approved:

**Salary:** Rs. 3,50,000/- per month

**Commission:** 1% of the Net Profits calculated in terms of Sections 198, 349 and 350 of the Companies Act, 1956.

**Perquisites as follows:**

**Provident Fund:** Company’s contribution to the provident fund and Super Annuation Fund to the extent the same are not taxable under the Income Tax Act.

**Gratuity** of half month’s salary for each completed year of service, subject to the ceilings as may be prescribed by the Income Tax Act from time to time.

**Encashment of leave** at the end of the tenure.”

“FURTHER RESOLVED that the above remuneration be paid as minimum remuneration to Mr. M Lokeswara Rao in the absence or inadequacy of profits, to the extent permitted by the provisions of Para I(B) of Part II, Section II to Schedule XIII of the Companies Act, 1956, so however that the aggregate of the remuneration paid to all the directors including the commission shall not exceed the ceilings prescribed in section 309 of the Companies Act, 1956”

“FURTHER RESOLVED that the above remuneration be reviewed by the Committee after three years based on the growth and performance.”

By Order of the Board  
for **LOKESH MACHINES LTD.,**

**A. LALITA SWARUP**  
Company Secretary

Place: Hyderabad  
**Date: August 14, 2010.**

## NOTES

1. **A Member entitled to attend and vote at the meeting is entitled to appoint a proxy and vote instead of himself and such proxy need not be a member of the Company.**
2. **Proxies should be deposited at the Registered Office of the Company not less than Forty-Eight hours before the scheduled commencement of the meeting.**
3. The Register of Members and Share Transfer Books of the Company will remain closed from September 21, 2010 to September 28, 2010, both days inclusive, on account of the Annual General Meeting.
4. The Dividend, when declared, will be payable to those shareholders whose names appear on the Register of Members on September 28, 2010. In respect of shares held in dematerialised form in the depository system, the dividend will be paid to the beneficial owner(s) as at the end of business hours on September 20, 2010 as per the list provided by the depositories for the purpose.
5. Shareholders are requested to immediately notify the REGISTRARS AND SHARE TRANSFER AGENTS or the DEPOSITORY PARTICIPANTS (in case of shares which have been dematerialised) of any change in their address and/or bank account details to ensure correct and prompt receipt of the Dividend Warrants.
6. Corporate Members are requested to submit a duly certified copy of the Board Resolution, pursuant to section 187 of the Companies Act, 1956, authorising their representative to attend and vote at the Annual General Meeting.
7. In terms of clause 49(IV)(G) of the Listing Agreement, brief resumes of Directors proposed to be reappointed are detailed below:

### **Brief Resume of Directors proposed to be reappointed.**

(In terms of Clause 49 of the Listing Agreement)

#### **Mr. K. Krishna Swamy**

Mr K Krishna Swamy (69) has Bachelor of Technology (Mechanical) degree under his belt. He has 44 years of vast experience in designing machines.

He started his career with HMT during 1964 and after a long stint in all its divisions, became the Chief Engineer in-charge of its design department during 1978 to 1983. Mr Krishna Swamy, during his stay at HMT had received training under experts in the Design field including Cross Company Inc., USA, the then collaborator of HMT. He has designed a number of machines, notable among them being Rotary Indexing Machines, Linear Transfer Machines, Line Boring Machines etc. based on deep knowledge in designing machines that suit the requirement of customers.

He has been an executive Director of the Company. He holds no other directorships or committee memberships in any other company. He holds 22,000 shares in the Company.

#### **Dr. Y. Satyanarayana**

Dr. Y Satyanarayana (69) is a mechanical engineer from Osmania University, and a Ph.D from Poona University. He was senior fulbright fellow at Havard Business School during 1976-78 for post doctoral work. He had a distinguished career in Andhra Pradesh State Road Transport Corporation (APSRTC). From a Trainee Engineer in 1960, he grew to the position of Executive Director of APSRTC.

After his retirement from APSRTC, was an Advisor on Energy, Environment, Urban Governance and Infrastructure in Administrative Staff College of India, Hyderabad.

Apart from having published over 30 papers in renowned management journals, he has also published four widely acclaimed books on transportation & management. He has been a recipient of a number of prestigious awards including "Best Engineer of the Year" Award of Federation of Andhra Pradesh Chamber of Commerce and Industry (FAPCCI) in 1984.

He has been the non-executive independent director of the Company and has also been the member of the Audit Committee of the Board. He holds no other directorships or committee memberships in any other company.

Mr. Satyanarayana does not hold any shares in the Company.

**Mr. M. Srikrishna**

Mr. M. Srikrishna (39) has 13 years experience in the field of Mechanical Engineering and has been with Lokesh Machines Limited for the past 13 years since completion of Bachelor of Engineering at Osmania University and has undergone training initially in the designs and manufacture of General Purpose Machines. He is presently heading the Computerised Numerical Control (CNC) Machines Division of Lokesh Machines Limited.

He has been the wholetime director of the Company and has also been the member of the Shareholders'/Investors' Grievance Committee of the Board. He is a director in Velzone (India) Private Limited.

Mr. M. Srikrishna holds 1109931 shares in the Company.

**Mr. B. Kishore Babu**

Mr. B Kishore Babu (54) is a Graduate Engineer with over 30 years experience in the field of Machine Tool Industry. He has started his career in Hindustan Machine Tools (HMT) as Trainee Engineer and later joined Lokesh Machines Ltd. as a Promoter. He has acquired all-round exposure and experience with various aspects of operations of the company right from shop floor, designs, planning, production, assembly, purchase and application engineering for the past 24 years. As Executive Director, he is the operational head for all the divisions.

He has been the executive director of the Company and has also been the member of the Shareholders'/Investors' Grievance Committee of the Board. He is a director in M.L.R.Motors Limited and MLR Auto Ltd.

Mr. B. Kishore Babu holds 807687 shares in the Company.

**Mr. M. Lokeswara Rao**

Mr. M Lokeswara Rao (65) is a technocrat with 40 years vast experience in the machine tool industry, promoted LML. He has started his career with KCP Limited in 1965 and after a brief period joined Hindustan Machine Tools Limited (HMT) in 1966. While working at HMT for almost a decade Mr. Rao has obtained a methodical understanding and insight of the machine tool industry. The insights into the machine tool industry supplemented with the entrepreneurial abilities prompted Mr. Rao to start LML. Mr. Rao with his sheer hard work coupled with managerial abilities built up a strong team and created good facilities.

Mr. Lokeswara Rao has been an active member of Indian Machine Tool Manufacturers' Association (IMTMA) for over a decade and served as a member of the Executive Committee for six years. He has served as Chairman of the Regional Council (South) of IMTMA and was the Vice President of the Association from 2007 to 2009. He was also the Vice President of the Auto Component Association in Hyderabad. Currently he is the President of Indian Machine Tool Manufacturers' Association.

He has been the Managing director of the Company . He is a Director in M.L.R. Motors Ltd., MLR Auto Ltd. and Lokesh Technologies Private Ltd.

Mr. M. Lokeswara Rao holds 652217 shares in the Company.

**Mr. M Hariprasada Rao****(As furnished by the Member proposing his candidature)**

Mr. M Hariprasada Rao is a B.Sc.(Physics) from Madras University, BS.( Electrical Engineering) and MS ( Power Systems Engineering ) from Illinois Institute of Technology, U.S.A. He was a recipient of McDonald gold medal from Madras University in1951. He had special training in power systems planning and location of Atomic Power Stations from Central Electricity Generating Board of U.K. He worked in Advisory capacity with International Atomic Energy Agency in the fields of Nuclear Training and analysis of Nuclear Accidents; with Gujarat State Electricity Board in thermal power stations operation; Ministry of Power,Tamilnadu Government in Energy Problems. He has held several Advisory Positions including Board Member of Nuclear Power Board (D.A.E.)

He retired as a Director of Nuclear Power Board, in charge of Design, Procurement, Construction



and Operation of all 235 Mw Nuclear Power Stations of D.A.E. He has several international special papers, to his credit. He is a Fellow of the Institution of Engineers, India and of the Indian Nuclear Society.

He holds fraternity memberships in All Engineering Professional Fraternity of U.S.A. and Electrical Engineering Fraternity of U.S.A.

He was awarded the Sanjay Gandhi National Award in 1983 for contribution to Science & Technology in India & Padma Shree in 1984 for Individual Contribution to Nuclear Power.

He was the founding Managing Director of MHP Associates, Chennai and was the Chairperson of Hindustan Magnetic Limited. He is currently the Director of Sree Jayajothi Cements Limited.

He does not hold any shares in the Company.

## **EXPLANATORY STATEMENT UNDER SECTION 173(2) OF THE COMPANIES ACT, 1956**

### **ITEM NO. 6**

The Board of Directors have re-appointed Mr. K. Krishna Swamy as Wholetime Director for a period of 5 years from 29<sup>th</sup> June, 2010. Further, as per the recommendation of the Remuneration Committee, and as prescribed in Schedule XIII of the Companies Act, 1956, the remuneration of Mr. Krishna Swamy has been fixed for a period of five years at an aggregate of Rs.45,000/- per month as detailed in the resolution. A brief profile of the director is as given elsewhere in the notice.

According to Section 269 of the Companies Act, 1956, read with Schedule-XIII to the said Act, the reappointment of Wholetime Director requires the approval of the shareholders in General Meeting.

Your Directors recommend that the resolution be passed as an ordinary resolution. None of the Directors except Mr. K. Krishna Swamy, is interested in the proposed resolution.

The Explanatory Statement together with the accompanying notice may also be regarded as an abstract of the terms of appointment of Mr. Krishna Swamy, Wholetime Director of the Company and Memorandum of interest of Directors u/s. 302 of the Companies Act, 1956.

### **ITEM NO. 7:**

Mr. M Srikrishna's tenure as Wholetime Director (CNC Machine Division) ends on September 30, 2010. At its meeting held on August 14, 2010, the Board of Directors have reappointed him for a period of 5 years with effect from 1<sup>st</sup> October, 2010. Further, as per the recommendation of the Remuneration Committee, and as prescribed in Schedule XIII of the Companies Act, 1956, the remuneration of Mr. Srikrishna has been fixed for a period of five years at an aggregate of Rs.1,75,000/- per month plus perquisites as detailed in the resolution. A brief profile of the director is as given elsewhere in the notice.

According to Section 269 of the Companies Act, 1956, read with Schedule-XIII to the said Act, the reappointment of Wholetime Director requires the approval of the shareholders in General Meeting.

Your Directors recommend that the resolution be passed as an ordinary resolution. None of the Directors except Mr. M. Srikrishna himself, Mr. M. Srinivas as his brother and Mr. M. Lokeswara Rao as father are interested in the proposed resolution.

The Explanatory Statement together with the accompanying notice may also be regarded as an abstract of the terms of appointment of Mr. M. Srikrishna, Wholetime Director (CNC Machine Division) of the Company and Memorandum of interest of Directors u/s. 302 of the Companies Act, 1956.

