

LETTER OF OFFER

(Private & Confidential)

For Equity Shareholders of the Company Only



BHARAT GEARS LIMITED

(Incorporated as a Public Company on 23/12/1971 at New Delhi under the Companies Act, 1956 and received the certificate for commencement of Business on 05/01/1972 from Registrar of Companies, Delhi & Haryana.)

Registered Office : 20 K.M. Mathura Road, P.O. Amar Nagar, Faridabad – 121 003, Haryana.

Tel: 91-0129-225 0406-13; **Fax:** 91-0129-225 0422;

Email: bglfbd@vsnl.com; **Website:** www.bharatgears.com

Contact person: Mr. Ashish Pandey, Group Leader (Legal) & Company Secretary

Issue of 18,04,115 Equity Shares of Rs. 10/- each for cash at a premium of Rs. 30/- (Issue Price of Rs.40/-) per Equity Share on rights basis to the existing Equity Shareholders of the Company in the ratio of 3 (Three) Equity Shares for every 10 (Ten) Equity Shares (3:10) held as on May 22, 2006 (Record Date) aggregating to Rs. 721.65 lacs. The face value of the Equity Shares is Rs. 10/- per share and the Issue Price is 4 (Four) times the face value.

GENERAL RISKS

Investment in equity and equity related securities involve a degree of risk and investors should not invest any funds in this issue unless they can afford to take the risk of losing their investment. Investors are advised to read the risk factors carefully before taking an investment decision in this Issue. For taking an investment decision, investors must rely on their own examination of the Issuer and the Issue including the risks involved. The securities have not been recommended or approved by the Securities and Exchange Board of India (SEBI) nor does SEBI guarantee the accuracy or the adequacy of this document.


The attention of investors is drawn to the statement of Risk Factors appearing from page no. v to xii of this Letter of Offer.

ISSUER'S ABSOLUTE RESPONSIBILITY

The Issuer, having made all reasonable inquiries, accepts responsibility for, and confirms that this Letter of Offer contains all information with regard to the Issuer and the Issue, which is material in context of the Issue, that the information contained in this Letter of Offer is true and correct in all material respects and is not misleading in any material respect, that the opinions and intentions, expressed herein are honestly held and that there are no other facts, the omission of which makes this document as a whole or any of such information or the expression of any such opinions or intentions misleading in any material respect.

LISTING

The existing Equity shares of the company are listed on Bombay Stock Exchange Limited (BSE), (the Designated Stock Exchange) and National Stock Exchange of India Limited (NSE). The Company has received in-principle approval from BSE vide its letter no. DCS/SMG/SDM/RK/NS/06 dated March 01, 2006 and NSE vide its letter no NSE/LIST/20792-L dated March 07, 2006 for listing of the equity share being issued in terms of this Letter of Offer.

LEAD MANAGER TO THE ISSUE	REGISTRAR TO THE ISSUE
<p>KEYNOTE CORPORATE SERVICES LIMITED</p> <p>KEYNOTE CORPORATE SERVICES LIMITED 307, Regent Chambers, Nariman Point, Mumbai - 400 021 Tel.: (022) 2202 5230 Fax: (022) 2283 5467 E-mail: mbd@keynoteindia.net Website : www.keynoteindia.net SEBI Regn. No.: INM 000003606 AMBI Regn No: AMBI/040</p>	<p> INTIME SPECTRUM REGISTRY LIMITED</p> <p>INTIME SPECTRUM REGISTRY LIMITED C-13, Pannalal Silk Mills Compound, LBS Road, Bhandup West, Mumbai – 400 078 Tel.: (022) 2596 0320 (9 Lines) Fax: (022) 2596 0329 E-mail: bglrights@intimespectrum.com Website:www.intimespectrum.com SEBI Regn. No.: INR 000003761</p>

ISSUE OPENS ON	LAST DATE FOR RECEIVING REQUESTS FOR SPLIT FORMS	ISSUE CLOSES ON
Wednesday, 14/06/2006	Wednesday, 28/06/2006	Thursday, 13/07/2006

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DEFINITIONS/ABBREVIATIONS

CONVENTIONAL / GENERAL TERMS

Act	The Companies Act, 1956 and subsequent amendments thereto
Depositories Act	The Depositories Act, 1996 as amended from time to time
Depository	A Depository registered with SEBI under the SEBI (Depositories & Participant) Regulations, 1996 as amended from time to time
FY/ Financial year or Fiscal Year	The twelve months ended March 31 st of a particular year
Security Certificate	Equity Share Certificate
Security(ies)	Equity Share(s)
SE/ Stock Exchange(s)	BSE and NSE

ISSUE RELATED TERMS

Articles	Articles of Association of Bharat Gears Ltd.
Board	Board of Directors, of Bharat Gears Ltd.
BSE/Designated Stock Exchange	Bombay Stock Exchange Limited
CAF	Composite Application Form
Directors	Directors on the Board of Bharat Gears Ltd.
Equity Shareholders	Equity Shareholders of the Company whose name appear as: <ul style="list-style-type: none"> ✓ Beneficial Owners as per the list furnished by the depositories in respect of Equity Shares held in electronic form and ✓ On the Register of Members of the Company in respect of the Equity Shares held in Physical form
Equity Shares	Equity Shares of the Company of Rs.10/- each
Lead Manager/ LM	Lead Manager to the Issue i.e. Keynote Corporate Services Ltd.
Issue/ Rights Issue	The issue of 18,04,115 Equity Shares of Rs.10/- each for cash at a premium of Rs.30/- (Issue Price Rs.40/-) per Equity Share on rights basis to existing Equity Shareholders of the Company in the ratio of 3 (Three) Equity Shares for every 10 (Ten) Equity Shares held on May 22, 2006 (Record Date) aggregating Rs.721.65 lacs as per this Letter of