### **ITEM NO. 8:**

Mr. B Kishore Babu's tenure as Executive Director of the company ends on September 30, 2010. At its meeting held on August 14, 2010, the Board of Directors have reappointed him for a period of 5 years with



effect from 1<sup>st</sup> October, 2010. Further, as per the recommendation of the Remuneration Committee, and as prescribed in Schedule XIII of the Companies Act, 1956, the remuneration of Mr. Kishore Babu has been fixed for a period of five years at an aggregate of Rs.1,75,000/- per month plus perquisites as detailed in the resolution. A brief profile of the director is as given elsewhere in the notice.

According to Section 269 of the Companies Act, 1956, read with Schedule-XIII to the said Act, the reappointment of Executive Director requires the approval of the shareholders in General Meeting.

Your Directors recommend that the resolution be passed as an ordinary resolution. None of the Directors except Mr. B. Kishore Babu himself is interested in the proposed resolution.

The Explanatory Statement together with the accompanying notice may also be regarded as an abstract of the terms of appointment of Mr. B. Kishore Babu, as Executive Director of the Company and Memorandum of interest of Directors u/s. 302 of the Companies Act, 1956.

#### **ITEM NO. 9:**

At its meeting held on August 14, 2010, the Board of Directors have re-appointed Mr. M. Lokeswara Rao as Managing Director for a period of 5 years from 1<sup>st</sup> October, 2010. Further, as per the recommendation of the Remuneration Committee, and as prescribed in Schedule XIII of the Companies Act, 1956, the remuneration of Mr. Lokeswara Rao has been fixed for a period of three years at an aggregate of Rs.3.5 lakhs per month plus a commission of 1% on net profits and perquisites as detailed in the resolution. A brief profile of Mr. Lokeswara Rao is as given elsewhere in the notice.

According to Section 269 of the Companies Act, 1956, read with Para I (B), Part II, Section II of Schedule-XIII to the said Act, the reappointment of Managing Director requires the approval of the shareholders in General Meeting by way of a special resolution.

The information as required under Schedule XIII to the Companies Act, 1956 is as under:-

#### **I. GENERAL INFORMATION:**

- (1) Nature of Industry: Manufacture of Machine Tools & Auto Components
- (2) Commencement of commercial operation: 1986 onwards.
- (3) In case of new companies, expected date of commencement of activities as per project approved by financial institutions appearing in the prospectus: Not Applicable.
- (4) Financial Performance: (Rs. in Lakhs)

<b>Financial Parameters</b>	<b>2005-06</b>	<b>2006-07</b>	<b>2007-08</b>	<b>2008-09</b>	<b>2009-10</b>
<b>Turnover</b>	7798.74	8961.67	10939.10	7404.36	9682.90
<b>Net Profit (as computed u/s. 198)</b>	1408.25	1769.33	1960.62	172.26	707.20
<b>Net profit as per profit and loss account</b>	823.01	1069.51	1200.28	37.54	404.63
<b>Amount of dividend paid</b>	205.55	294.44	294.44	Nil	NA
<b>Rate of dividend declared</b>	20%	25%	25%	Nil	10%*

\* recommended by the Board

- (5) **Export performance and net foreign Collaborations:** Exports of Rs.353.92 lakhs for the financial year 2009-10.
- (6) **Foreign investments or collaborators, if any:** NIL

#### **INFORMATION ABOUT THE APPOINTEE:**

- (1) Background Details - Mr. M Lokeswara Rao (65 years) is a Technocrat having Diploma in L.M.E with 40 years of vast experience in the machine tool industry. He had served a decade in Hindustan Machine



Tools. His business acumen plays a dynamic role in the company's foray and helps it to focus on strategic areas.

**(2) Past remuneration:**

Year	Total Remuneration (Rs.)
2007-08	Rs. 43.70 lakhs
2008-09	Rs. 24.09 lakhs
2009-10	Rs. 31.16 lakhs

- (3) **Recognition or awards:** Mr. M Lokeswara Rao had been a Member of Indian Machine Tool Manufacturer's Association (IMTMA). Currently he is the President of IMTMA.
- (4) **Job profile and his suitability:** Mr. M Lokeswara Rao after having served a decade in Hindustan Machine Tools, wherein he gained methodical understanding and insight, promoted Lokesh Machines Limited. Considering his 40 years of vast experience in machine tool industry and performance, Mr. Lokeswara Rao has been considered for re-appointment for the position of Managing Director for a further period of five years with effect from October 1, 2010.
- (5) **Remuneration proposed:** as set out in the resolution for the item no. 9. The remuneration to Managing Director has the approval of the Remuneration Committee and Board of Directors.
- (6) **Comparative remuneration profile** with respect to industry, size of the company, profile of the position and person (in case of expatriates the relevant details would be w.r.t. the country of his origin) - Taking into consideration the size of the Company, the profile of Mr. M. Lokeswara Rao, the responsibilities shouldered by him, the aforesaid remuneration package is commensurate with the remuneration package paid to managerial position in other Companies.
- (7) **Pecuniary relationship** directly or indirectly with the company, or relationship with managerial personnel, if any - Mr. M. Lokeswara Rao is the founder director and Managing Director of the company. Besides, the remuneration proposed, and his investment in 652217 equity share capital of the company, Mr. Lokeswara Rao does not have any other pecuniary relationship with the Company.

Mr. M Lokeswara Rao is related as father to Mr. M. Srinivas, Director and Mr. M. Srikrishna, Whole-time Director of the Company.

**Other Information:**

- |   |                |
|---|----------------|
| (1) Reason for inadequate profits                                     | Not Applicable |
| (2) Steps taken or proposed to be taken for improvement               | Not Applicable |
| (3) Expected increase in productivity and profits in measurable terms | Not Applicable |

Your Directors recommend that the resolution be passed as a special resolution. None of the Directors except Mr. Lokeswara Rao himself and his sons -Mr. M Srikrishna and Mr M Srinivas - are interested in the proposed resolution.

The Explanatory Statement together with the accompanying notice may also be regarded as an abstract of the terms of appointment of Mr. M. Lokeswara Rao, Managing Director of the Company and Memorandum of interest of Directors u/s. 302 of the Companies Act, 1956.

## 26TH REPORT OF THE BOARD OF DIRECTORS

Your Directors have pleasure in presenting the Twenty Sixth Annual Report together with the Audited Statement of Accounts for the financial year ended March 31, 2010.

### FINANCIAL RESULTS

PARTICULARS	<i>Rs in Lakhs</i>	
	(2009-10)	(2008-09)
Net Sales	9682.90	7404.36
Other Income	131.32	123.27
Total Income	9814.22	7527.63
<b>Profit before Depreciation, Interest and Taxes</b>	<b>2663.58</b>	<b>1631.45</b>
Depreciation	707.34	646.87
<b>Profit before Interest and Taxes</b>	<b>1556.24</b>	<b>984.58</b>
Interest and Finance Charges	916.07	880.92
<b>Profit before Taxes</b>	<b>640.17</b>	<b>103.66</b>
Provision for Taxes	235.54	66.12
<b>Profit after Taxes</b>	<b>404.63</b>	<b>37.54</b>

After the severe recession during the previous year in the auto and engineering industry, there have been signs of recovery towards the second half of the period under report. The turnover increased by 30.77 %, and the Profit before Interest and Taxes increased by 58.06 % compared to the previous year. The Earnings per share increased from Rs. 0.32 in the previous year to Rs 3.44 in the year under report. Your company has nearly matched the pre-recession performance.

### FUTURE OUTLOOK

With the turn around providing the momentum to the overall growth in the general economic activity, your Directors are hopeful for a better performance in the current year.

### MANUFACTURING FACILITY AT PUNE

Your company is setting up a manufacturing facility at Ranjangaon, Pune to exclusively cater to the requirements of Mahindra & Mahindra Ltd. for cylinder blocks. This unit, being set up at a project cost of Rs. 25 crores is expected to commence commercial operations from December 2010. Your company has started getting enquiries from other auto majors, and hopes to expand its operations in the near future.

### DIVIDEND

Based on the company's performance, your Directors are pleased to recommend for approval of the members a dividend of 10 %, amounting to Re. 1.00/- per equity share of Rs.10/- each. The dividend on the equity shares, if declared as above, would involve an outflow of Rs.11,777,400/- towards dividend and Rs. 2,001,569 /- towards dividend tax, resulting in a total outflow of Rs. 13,778,969/-.

Out of the profits the Directors propose to transfer an amount of Rs 2,500,000 to the General Reserves.



## **DIRECTORS**

Mr. K Krishna Swamy and Dr. Y Satyanarayana, Directors retire by rotation at the ensuing Annual General Meeting and are eligible for reappointment.

Your Board has reappointed Mr. K. Krishna Swamy as Wholetime Director from June 29, 2010 for a period of 5 years.

Mr. M Lokeswara Rao has been reappointed as Managing Director by the Board with effect from October 1, 2010 for a period of 5 years.

Mr. B Kishore Babu and Mr. M Srikrishna have been reappointed by the Board, as Wholetime directors with effect from October 1, 2010 for a period of five years.

As required by clause 49 of the Listing Agreement with the Stock Exchange, brief resumes of the above directors are included in the Notice convening the Annual General Meeting. Appropriate Resolutions are being proposed at the forthcoming Annual General Meeting for obtaining your approval to the above reappointment of directors.

## **DIRECTORS' RESPONSIBILITY STATEMENT**

In accordance with the provisions of Section 217 (2AA) of the Companies Act, 1956, the Directors of your Company confirm:

- I. That all applicable accounting standards have been followed in the preparation of annual accounts and that there are no material departures.
- II. That the directors selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the company as at March 31, 2010 and of the profit of the Company for the year ended on that date.
- III. The directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act 1956, for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities.
- IV That the Directors prepared the annual accounts on a going concern basis.

## **ADDITIONAL PARTICULARS**

Particulars of conservation of energy, technology absorption and foreign exchange earnings and outgo as required under section 217(1)(e) of the Companies Act, 1956, read with the Companies (Disclosure of particulars in the Report of the Board of Directors) Rules, 1988, is annexed as **Annexure 'A'** to this Report.

## **PARTICULARS OF EMPLOYEES**

The details of employees as envisaged by Section 217(2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975 is annexed as **Annexure 'B'** to this Report.

## **CORPORATE GOVERNANCE**

A detailed report on Corporate Governance together with the Auditors' Certificate on its compliance is annexed as **Annexure 'C'**

## **MANAGEMENT DISCUSSION AND ANALYSIS REPORT**

The Management Discussion and Analysis Report is annexed as **Annexure 'D'** to this Report.

### **AUDITORS**

M/s. Brahmayya & Co, Chartered Accountants, the auditors of the Company retire at the conclusion of this Annual General Meeting and are eligible for re-appointment. Appropriate Resolution is being proposed at the ensuing Annual General Meeting for the reappointment of the Auditors.

### **ACKNOWLEDGEMENTS**

Your Directors wish to place on record their appreciation of the support and co-operation extended by the State Bank of Hyderabad, State Bank of Indore, Punjab National Bank, Barclays Bank PLC., Indusind Bank Limited, business constituents and shareholders.

Your Directors also wish to place on record their appreciation of the excellent enthusiastic support received from the team of dedicated employees in the activities of your Company.

**On behalf of the Board**

**B Kishore Babu**  
(Director)

**M Lokeswara Rao**  
(Managing Director)

**Place: Hyderabad.**  
**Date: August 14, 2010**

## ANNEXURE 'A'

**Disclosure of particulars with respect to Conservation of Energy, Technology Absorption, Foreign Exchange Earnings and Outgo as required under Companies (Disclosure of particulars in the Report of Board of Directors) Rules, 1988 and forming part of the Report of the Board of Directors for the period ended 31st March, 2010.**

### **Conservation of Energy**

Your company is not a power intensive industry, and hence the scope for significant measures for conservation of energy is limited.

### **Technology Absorption, Research and Development**

The in-house R & D activities of the company towards product and process developments have been continuing. The endeavour of the company has been to achieve higher efficiencies in the performance of its products through these efforts.

### **Research and Development (R & D)**

1. Specific areas in which R & D carried out by the Company:
  - A. Design & manufacturing of Plano Miller for Die & Mould machining.
  - B. Horizontal Machining Center – Job Feed Type.
2. Benefits derived as a result of the above R & D: Improving operational efficiency of the Company.
3. Future plan of action:
  - A. Commercial production of the above two products after perfection & viability are established.
  - B. Development of **GANTRY TYPE** machine.
4. Expenditure on R & D:
  - (a) Capital : NIL
  - (b) Recurring : 36.12 lakhs
  - (c) Total: 36.12 lakhs
  - (d) Total R & D expenditure as a percentage of total turnover: 0.37 %

### **Foreign Exchange Earnings and Outgo**

(i) Foreign Exchange Earnings	:	Rs. 353.92 lakhs
(ii) Foreign Exchange Outgo	:	
For Capital Goods	:	Nil
For Components on FOB basis	:	Rs. 714.18 lakhs
Towards Foreign Travel	:	Rs. 15.49 lakhs

## ANNEXURE 'B'

**Statement of Particulars of Employees pursuant to Section 217 (2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Amendment Rules, 1976 and forming part of the Directors' Report for the year ended 31st March 2010.**

Name	:	Mr. M. Lokeswara Rao
Age	:	65
Qualification	:	L.M.E.
Designation	:	Managing Director
Date of commencement of employment	:	17-12-1983
No. of years of experience	:	40
Remuneration	:	31.16. Lakhs
Last employment held	:	Hindustan Machine Tools Ltd.
Nature of employment	:	As per the terms approved by the shareholders
Percentage of equity shares held in the company	:	5.54 %

**Notes:**

*(Remuneration as shown above includes salary, contribution to provident and other funds, taxable value of perquisites and all expenses incurred by the company in providing amenities and benefits to the employees).*

## REPORT ON CORPORATE GOVERNANCE

### Annexure 'C' (in compliance with Clause 49 of the Listing Agreement)

#### I. Company's Philosophy on Corporate Governance

Your Company believes that a strong code of Corporate Governance is not only desirable from the perspective of the owners and other stakeholders of the company, but it goes a long way in promoting transparency as well as ethical way of doing business. Your Company's philosophy and approach towards Corporate Governance is to utilize it as an instrument in its quest for excellence.

#### II. Board of Directors

Your Board of Directors consists of 8 directors, 4 each being executive and non executive. Your Company does not have an executive Chairman, and one of the non executive directors is usually elected as a Chairman of the Board Meetings. Three of the non executive directors are independent.

Six Board Meetings were held during the year 2009-10. The dates on which the said meetings were held are as under:

- (1) 31 May, 2009 (2) 30 June, 2009 (3) 31 July, 2009 (4) 22 August, 2009 (5) 29 October, 2009 and (6) 31 January, 2010.

The details of the attendance of the Directors at the Board Meetings are as follows:

Name of the Director	Attendance Particulars			No. of other Directorships and Committee Memberships/Chairmanships		
	Board Meetings		Last AGM	Other Directorships (Public Companies)	Committee Memberships	Committee Chairmanships
	Held	Attended				
<b>Mr. Lokeswara Rao</b> Managing Director Promoter-Executive Director	06	06	Yes	2	1	Nil
<b>Mr. B. Kishore Babu</b> Promoter-Executive Director	06	06	Yes	2	1	1
<b>Mr. M. Srinivas</b> Promoter-Non Executive Director	06	06	No	2	1	Nil
<b>Mr. Srikrishna</b> Promoter-Executive Director	06	05	Yes	Nil	Nil	Nil
<b>Mr. K. Krishna Swamy</b> Non-Promoter, Executive Director	06	02	No	Nil	Nil	Nil
<b>Mr. B.R.Mahesh</b> Independent Non Executive	06	06	Yes	1	Nil	Nil
<b>Dr. Y. Satyanarayana</b> Independent Non Executive	06	05	Yes	Nil	Nil	Nil
<b>Mr. R. Mohan Reddy</b> Independent Non Executive	06	06	Yes	1	2	1

# Number of Directorships in other Companies excludes Directorships in foreign Companies, Private Companies and companies under Section 25 of the Companies Act, 1956



### III. Audit Committee

The Board has an Audit Committee constituted pursuant to Clause 49 of the Listing Agreement with Mr. B R Mahesh as Chairman, Dr. Y Satyanarayana and Mr. R Mohan Reddy as members. The Managing Director and the Finance Manager are permanent invitees to this Committee.

The terms of reference of the Audit Committee are in accordance with the provisions of Clause 49 of the Listing Agreement.

During the period under review five meetings of the Audit Committee were held on the following dates:

(1) 31 May, 2009 (2) 30 June, 2009 (3) 31 July, 2009 (4) 29 October, 2009 and (5) 31 January, 2010. While Mr. B R Mahesh and Mr. R Mohan Reddy attended all the meetings, Dr. Y Satyanarayana attended 4 meetings.

### IV Remuneration Committee

The Remuneration Committee consists of Dr. Y Satyanarayana as Chairman, Mr. B R Mahesh and Mr. R Mohan Reddy as members. All the Members of the Committee are independent, non executive directors. There was no need for any meeting of the Committee during the year under review.

#### Remuneration Policy

The remuneration policy of the Company is to make the compensation payable to the executive directors comparable to industry standards and commensurate with the performance of the company, while adhering to the ceilings prescribed under the Statute.

#### Remuneration paid to Executive Directors

During the period under review, the remuneration paid/payable to the executive directors including the Managing Director is as follows:

(Rs.In Lakhs)

Name of the Director	Salary	PF	Other Allowance	Commission	Total
<b>Mr.M.Lokeswara Rao</b> (Managing Director)	24.00	.09	-	7.07	31.16
<b>Mr.B.Kishore Babu</b> Executive Director	15.00	.09	-	-	15.09
<b>Mr.K.Krishna Swamy</b> Executive Director	4.20	-	-	-	4.20
<b>Mr.M.Srikrishna</b> Executive Director	15.00	.09	-	-	15.09



### Remuneration paid to non Executive Directors

The sitting fees paid to the directors during the year under review was as follows:

Name of Director	Sitting Fees paid (Rs)
Mr. B R Mahesh	44,000
Dr. Y Satyanarayana	36,000
Mr. R Mohan Reddy	44,000
Mr. M Srinivas	24,000

The Non-Executive Directors were paid sitting fees for attending the meetings of the Board or the Committees thereof at the rate of Rs. 4000/- per meeting.

### Shareholdings of Non Executive Directors as on March 31, 2010:

Mr. B R Mahesh, Mr. R Mohan Reddy and Dr Y Satyanarayana, Non Executive Directors do not hold any shares of the Company. Mr. M Srinivas Promoter and Non executive Director holds 1,009,906 equity shares.

### V. Shareholders'/ Investors' Grievance-Committee

This committee consists of three members namely Mr. R. Mohan Reddy, Chairman and Mr. M Srikrishna, and Mr. B Kishore Babu as members. The Committee is formed for the purpose of complying with the guidelines on Corporate Governance to monitor redressal of Complaints received from the shareholders and for considering the applications for transfer of shares. The designated e-mail id of the grievance redressal division of the company is - investorinfo@lokeshmachines.com.

During the financial year 2009-10, the Committee met one time on November 4, 2009 . Two complaints regarding non - receipt of dividend were received during the period April 1, 2009 to March 31, 2010 and both complaints have been resolved.

### Compliance Officer

Ms. A. Lalita Swarup is the Company Secretary and Compliance Officer.

### VI Annual General Meeting

The dates, time and location of the last three Annual General Meetings are as follows:

Year	AGM	Venue	Date	Time
2006-07	23 <sup>rd</sup>	Jubilee Hills International Centre Near Jubilee Hills Check Post, Road No. 14, Hyderabad-500 033	27/09/2007	10:00 A.M.
2007-08	24 <sup>th</sup>	Jubilee Hills International Centre Near Jubilee Hills Check Post, Road No. 14, Hyderabad-500 033	27/09/2008	10:30 A.M.
2008-09	25 <sup>th</sup>	Jubilee Hills International Centre Near Jubilee Hills Check Post,Road No. 14, Hyderabad-500 033	30/09/2009	02:30 P.M.

### Postal Ballots

No resolution was passed by postal ballot during the last three years.

## VII. Other Disclosures

### Related Party Transactions

Details of transactions with related parties are given elsewhere in the annual report  
(Please refer to note no. 18. in notes to Accounts)

### Non compliance and strictures

There were no instances of non-compliance by the company and imposition of penalties and strictures on the company by Stock Exchange or SEBI or any statutory authority on any matter relating to the capital markets during the last 3 years.

### Interse relationships between directors

Mr. M Srinivas and Mr. M Srikrishna, Directors are related to Mr. M. Lokeswara Rao. None of the other directors are related.

### Shares issued in Pubic Issue and remaining unclaimed

All equity shares issued to shareholders during the public issue in 2006 have been credited to their respective demat accounts.

### Whistle Blower Policy

The company does not have a formal whistle blower policy. However, the employees have free access to Audit Committee, if they desire to bring any matter to the notice of the Committee.

The Company is committed to comply with mandatory and non-mandatory requirements of Clause 49 of the Listing Agreement.

## VIII Means of Communication

- |   |   |
|---|---|
| a. <b>Quarterly results</b>   | Yes, in Newspapers, website   |
| b. <b>Newspapers wherein results normally published</b>                                 | The Financial Express<br>The Business Line<br>The Economics Times<br>The Business Standard<br>The Andhra Prabha |
| c. <b>Any website, where displayed</b>  | www.lokeshmachines.com  |
| d. <b>Whether it also displays official news releases</b>                               | YES   |
| e. <b>The presentations made to institutional investors or to the analysts</b>          | NO  |
| f. <b>Whether Management discussion and analysis is a part of Annual report or not.</b> | YES   |



## IX General Shareholder Information

### a. Annual General Meeting

**Date and time**

September 28, 2010, 10:30 A.M.

**Place**

Jubilee Hills International Centre  
Near Jubilee Hills Check Post,  
Road No. 14, Hyderabad-500 033

### b. Financial Year

April 1 to March 31 next

### c. Date of Book Closure

September 21, 2010 to September 28, 2010  
both days inclusive

### d. Dividend Payment Date

Within 30 days from the date of declaration  
of dividend.

### e. Listing on Stock Exchanges

BSE and NSE  
Listing fees has been paid for both BSE & NSE.

### f. Stock Code

532740 (BSE)  
LOKESHMACH(NSE)

### g. Demat ISIN Nos. in NSDL & CDSL for Equity shares

**INE397H01017**

### h. Market Price Data HIGH, LOW during each month in Last financial year

Months	BSE		NSE	
	High	Low	High	Low
<b>Apr 09</b>	35.25	19.55	35.40	19.75
<b>May 09</b>	48.50	25.80	48.80	25.20
<b>Jun 09</b>	49.80	31.75	48.50	31.10
<b>July 09</b>	37.90	26.80	38.00	26.55
<b>Aug 09</b>	46.75	33.05	46.30	31.30
<b>Sep 09</b>	54.60	39.25	54.45	39.55
<b>Oct 09</b>	51.50	37.75	51.25	37.70
<b>Nov 09</b>	47.35	35.00	47.50	35.00
<b>Dec 09</b>	52.80	43.25	52.65	43.45
<b>Jan 10</b>	59.00	43.70	64.00	43.80
<b>Feb 10</b>	55.00	42.80	50.85	42.05
<b>Mar 10</b>	53.00	37.30	49.00	40.40

i. **Registrar and Transfer agents**

Kavy Computershare Private Limited.  
Kavy House, 46, Avenue 4, Street No: 1,  
Banjara hills, Hyderabad- 500 034

j. **Share transfer system**

All the shares issued pursuant to the Public Issue are in the Demat Form, and the shares of the company being under the compulsory demat trading, bulk of the transfers take place in the electronic form.

In respect of the few shares that may come up for transfer in the physical form, the Share Transfer Agents process the Transfers, and the Company has delegated the power of approving share transfers to a Committee of Directors.

Efforts are made to ensure that requests for share transfers which are received in physical form are processed and the share certificates returned within a period of 10 to 15 days from the date of receipt, subject to the documents being valid and complete in all respects.

k. **Distribution of share holding as on March 31, 2010.**

<b>Category</b>	<b>No of Cases</b>	<b>Total Shares</b>	<b>% of Equity</b>
<b>Promoter &amp; Promoter Group</b>	40	6320690	53.67
<b>Resident Individuals</b>	13394	3717052	31.56
<b>Bodies Corporates</b>	399	981950	8.34
<b>Indian Institutional Investors</b>	1	370000	3.14
<b>H U F</b>	529	188743	1.60
<b>Non Resident Indians</b>	131	112628	0.96
<b>Trusts</b>	2	2649	0.02
<b>Clearing Memebers</b>	51	83688	0.71
<b>Total</b>	14547	11777400	100



**l. Dematerialization of shares  
as on March 31, 2010**

<b>Category</b>	<b>No of Holders</b>	<b>Total shares</b>	<b>Percent- age</b>
<b>Physical</b>	34	1477486	12.55
<b>NSDL</b>	9654	7091421	60.21
<b>CDSL</b>	4859	3208493	27.24
<b>Total</b>	14547	11777400	100.00

**m. Liquidity**

The shares of the company are listed in the BSE and NSE and are frequently traded.

**n. Outstanding GDR warrants  
and convertible bonds, conversion data  
and likely impact on the equity**

The Company has not issued either GDR's / warrants / Convertible bonds.

**o. Plant locations**

Temple Road, Bonthapally, Medak District, A.P.  
B – 25 & 36, EEIE, Stage II, Balanagar, Hyderabad, A.P.  
B – 15 & 17, EEIE, Stage II, Balanagar, Hyderabad, A.P.  
Ravalkol village, Medchal Mandal, Rangareddy Distt, A.P.  
Plot No 41, IDA Balanagar, Hyderabad, A.P.

**p. Address for correspondence**

Registered office  
B-29, EEIE, Stage II, Balanagar, Hyderabad – 500 037

On behalf of the Board

**Place: Hyderabad.**  
**Date: August 14, 2010**

**B Kishore Babu**  
(Director)

**M Lokeswara Rao**  
(Managing Director)



## DECLARATION FOR COMPLIANCE WITH CODE OF CONDUCT

Pursuant to Clause 49 I (D) (ii) of the Listing Agreement, I hereby declare that the Company has adopted a Code of Conduct for Directors and senior management personnel of the Company at the meeting of the Board of Directors held on January 9, 2006.

A statement of allegiance to the Code of Conduct has been obtained from all the senior management personnel and functional heads, and such statement of allegiance will be obtained on an Annual basis from all the Directors, senior management personnel and the functional heads.

For Lokesh Machines Limited

Place: Hyderabad  
Date : 14<sup>th</sup> August, 2010

**M.Lokeswara Rao**  
Managing Director

## CERTIFICATE

To the Members of LOKESH MACHINES LIMITED, HYDERABAD (A.P).  
We have examined the compliance of conditions of Corporate Governance by LOKESH MACHINES LIMITED, Hyderabad (A.P) for the year ended on 31<sup>st</sup> March, 2010, as stipulated in Clause 49 of the Listing Agreement of the said Company with stock exchanges.

The compliance of conditions of Corporate Governance is the responsibility of the management. Our examination has been limited to a review of the procedures and implementation thereof adopted by the Company for ensuring compliance of the conditions of the 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 based on 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 the above mentioned Listing Agreement.

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

for **BRAHMAYYA & CO.**  
Chartered Accountants  
Firm Regn. No.0005135

Place: Hyderabad  
Date : 14<sup>th</sup> August, 2010

**(K.S.RAO)**  
Partner  
Membership No.15850



## MANAGEMENT DISCUSSION AND ANALYSIS

### Annexure 'D'

#### Industry Structure and Development

There have been signs of steady recovery in the machine tool industry in India over the past three quarters, after a severe recession. It is expected that the recovery and growth phase will continue during the short and medium term.

India has by and large been less affected by the recession in the automobile industry, which was a global phenomenon. Consequently there has been a steady growth in the auto component industry.

A natural corollary of the slowdown in US & European Markets has been a sluggish or negative growth in the exports.

During the year under review, there has been an increase in the Company's turnover – the net sales increased by 30.77 % compared to the previous year. The Company has recorded profits after taxes of Rs 404.63 lakhs as compared to the previous figure of Rs 37.54 lakhs for the year under review.

#### Opportunities and Threats

With forecasts of a booming economic prospects in India, growth in the Machine Tool Industry is expected to rise a shade higher in 2010-11.

The main threats are: increased material costs, strengthening of rupee which would affect export realisation.

#### Segment –wise Performance

As can be seen from the financial statements, the Machine Division of the Company contributed to 57.28 % of the sales of the company, while the Components Division accounted for 42.72 % of the sales. Compared to the previous year, the Machine Tool Division recorded a fall of 2.32 %. and the sales of the Components Division recorded a modest growth of about 2.32 %.

In terms of geographical segments, exports fell from Rs. 424.90 lakhs to Rs. 353.92 lakhs. The share of the exports has been 3.65 % of the total turnover, compared to 5.74 % in the previous year. The global recession has affected export sales.

#### Outlook during the Current Year

Towards the last quarter of the current year, there has been significant improvement in the performance of the Company. If this continues the Company can be expected to do well in the year 2010-11.

#### Risks and Concerns

The risk of an increase in the interest rates, the impact of delayed monsoons on the economy and increase in prices of inputs such as steel are the key concerns for the players in the industry.



### **Internal Control Systems and their adequacy**

The company has in place a reasonable system of internal controls in all spheres of its activities. The internal control is supplemented by effective internal audit. The Audit Committee of Directors regularly reviews the business process and effective steps to implement the suggestions, which are taken and monitored regularly. In the opinion of the Board, an effective internal control system commensurate with the size of the company is in place.

### **Human Resources and Industrial Relations**

The Industrial relations between the employees and the management continued to be cordial during the year under review. Your company has been constantly making endeavours to upgrade the skill sets and capabilities of its personnel through in house and external training programmes.

At present the company has 602 employees on its rolls including trainees, in addition to providing employment to 743 persons through contract work.

### **Cautionary Statement:**

This report may contain statements that are forward-looking. Actual results may differ from those expressed or implied.

On behalf of the Board

**Place: Hyderabad.**  
**Date: August 14, 2010**

**B Kishore Babu**  
(Director)

**M Lokeswara Rao**  
(Managing Director)



## AUDITORS' REPORT

To the Members of LOKESH MACHINES LIMITED, HYDERABAD.

1. We have audited the attached Balance Sheet of LOKESH MACHINES LIMITED, HYDERABAD (A.P) as at 31<sup>st</sup> March, 2010 and also the Profit and Loss Account and the Cash Flow Statement for the year ended on that date annexed thereto. These financial statements are the responsibility of the Company's Management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with the auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. As required by the Companies (Auditors' Report) Order, 2003 (as amended), issued by the Central Government of India in terms of sub-section (4A) of Section 227 of the Companies Act, 1956, we enclose in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.
4. Further to our comments in the Annexure referred to above, we report that:
  - i) We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit.
  - ii) 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.
  - iii) The Balance Sheet, Profit and Loss Account and Cash Flow statement dealt with by this report are in agreement with the books of account.
  - iv) In our opinion, the Balance Sheet, Profit and Loss account and Cash Flow Statement dealt with by this report comply with the accounting standards referred to in sub-section (3C) of Section 211 of the Companies Act, 1956.
  - v) On the basis of written representations received from the Directors, as on 31<sup>st</sup> March, 2010 and taken on record by the Board of Directors, we report that, none of the Directors is disqualified as on 31<sup>st</sup> March, 2010 from being appointed as a Director in terms of clause (g) of sub-section (1) of Section 274 of the Companies Act, 1956;
  - vi) In our opinion and to the best of our information and according to the explanations given to us, the said accounts read in conjunction with the Schedules annexed therewith give the information required by the Companies Act, 1956, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:
    - a) in the case of the balance sheet, of the state of affairs of the Company as at 31<sup>st</sup> March, 2010;
    - b) in the case of the profit and loss account, of the Profit of the Company for the year ended on that date; and
    - c) in the case of cash flow statement, of the cash flows for the year ended on that date.

for BRAHMAYYA & CO.  
Chartered Accountants  
Firm Regn. No.000513S

(K.S.RAO)  
Partner  
Membership No.15850

Place: Hyderabad  
Date : 14.08.2010

## ANNEXURE TO AUDITORS' REPORT

### referred to in paragraph 3 of our report of even date

Re: LOKESH MACHINES LIMITED, HYDERABAD.

1.
  - a) The Company has maintained proper records showing full particulars, including quantitative details and situation of fixed assets.
  - b) As explained to us, the management has physically verified most of the fixed assets during the year and there is a regular programme of verification which, in our opinion, is reasonable having regard to the size of the Company and the nature of the assets. As informed, no material discrepancies were noticed on such verification.
  - c) The fixed assets disposed off during the year by the Company is not substantial and hence, it has not affected the going concern status of the Company.
2.
  - a) The inventory has been physically verified during the year by the management. In our opinion, the frequency of verification is reasonable.
  - b) In our opinion, the procedures of physical verification of inventories followed by the management are reasonable and adequate in relation to the size of the Company and the nature of its business.
  - c) The Company is maintaining proper records of inventory. The discrepancies noticed on physical verification between the physical stocks and book records were not material.
3. According to the information and explanations given to us, the company has neither granted nor taken any loans, secured or unsecured from/to companies, firms or other parties covered in the register maintained under section 301 of the Companies Act 1956.
4. In our opinion and according to the information and explanations given to us, there are adequate internal control systems commensurate with the size of the Company and the nature of its business with regard to purchase of inventory and fixed assets and with regard to sale of goods and services. During the course of our audit, we have not observed any continuing failure to correct major weaknesses in internal control system.
5.
  - a) According to the information and explanations given to us by the Management, we are of the opinion that the particulars of contracts or arrangements referred to in section 301 of the Companies Act, 1956 have been entered in the register to be maintained under that section
  - b) In our opinion and according to the information and explanations given to us, the transactions made in pursuance of contracts or arrangements entered in the register maintained under section 301 of the Companies Act, 1956 have been made at prices which are reasonable having regard to prevailing market prices at the relevant time.
6. The company has not accepted any deposits from the public. Hence the provisions of Sections 58A, 58AA and other relevant provisions of the Companies Act, 1956 and the Companies (Acceptance of Deposits) Rules, 1975 are not applicable to the Company for the time being.
7. In our opinion, the Company has an internal audit system commensurate with its size and nature of its business.
8. According to the information given to us, the Central Government has not prescribed maintenance of cost records under section 209 (1) (d) of the Companies Act, 1956 for activities of the Company.
9.
  - a) According to the records, the Company is generally regular in depositing with appropriate authorities undisputed statutory dues including Provident Fund, Investor Education and Protection Fund, Employees' State Insurance, Sales Tax, Service Tax, Customs Duty, Excise Duty, Cess and other material statutory dues applicable to it.



- b) According to the information and explanations given to us, no undisputed amounts payable in respect of Income Tax, Sales Tax, Service Tax, Customs Duty, Excise Duty and Cess were in arrears as at March 31, 2010 for a period of more than six months from the date they became payable.
10. The Company has no accumulated losses as at the end of the financial year. The Company has not incurred any cash losses during the financial year covered by our audit and the immediately preceding financial year.
11. In our opinion and according to the information and explanations given to us, the Company has not defaulted in repayment of dues to any financial institutions and Banks.
12. The Company has not granted any loans and advances on the basis of security by way of pledge of shares, debentures and other securities.
13. The Company is not a chit fund or a nidhi/mutual benefit fund/ society. Therefore, the provisions of clause 4(xiii) of the Companies (Auditor's Report) Order, 2003 are not applicable to the Company.
14. The Company is not dealing or trading in shares, securities, debentures and other investments. Therefore, the provisions of clause 4(xiv) of the Companies (Auditor's Report) Order, 2003 are not applicable to the Company.
15. According to the information and explanations given to us, the Company has not given any guarantee for loans taken by others from bank or financial institutions.
16. In our opinion and according to the information and explanations given to us the term loans were applied for the purpose for which the loans were raised.
17. According to 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.
18. During the year, the Company has not made any preferential allotment of shares to parties and Companies covered in the Register maintained under section 301 of the Companies Act, 1956.
19. During the year, the Company has not issued any debentures , therefore the question of creating security or charge in respect thereof does not arise.
20. During the year, the Company has not made any public issue and therefore the question of disclosing the end use of money raised by public issue does not arise.
21. Based upon the audit procedures performed and according to the information and explanations given to us, we report that no fraud on or by the Company has been noticed or reported during the year.

for BRAHMAYYA & CO.  
Chartered Accountants  
Firm Regn. No.000513S

(K.S.RAO)  
Partner  
Membership No.15850

Place: Hyderabad  
Date : 14.08.2010

**BALANCE SHEET AS AT MARCH 31, 2010** **Rs. in Lakhs**

PARTICULARS	SCH REF	As at 31.03.10	As at 31.03.09
<b>SOURCES OF FUNDS</b>			
<b>Shareholders' Funds</b>			
(a) Share Capital	<b>A</b>	<b>1,177.74</b>	1,177.74
(b) Reserves and Surplus	<b>B</b>	<b>7,352.14</b>	7,085.29
<b>Loan Funds</b>			
(a) Secured Loans	<b>C</b>	<b>7,551.86</b>	7,301.54
(b) Unsecured Loans	<b>D</b>	<b>125.00</b>	25.17
<b>Deferred Tax Liability</b>		<b>647.99</b>	650.45
<b>TOTAL</b>		<b>16,854.73</b>	16,240.19
<b>APPLICATION OF FUNDS</b>			
<b>Fixed Assets</b>			
Gross Block	<b>E</b>	<b>10,947.26</b>	10,066.47
Less: Depreciation		<b>4,343.99</b>	3,663.91
Net Block		<b>6,603.27</b>	6,402.56
Capital Work-in-Progress	<b>F</b>	<b>1,010.07</b>	1,241.09
		<b>7,613.34</b>	7,643.65
<b>Investments</b>	<b>G</b>	<b>800.00</b>	800.00
<b>Current Assets, Loans and Advances</b>			
(a) Inventories	<b>H</b>	<b>5,005.03</b>	4,660.22
(b) Sundry Debtors		<b>3,964.11</b>	3,328.01
(c) Cash and Bank Balances		<b>189.18</b>	128.80
(d) Loans and Advances		<b>2,517.00</b>	2,671.47
		<b>11,675.32</b>	10,788.50
Less: Current Liabilities and Provisions	<b>I</b>	<b>3,233.93</b>	2,991.96
<b>Net Current Assets</b>		<b>8,441.39</b>	7,796.54
<b>TOTAL</b>		<b>16,854.73</b>	16,240.19
<b>Accounting Policies and Notes on accounts</b>	<b>Q</b>		

As per our report of even date attached

For **BRAHMAYYA & CO**  
Chartered Accountants

FOR AND ON BEHALF OF THE BOARD

**K.S.RAO**  
Partner

**M. LOKESWARA RAO**  
Managing Director

**B.KISHORE BABU**  
Director

**A. LALITA SWARUP**  
Company Secretary

Place: Hyderabad  
Date: August 14, 2010



**PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED MARCH 31, 2010** Rs. in Lakhs

Particulars	Sch Ref	Current year	Previous year
<b>INCOME</b>			
Gross Sales			
Domestic Sales		5,632.77	4,445.34
Export Sales		353.92	424.91
Jobwork Charges		5,309.25	4,285.57
		<b>11,295.94</b>	9,155.82
Less: Excise duty		1,613.04	1,751.46
Net Sales		9,682.90	7,404.36
Other Income	J	131.32	123.27
<b>TOTAL</b>		<b>9,814.22</b>	7,527.63
<b>EXPENDITURE</b>			
Material consumed	K	4,733.64	3,743.98
Manufacturing expenses	L	997.17	780.98
(Increase)/Decrease in inventories	M	(253.55)	(293.15)
Personnel cost	N	1,705.51	1,455.73
Other expenses	O	559.93	495.23
Financial charges	P	916.07	880.92
Depreciation	E	707.34	646.87
		<b>9,366.11</b>	7,710.56
Less : Captive consumption		192.06	286.59
		<b>9,174.05</b>	7,423.97
<b>Profit for the year before taxes</b>		<b>640.17</b>	103.66
<b>Provision for Taxation</b>			
Current Tax		238.00	50.00
Earlier years		-	5.25
Deferred Tax		(2.46)	1.51
Fringe Benefit Tax		-	9.36
<b>Profit for the year after taxes</b>		<b>404.63</b>	37.54
Balance brought forward		2,210.42	2,172.88
<b>Profit available for appropriation</b>		<b>2,615.05</b>	2,210.42
<b>Appropriation</b>			
Proposed Dividend		117.77	-
Corporate Dividend Tax		20.01	-
Transfer to General Reserve		25.00	-
Carried to Balance Sheet		2,452.27	2,210.42
<b>Total</b>		<b>2,615.05</b>	2,210.42
<b>Basic Earnings per share of face value Rs.10 each</b>		<b>3.44</b>	0.32
(Refer note II(16) of Schedule - Q)			
<b>Accounting Policies and Notes on accounts</b>	Q		

As per our report of even date attached

For **BRAHMAYYA & CO**  
Chartered Accountants

**K.S.RAO**  
Partner

Place: Hyderabad  
Date: August 14, 2010

FOR AND ON BEHALF OF THE BOARD

**M. LOKESWARA RAO**  
Managing Director

**B.KISHORE BABU**  
Director

**A. LALITA SWARUP**  
Company Secretary

<b>SCHEDULES FORMING PART OF BALANCE SHEET</b>		<b>Rs. in Lakhs</b>	
		<b>As at 31.03.2010</b>	<b>As at 31.03.2009</b>
<b>SCHEDULE A - SHARE CAPITAL</b>			
<b>Authorised</b>			
125,00,000 Equity Shares of Rs.10 each (Previous year : 125,00,000 Equity shares of Rs.10 each)	<b>1,250.00</b>	1,250.00	
	<b>1,250.00</b>	1,250.00	
<b>Issued, Subscribed and Paid-Up</b>			
117,77,400 Equity shares of Rs.10 each fully paid up (Previous year : 117,77,400 Equity shares of Rs.10 each)	<b>1,177.74</b>	1,177.74	
	<b>1,177.74</b>	1,177.74	
<b>SCHEDULE B - RESERVES AND SURPLUS</b>			
(a) Capital Redemption Reserve	<b>150.00</b>	150.00	
(b) Securities Premium	<b>4,334.87</b>	4,334.87	
(c) Capital Reserve (Central Subsidy)	<b>15.00</b>	15.00	
(d) General Reserve			
At the commencement of the year	<b>375.00</b>	375.00	
Transfer from Profit and Loss account	25.00	-	
<b>At the end of the year</b>	<b>400.00</b>	375.00	
(e) Profit and Loss Account - Surplus	<b>2,452.27</b>	2,210.42	
	<b>7,352.14</b>	7,085.29	
<b>SCHEDULE C - SECURED LOANS</b>			
(Refer note no II (2) of Schedule - Q)			
<b>Term loans from Banks (includes interest accrued and due)</b>			
State Bank of Hyderabad	<b>848.23</b>	737.00	
State Bank of Indore	<b>642.04</b>	596.95	
Punjab National Bank	<b>517.24</b>	248.71	
<b>Working capital term loans</b>			
State Bank of Hyderabad	<b>398.01</b>	-	
Punjab National Bank	<b>151.84</b>	-	
<b>Cash Credit from Banks</b>			
Punjab National Bank	<b>754.47</b>	911.44	
State Bank of Indore	<b>1,093.05</b>	1,152.98	
State Bank of Hyderabad	<b>1,211.95</b>	1,523.87	
Barclays Bank	<b>1,009.59</b>	1,000.00	
Indusind Bank	<b>788.41</b>	1,012.42	
<b>Finance Leases (Vehicle Loans)</b>	<b>29.40</b>	18.75	
<b>Life Insurance Corporation of India</b> (Against Surrender value of keyman insurance)	<b>107.63</b>	99.42	
	<b>7,551.86</b>	7,301.54	
<b>SCHEDULE D - UNSECURED LOANS</b>			
From Companies	<b>125.00</b>	25.17	
	<b>125.00</b>	25.17	

(Amounts repayable within one year Rs.125.00 lakhs (31.3.2009 : Rs.25.16 lakhs)

**SCHEDULES FORMING PART OF BALANCE SHEET**
**SCHEDULE E - FIXED ASSETS**
**Rs. in Lakhs**

SL. No	Particulars	Gross Block				Depreciation				Net Block	
		As at 01.04.09	Additions	Deletions	As at 31.03.10	Upto 31.03.09	For the Period	Deletions	Upto 31.03.10	As at 31.03.10	As at 31.03.09
1)	Freehold Land	665.44	-	-	<b>665.44</b>	-	-	-	-	<b>665.44</b>	665.44
2)	Buildings	1,400.21	123.67	-	<b>1,523.88</b>	221.93	47.43	-	<b>269.36</b>	<b>1,254.52</b>	1,178.28
3)	Plant and Machinery	6,908.27	529.29	-	<b>7,437.56</b>	2,940.95	511.51	-	<b>3,452.46</b>	<b>3,985.10</b>	3,967.32
4)	Furniture & Fixtures	41.47	3.06	-	<b>44.53</b>	21.42	4.25	-	<b>25.67</b>	<b>18.86</b>	20.05
5)	Vehicles	200.45	44.70	30.23	<b>214.92</b>	141.54	17.99	27.26	<b>132.27</b>	<b>82.65</b>	58.91
6)	Misc. Equipment	571.40	189.66	-	<b>761.06</b>	201.11	71.81	-	<b>272.92</b>	<b>488.14</b>	370.29
7)	Office Equipment	34.11	0.11	-	<b>34.22</b>	12.41	3.06	-	<b>15.47</b>	<b>18.75</b>	21.70
8)	Computers	245.12	20.53	-	<b>265.65</b>	124.55	51.29	-	<b>175.84</b>	<b>89.81</b>	120.57
	<b>TOTAL</b>	10,066.47	911.02	30.23	<b>10,947.26</b>	3,663.91	707.34	27.26	<b>4,343.99</b>	<b>6,603.27</b>	6,402.56
	March 31, 2009	9,225.84	840.63	-	10,066.47	3,017.04	646.87	-	3,663.91	6,402.56	-

Note : 1. Motor vehicles include vehicles acquired under finance lease having a gross book value of Rs 59.07 lakhs (31-3-2009 : Rs.43.88 lakhs) and net book value of Rs 42.43 lakhs (31.03.2009 : Rs. 30.18 lakhs)



**SCHEDULES FORMING PART OF BALANCE SHEET**
**Rs. in Lakhs**

	<b>As at 31.03.2010</b>	<i>As at 31.03.2009</i>
<b>SCHEDULE F - CAPITAL WORK-IN-PROGRESS</b>		
Capital work in progress	<b>1,010.07</b>	<i>1,241.09</i>
	<b>1,010.07</b>	<i>1,241.09</i>
<b>SCHEDULE G - INVESTMENTS</b>		
(At Cost, Non Trade, Long term)		
20,00,000 Equity shares of Rs.10/- each in M/s MLR Motors Ltd	800.00	800.00
	<b>800.00</b>	<i>800.00</i>
<b>SCHEDULE H - CURRENT ASSETS, LOANS AND ADVANCES</b>		
<b>A) INVENTORIES</b>		
(Valued and certified by the management)		
(At cost or otherwise stated)		
Finished Goods	<b>461.33</b>	<i>414.67</i>
Work-in-Progress	<b>3,854.72</b>	<i>3,648.41</i>
Raw Materials	<b>5.53</b>	<i>2.55</i>
Stores and Components	<b>679.32</b>	<i>591.04</i>
Scrap (at realisable value)	<b>4.13</b>	<i>3.55</i>
	<b>5,005.03</b>	<i>4,660.22</i>
<b>B) SUNDRY DEBTORS - UNSECURED</b>		
Debts outstanding for over six months		
Considered Good	<b>1,604.92</b>	<i>1,569.45</i>
Considered Doubtful	<b>46.79</b>	<i>46.79</i>
	<b>1,651.71</b>	<i>1,616.24</i>
Less: Provision for doubtful debts	<b>46.79</b>	<i>46.79</i>
	<b>1,604.92</b>	<i>1,569.45</i>
Other debts (considered good)	<b>2,359.19</b>	<i>1,758.56</i>
	<b>3,964.11</b>	<i>3,328.01</i>
<b>C) CASH AND BANK BALANCES</b>		
Cash in hand	<b>1.39</b>	<i>1.26</i>
Balance with scheduled banks		
in current accounts	<b>10.03</b>	<i>3.83</i>
in margin money deposits (Deposit receipts are pledged with Banks for guarantees and letter of credits issued)	<b>177.76</b>	<i>123.71</i>
	<b>189.18</b>	<i>128.80</i>



Lokesh  
Machines Limited

**SCHEDULES FORMING PART OF BALANCE SHEET**

**Rs. in Lakhs**

	<b>As at 31.03.2010</b>	<i>As at 31.03.2009</i>
<b>D) LOANS AND ADVANCES (UNSECURED)</b>		
(Advances recoverable in cash or in kind or for value to be received)		
Advances for capital works	<b>1203.21</b>	1166.05
for purchases	<b>588.92</b>	789.63
for expenses	<b>5.04</b>	1.94
for others	<b>18.44</b>	16.20
Prepaid expenses	<b>14.42</b>	17.55
Deposits	<b>53.32</b>	39.57
Balance with Excise authorities	<b>612.22</b>	616.15
Fringe Benefit tax(Net of provision)	<b>6.37</b>	5.37
Interest accrued on deposits	<b>15.06</b>	19.01
	<b>2517.00</b>	2671.47
<b>SCHEDULE I - CURRENT LIABILITIES AND PROVISIONS</b>		
<b>A) Current Liabilities</b>		
Sundry Creditors		
Due to Micro Small and Medium Enterprises	<b>26.64</b>	27.65
Others	<b>1,620.57</b>	1,579.28
Accrued expenses	<b>262.79</b>	307.18
Advance from customers	<b>829.03</b>	687.52
Other liabilities	<b>69.20</b>	55.58
Unpaid dividend	<b>2.91</b>	2.91
(There is no amount due and outstanding to be credited to the Investor Education and Protection Fund)		
<b>B) Provisions</b>		
Income tax (net)	<b>127.19</b>	244.10
Dividend	<b>117.77</b>	-
Corporate Dividend Tax	<b>20.01</b>	-
Gratuity	<b>78.95</b>	42.64
Leave Encashment	<b>78.87</b>	45.10
	<b>3,233.93</b>	2,991.96

<b>Schedules forming part of Profit and Loss Account for the year ended March 31, 2010</b>		<b>Rs. in Lakhs</b>
	<b>Current year</b>	<b>Previous year</b>
<b>SCHEDULE J - OTHER INCOME</b>		
Interest (others)( TDS Rs. 6.03 lakhs)(Previous year : Rs.11.72 lakhs)	<b>72.24</b>	61.78
Sale of Scrap	<b>48.66</b>	39.69
Profit on sale of asset	<b>7.02</b>	-
Exchange variance	<b>3.03</b>	20.78
Miscellaneous income	<b>0.37</b>	1.02
	<b>131.32</b>	123.27
<b>SCHEDULE K - MATERIALS CONSUMED</b>		
Opening stock of raw materials	<b>2.55</b>	9.56
Add: Purchase of raw materials	<b>888.88</b>	812.47
Closing stock of raw materials	<b>(5.53)</b>	(2.55)
<b>Consumption of raw materials</b>	<b>885.90</b>	819.48
Opening stock of stores and components	<b>591.04</b>	629.51
Add: Purchases of stores and components	<b>3,936.02</b>	2,886.03
Closing stock of stores and components	<b>(679.32)</b>	(591.04)
<b>Consumption of stores and components</b>	<b>3,847.74</b>	2,924.50
	<b>4,733.64</b>	3,743.98
<b>SCHEDULE L - MANUFACTURING EXPENSES</b>		
Job works (processing charges)	<b>420.28</b>	334.26
Packing material	<b>80.17</b>	42.43
Freight and cartage	<b>103.02</b>	120.30
Power and fuel	<b>306.86</b>	225.56
Design stationery	<b>1.55</b>	2.39
Testing charges	<b>0.36</b>	1.36
Repairs and Maintenance - Plant and Machinery	<b>84.93</b>	54.68
	<b>997.17</b>	780.98
<b>SCHEDULE M - (INCREASE)/DECREASE IN INVENTORIES</b>		
<b>Opening Stock</b>		
Finished Goods	<b>414.67</b>	575.07
Work-in-Progress	<b>3,648.41</b>	3,194.08
Scrap	<b>3.55</b>	4.33
	<b>4,066.63</b>	3,773.48
<b>Closing Stock</b>		
Finished Goods	<b>461.33</b>	414.67
Work-in-Progress	<b>3,854.72</b>	3,648.41
Scrap	<b>4.13</b>	3.55
	<b>4,320.18</b>	4,066.63
	<b>(253.55)</b>	(293.15)



**Schedules forming part of Profit and Loss Account for the year ended March 31, 2010**

Rs. in Lakhs

	Current year	Previous year
<b>SCHEDULE N - PERSONNEL COSTS</b>		
Salaries, Wages and Bonus	1,522.34	1,340.86
Contribution to PF and Other Funds	136.49	74.73
Staff Welfare	46.68	40.14
	<b>1,705.51</b>	<b>1,455.73</b>
<b>SCHEDULE O - OTHER EXPENSES</b>		
Rent	0.36	0.36
Rates and Taxes	32.15	19.47
Insurance	8.21	10.11
Travelling and Conveyance	145.75	140.96
Printing and Stationery	20.80	19.42
Postage and Telephones	22.89	29.26
Repairs and Maintenance - Vehicles	38.11	39.38
Directors Sitting Fee	1.48	1.32
Sales Commission	33.64	44.90
Professional Charges	103.80	37.56
Business Promotion Expenses	13.42	16.14
Advertisement	6.81	10.31
Donations	2.25	1.51
Miscellaneous Expenses	44.54	40.80
Security Charges	30.42	23.62
Exhibition expenses	-	54.60
Excise duty relating to Finished Goods	11.51	(51.36)
Service charges	36.56	51.14
Exchange variance	7.23	5.73
	<b>559.93</b>	<b>495.23</b>
<b>SCHEDULE P - INTEREST AND FINANCIAL CHARGES</b>		
Interest		
On Fixed Loans	252.73	148.81
On Others	725.70	746.08
	<b>978.43</b>	<b>894.89</b>
Less: Transferred to Fixed assets	143.40	88.10
	<b>835.03</b>	<b>806.79</b>
Bank and other charges	81.04	74.13
	<b>916.07</b>	<b>880.92</b>

**ACCOUNTING POLICIES AND NOTES TO ACCOUNTS****I SIGNIFICANT ACCOUNTING POLICIES****1) Basis of Accounting**

The financial statements of the Company are prepared under the historical cost convention on an accrual basis and in accordance with the generally accepted accounting principles and Accounting Standards issued by the Institute of Chartered Accountants of India.

**2) Fixed Assets and Depreciation**

- (a) Fixed assets are stated at cost less accumulated depreciation. Cost includes all related expenses incurred up to the date of putting them to use.
- (b) Depreciation is provided at the rates and in the manner specified in Schedule XIV of the Companies Act, 1956 as follows:
  - In respect of Plant & Machinery and Buildings : Straight Line Method
  - In respect of Furniture & Fixtures, Patterns, Vehicles, Office equipment, Computers and Misc. Equipment. : Written Down Value Method

**3) Inventories**

- (a) Raw Materials, Components and Consumable Stores are valued at cost on first in first out basis (FIFO).
- (b) Finished goods and Work-in-progress are valued at lower of cost and net realizable value on full absorption cost basis.

**4) Sales**

Sales includes excise duty are accounted for on dispatch of goods to the customers that generally coincides with the transfer of risk and rewards.

**5) Foreign Currency Transactions**

Transactions denominated in foreign currencies are recorded at the exchange rate prevailing at the time of transaction.

Monetary items denominated in foreign currencies at the year end not covered by forward exchange contracts are translated at year end rates and the difference is charged to the Profit and Loss Account.

**6) Retirement Benefits**

All the Employees of the Company are entitled to retirement benefits of Provident Fund and Gratuity.

- (a) Provision for Gratuity liability to employees is made on the basis of actuarial valuation.
- (b) Provision is made for value of unutilized leaves due to employees at the end of the year.
- (c) Deferred Tax

Deferred Tax is accounted for by computing the tax effect of timing differences that arise during the year and reverse in subsequent periods.

## 7) Leases

Assets acquired under finance leases on or after April 1, 2001 are recognized at the lower of the fair value of the leased assets at inception and the present value of minimum lease payments. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to periods during the lease term at a constant periodic rate of interest on the remaining balance of the liability.

## II NOTES TO ACCOUNTS

### 1) A) Contingent Liabilities not provided for on account of:

(Rs. In Lakhs)

	2009-10	2008-09
a) Letters of Credit	829.89	371.54
b) Bank Guarantees	562.90	321.16

B) Estimated amount of Contracts remaining to be executed on Capital account and not provided for Rs.2150.63 lakhs (31.03.2009: Rs. 2757.17 lakhs) [(Net of Advances Rs.140.00 lakhs) (31.03.2009: Rs.151.00 lakhs)]

- 2) (a) Term loans from State Bank of Hyderabad and State Bank of Indore and Punjab National Bank are secured by equitable mortgage of land, buildings, plant and machinery and hypothecation of all movables (except book debts) including movable machinery, machinery spares, tools and accessories, both present and future on pari passu basis and further secured by the personal guarantee of the Managing Director and Executive Director. The loan from Life Insurance Corporation of India is secured by surrender value of key men Insurance Policies further guaranteed by the personal guarantee of the Managing Director.
- (b) Cash Credit from Banks are secured by hypothecation of stock and receivables and second charge on land, buildings and machinery and further secured by the personal guarantee of the Managing Director and Executive Director.
- (c) Vehicles acquired under finance lease are secured by the hypothecation of the vehicles and further secured by personal guarantee of the Managing Director.

### 3) Composition of Deferred tax (asset)/liability as on 31.03.2010 as follows: (Rs. In Lakhs)

Particulars	Deferred Tax Liability / (Asset) as at 01.04.2009	Current Year Charge / Credit	Deferred Tax Liability / (Asset) as at 31.03.2010
<b>A. Deferred Tax Liabilities</b>			
Difference between book and tax depreciation	696.18 (694.04)	21.36 (2.14)	717.54 (696.18)
<b>B. Deferred Tax Assets</b>			
Others	45.73 (45.10)	23.82 (0.63)	69.55 (45.73)
<b>Net Total (A-B)</b>	<b>650.45 (648.94)</b>	<b>(2.46) (1.51)</b>	<b>647.99 (650.45)</b>

- 4) Advances for capital works under Loans and Advances includes Rs. 478.92 lakhs (Previous year: 310.78) given to M/s MLR Motors Ltd which is under the same management towards purchase of land. The Maximum amount out standing during the year is Rs. 478.92 lakhs. (Previous year: 310.78 lakhs).

**5) Employee Benefits:**

The disclosures as required under the revised AS 15 are as under:

**A) Defined Benefit Plan**

The Company has schemes for long term benefits such as provident fund, gratuity and leave encashment. In case of funded scheme, the funds are recognized by the Income tax authorities and administered through trustees/appropriate authorities. The Company's defined benefit plans include provident fund, gratuity and leave encashment. In terms of Guidance on implementing the revised AS 15, issued by the Accounting Standards of the Institute of Chartered Accountants of India, the provident fund set up by the Company is treated as defined benefit plan since the Company has to meet the interest shortfall, if any. However, as at the year end no shortfall remains unprovided for. It is not practical or feasible to actuarially value the liability of provident fund considering that the rate of interest as notified by the Government can vary annually. Further the pattern of investments for investible funds is as by the Government. Accordingly other related disclosures in respect of provident fund have not been made.

**B) Disclosures for benefit plans based on actuarial reports as on 31.03.2010.**

	Gratuity (Funded Plan)	Leave encashment (Non Funded Plan)
(i) Assumptions:		
Rate of Discounting	8 %	8 %
Future Salary Rise	4 %	4 %
Attrition Rate	12 %	-
Mortality Table	LIC (1194-96)	-

The actuarial value of gratuity liability calculated on the above assumptions works out to be Rs. 90, 10,371 (Rs. Ninety lakhs ten thousand three hundred and seventy one only)

**6 Particulars of Directors Remuneration:**

	(Rs. In Lakhs)	
	2009-10	2008-09
(a) Salary	58.20	66.95
(b) Commission	7.07	-
(c) Provident Fund	0.28	0.33
(d) Directors fees	1.48	1.32
<b>Total</b>	<b>67.03</b>	<b>68.60</b>

**Computation of Net Profit under section 349 of the Companies Act, 1956**
**(Rs. In Lakhs)**

	<b>2009-10</b>	<b>2008-09</b>
Profit as per Profit and Loss Account	640.17	103.66
Add : Director's remuneration	67.03	68.60
Profit u/s.349	707.20	172.26
Commission @ 1 %	7.07	-

**7) Capacities and Production**
**a) Installed capacity**

	<b>2009-10</b>	<b>2008-09</b>
Number of Machines	<b>400</b>	<b>400</b>

(As certified by the Management and relied upon by the Auditors.)

**b) Details of Production, Turnover and Stock of Finished Goods**
**(Machines in Nos.)**

Op. Stock	Production	Sales		Closing Stock	
		Nos.	Rs. In lakhs	Nos.	Rs. In lakhs
22	288*	285	5830.90	23	461.34

\*Includes 2 Number of Machines capitalized.

**(Rs. In Lakhs)**

<b>Sales</b>	<b>2009-10</b>		<b>2008-09</b>	
	<b>Qty</b>	<b>Value</b>	<b>Qty</b>	<b>Value</b>
Special Purpose Machines	18	1273.88	12	1024.03
General Purpose Machines (Indigenous)	259	4203.10	198	3339.77
GPM/SPM Machines (Exports)	8	353.92	23	424.90
Spares		155.78		81.55
Job work charges		5309.25		4285.57
<b>Total</b>	<b>285</b>	<b>11295.93</b>	<b>233</b>	<b>9155.82</b>

**8) Raw materials, stores & components consumed:**
**(Rs. In Lakhs)**

	<b>2009-10</b>	<b>2008-09</b>
Raw Material	885.90	819.48
Stores & Components	3847.74	2924.50

**Note:** The quantitative details of Raw Materials and Stores & Spares are not given as they consist of various types, which are not practicable to give.



9) **Value of Imported & Indigenous raw material consumed and their percentage to total consumption.**

(Rs.In Lakhs)

Particulars	Raw Materials		Stores & Components	
	2009-10	2008-09	2009-10	2008-09
Imported	-	-	654.42	522.55
(% of Total)			(17%)	(18%)
Indigenous	885.90	819.48	3193.32	2401.95
(% of Total)	(100%)	(100%)	(83%)	(82%)
<b>Total</b>	<b>885.90</b>	<b>819.48</b>	<b>3847.74</b>	<b>2924.50</b>
	<b>(100%)</b>	<b>(100%)</b>	<b>(100%)</b>	<b>(100%)</b>

(Figures in brackets relates to the previous year.)

10) **Expenditure in Foreign Currency.**

- Travel Rs.15.49 lakhs (2008-09: Rs.13.10 lakhs)
- Capital Goods: Rs Nil (2008-09: Rs.58.88 lakhs )
- Stores and components Rs. 714.18 lakhs (Rs. 497.46 lakhs)

11) **Earnings in Foreign currency:**

FOB value of goods exported: Rs.353.92 lakhs (2008-09: Rs. 424.90 lakhs)

12) **CIF Value of Imports:**

Stores, spares and components: Rs. 729.96 lakhs (2008-09: 506.37 lakhs)

13) **Auditor's Remuneration:**

(Rs. In Lakhs)

	2009-10	2008-09
Audit Fees	5.51	5.51
Total	5.51	5.51

14) Interest paid, payable or accrued and due to micro, small and medium industries – Nil.

15) **Finance leases**

The Company has outstanding finance leases as at March 31, 2010 on three motor vehicles These arrangements were entered for a period of three to four years. The liability payable in finance leases is analyzed as follows:

(Rs. In Lakhs)

	2009-10	2008-09
Total minimum lease payments	9.02	21.29
Interest	(0.81)	(2.53)
Present value of minimum lease payments	8.21	18.76

Future minimum lease payments under finance lease are as under:

(Rs. In Lakhs)

	Minimum lease payments		Present value of minimum lease payments	
	2009-10	2008-09	2009-10	2008-09
Payable not later than one year	<b>6.25</b>	12.33	<b>5.55</b>	10.60
Payable later than one year and not later than five years	<b>2.77</b>	8.96	<b>2.66</b>	8.16
Total	<b>9.02</b>	21.29	<b>8.21</b>	18.76

#### 16) Earnings per share (EPS)

Basic earnings are calculated by dividing the net profit for the year attributable to equity shareholders by the weighted average number of equity shares outstanding during the year.

(Rs. In Lakhs)

		2009-10	2008-09
Profit after tax as per accounts	A	<b>404.63</b>	37.54
Number of shares issued and subscribed	B	<b>117.77</b>	117.77
Basic EPS (Amount in Rupees)	A/B	<b>3.44</b>	0.32

#### 17) Segment Information

(Rs. In Lakhs)

Particulars	Machine Division	Components Division	Unallocated	Total
<b>Revenue</b>				
External sales	<b>5546.72</b> (4413.02)	<b>4136.18</b> (2991.34)	- -	<b>9682.90</b> (7404.36)
Inter-segment sales	-	-	-	-
Total revenue	<b>5546.72</b> (4413.02)	<b>4136.18</b> (2991.34)	- -	<b>9682.90</b> (7404.36)
<b>Segment Results</b>	<b>950.07</b> (747.44)	<b>1221.09</b> (711.58)	-	<b>2171.16</b> (1459.02)
Corporate expenses			<b>746.24</b> (599.73)	<b>746.24</b> (599.73)
Other income				<b>59.08</b> (61.49)
Interest income				<b>72.24</b> (61.78)

(Rs. In Lakhs)

<i>Particulars</i>	<b>Machine Division</b>	<b>Components Division</b>	<i>Unallocated</i>	<b>Total</b>
Interest expenses				<b>916.07</b> (880.92)
<b>Profit before taxes</b>				<b>640.17</b> (103.66)
Taxes on income				<b>235.54</b> (65.87)
<b>Net profit</b>				<b>404.63</b> (37.54)
Segment Assets	<b>14077.79</b> (13601.69)	<b>6010.87</b> (5630.46)		<b>20088.66</b> (19232.15)
Segment liabilities	<b>8240.71</b> (7828.86)	<b>3318.07</b> (3140.26)		<b>11558.78</b> (10969.12)
Capital expenditure	<b>412.86</b> (429.05)	<b>62.69</b> (856.79)		<b>475.55</b> (1285.84)
Segment depreciation	<b>309.86</b> (292.53)	<b>397.48</b> (354.34)		<b>707.34</b> (646.87)
Non-cash expenses other than depreciation			<b>0.00</b> (0.00)	<b>0.00</b> (0.00)

(Amounts in brackets represent previous year figures)

The primary reporting of the company has been performed on the basis of business segment. The company is organized into two business segments i.e. Machines division and Components division. Segments have been identified and reported based on the nature of the products, risks and returns, the organization structure and the internal financial reporting systems.

Secondary segment reporting is performed on the basis of geographical location of customers. The operations of the company are largely confined to India, with exports contributing to approximately 3.66% of its annual net sales. The management views the Indian market and export market as distinct geographical segments.

Sales by market – The following are the distribution of the company's sales by geographical market:

(Rs. In Lakhs)

	<b>2009-10</b>	2008-09
India	<b>9328.98</b>	6979.46
Exports	<b>353.92</b>	424.90
<b>Total</b>	<b>9682.90</b>	7404.36

Assets and additions to fixed assets by geographical area – The following is the carrying amount of segment assets and additions to fixed assets by geographical area in which the assets are located as on March 31, 2010.

(Rs. In Lakhs)

	<i>Carrying amount of segment assets</i>		<i>Additions to fixed assets</i>	
	<b>31-03-2010</b>	31-03-2009	<b>31-03-2010</b>	31-03-2009
India	<b>19994.70</b>	19112.09	<b>475.55</b>	1285.84
Outside India	<b>93.96</b>	120.06	-	-
<b>TOTAL</b>	<b>20088.66</b>	19232.15	<b>475.55</b>	1285.84

Carrying amount of segment assets outside India represents export receivables.

#### **Segment revenue and results**

The expenses that are not directly attributable to the business segments are shown as unallocated corporate costs.

#### **Segment assets and liabilities**

Segment assets include all operating assets used by a segment and consist principally of debtors, inventories, advances and fixed assets, net of allowances. Assets at the corporate level are not allocable to segments on a reasonable basis and thus the same have not been allocated.

Segment liabilities include all operating liabilities and consist principally of creditors and accrued liabilities.

#### **Inter segment transfers**

There were no inter-segment transfers during the year.

#### **18) Related party disclosures**

##### A) List of related parties and relationships

<b>Sl. No.</b>	<b>Related Party</b>	<b>Nature of relationship</b>
1)	M.Lokeswara Rao	Key Management Personnel
2)	B.Kishore Babu	
3)	K.Krishna Swamy	
4)	M.Srinivas	
5)	M.Srikrishna	
6)	MLR Motors Limited	Entities owned or significantly influenced by Key Management Personnel
7)	M.Vijayalakshmi	Relatives of Key Management Personnel
8)	M.Kanaka Durga	
9)	M.Vasanthalakshmi	
10)	B.Vijayalakshmi	

B) Transactions with related parties during the period ended March 31, 2010

(Rs. In Lakhs)

Sl. No.	Particulars	Key Management Personnel	Entities owned or significantly influenced by Key Management Personnel	Relatives of Key Management Personnel	TOTAL
A)	Job works received		0.00 (2.26)		0.00 (2.26)
	Sales/Service given		47.69(0.00)		47.69(0.00)
B)	Advances for purchase of assets	270.00(0.00)	478.92(310.78)		748.92 (310.78)
C)	Remuneration	58.20 (66.95)			58.20 (66.95)
D)	Dividend paid/provided	0.00(103.67)		0.00 (51.44)	0.00(155.11)
E)	Investment (Share Application Money)		0.00(0.00)		0.00(0.00)
F)	Debit balances outstanding as on March 31, 2010	0.00 (0.00)	884.88(884.88)	14.76 (14.76)	899.64 (899.64)

(Figures in brackets represent transactions for the year 2008-09 / balance as on March 31, 2010)

**19) Derivative Instruments:**

The company has entered into the following derivative instruments:

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

Amounts receivable in foreign currency on account of the following:

(Rs. in Lakhs)

Export of goods	65.24 ( 82.43)	0.97 (1.30)(€)
	28.72 ( 37.63)	0.65 ( 0.82) \$

**20)** Previous year's figures have been regrouped wherever necessary.

As per our report of even date attached

For **BRAHMAYYA & CO**  
Chartered Accountants

FOR AND ON BEHALF OF THE BOARD

**K.S.RAO**  
Partner  
Membership No. 15850

**M. LOKESWARA RAO**  
Managing Director

**B.KISHORE BABU**  
Director

**A. LALITA SWARUP**  
Company Secretary

Place: Hyderabad  
Date: August 14, 2010



<b>Cash Flow Statement for the year ended March 31, 2010</b>		<b>Rs. in Lakhs</b>
<b>Particulars</b>	<b>Year ended March 31, 2010</b>	<b>Year ended March 31, 2009</b>
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Profit before taxes	640.17	103.66
<b>Adjusted for</b>		
Depreciation	707.34	646.87
Financial charges	916.07	880.92
Profit on sale of fixed assets, net	(7.02)	-
Interest Income	(72.24)	(61.78)
<b>Operating profit before working capital changes</b>	<b>2184.32</b>	<b>1569.67</b>
<b>Adjustment for changes in</b>		
Trade and other receivables	(447.42)	412.59
Inventories	(344.81)	(247.67)
Trade and other payables	221.09	(201.45)
<b>Cash generated from operations</b>	<b>1613.18</b>	<b>1533.14</b>
Direct taxes paid	(355.91)	(224.06)
<b>NET CASH GENERATED FROM OPERATING ACTIVITIES (A)</b>	<b>1257.27</b>	<b>1309.08</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Purchase of fixed assets	(717.16)	(1,450.23)
Investments	-	-
Sale of fixed assets	10.00	-
Interest received	76.18	58.46
<b>NET CASH USED IN INVESTING ACTIVITIES (B)</b>	<b>(630.98)</b>	<b>(1391.77)</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Proceeds from borrowings	1,093.39	1,616.90
Borrowings repaid	(743.23)	(440.52)
Dividend paid	-	(292.61)
Interest paid	(916.07)	(880.92)
<b>NET CASH USED IN FINANCING ACTIVITIES (C)</b>	<b>(565.92)</b>	<b>2.85</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS (A+B+C)</b>	<b>60.37</b>	<b>(79.84)</b>
<b>Opening balance of cash and cash equivalents</b>	<b>128.80</b>	<b>208.64</b>
<b>Closing balance of cash and cash equivalents</b>	<b>189.17</b>	<b>128.80</b>
Cash and cash equivalents include restricted balances in the form of Margin Money Deposits	177.76	123.71

As per our report of even date attached

For **BRAHMAYYA & CO**  
Chartered Accountants

FOR AND ON BEHALF OF THE BOARD

**K.S.RAO**  
Partner

**M. LOKESWARA RAO**  
Managing Director

**B.KISHORE BABU**  
Director

Place: Hyderabad  
Date: August 14, 2010

**A. LALITA SWARUP**  
Company Secretary

**BALANCE SHEET ABSTRACT AND COMPANY'S GENERAL BUSINESS PROFILE**
**I. Registration Details**

Registration No.         State Code

Balance Sheet Date

**II. Capital Raised during the year**

(Rs. in Lakhs)

Public Issue        Rights Issue

Bonus Issue        Private Placement

**III. Position of Mobilisation & Deployment of Funds**

(Rs. in Lakhs)

Total Liabilities         Total Assets

**Sources of Funds**

Share Capital        Reserves & Surplus

Secured Loans        Unsecured Loans

Deferred Tax

**Application of Funds**

Net Fixed Assets        Investments

Net Current Assets        Misc. Expenditure

Accumulated Losses

**IV. Performance of Company**

(Rs. in Lakhs)

Total Income        Total Expenditure

Profit/(Loss) before Tax         Profit/(Loss) after Tax

Earnings Per Share in Rs         Dividend Rate (%)

**V. Generic Names of Principal Products / Services of the Company (As per monetary terms)**

ITC Code	Product Description
<input type="text" value=""/> <input type="text" value=""/> <input type="text" value=""/> <input type="text" value="8"/> <input type="text" value="4"/> <input type="text" value="5"/> <input type="text" value="6"/>	General Purpose Machines
<input type="text" value=""/> <input type="text" value=""/> <input type="text" value=""/> <input type="text" value="8"/> <input type="text" value="4"/> <input type="text" value="5"/> <input type="text" value="7"/>	Special Purpose Machines



## LOKESH MACHINES LIMITED

B-29, EEIE, Stage-II, Balanagar, Hyderabad -500037

### TWENTY SIXTH ANNUAL GENERAL MEETING

#### PROXY FORM

Folio No. \_\_\_\_\_ No. of Shares held: \_\_\_\_\_

Client ID: \_\_\_\_\_ DP ID : \_\_\_\_\_

I/We \_\_\_\_\_

being a Member of LOKESH MACHINES LIMITED hereby appoint \_\_\_\_\_

\_\_\_\_\_ of \_\_\_\_\_

as my/our proxy to vote for me / us and on my/our behalf at the 26th Annual General Meeting of the

Company to be held at 10.30 A.M. on Tuesday, September 28, 2010 at Jubilee Hills International Centre,

Near Jubilee Hills check post, Road No 14, Hyderabad -500 033.

Signed this \_\_\_\_\_ day of \_\_\_\_\_ 2010

Re. 1/-  
Revenue  
Stamp

Note: Proxy in order to be effective should be deposited at the Registered Office not later than 48 hours before the commencement of the meeting. Proxy need not be a member of the Company. The form should be signed across the stamp as per the specimen signature registered with the Company.

**Signature of Member**

## LOKESH MACHINES LIMITED

B-29, EEIE, Stage-II, Balanagar, Hyderabad -500037

### TWENTY SIXTH ANNUAL GENERAL MEETING

#### ATTENDANCE SLIP

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.

Member's Reg. Folio No. \_\_\_\_\_ Client ID: \_\_\_\_\_

\_\_\_\_\_ DP ID: \_\_\_\_\_

Name and Address \_\_\_\_\_

I hereby record my presence at the 26th Annual General Meeting held at 10.30 A.M. on Tuesday, September 28, 2010 at Jubilee Hills International Centre, Near Jubilee Hills check post, Road No 14, Hyderabad -500 033.

**Signature of the shareholder / proxy**



**PRINTED MATTER  
BOOK POST**

*If undelivered, please return to :*



**LOKESH MACHINES LIMITED**

B-29. EEIE, Stage - II, Balanagar, Hyderabad - 500 037.

Ph: 040 - 23079310-13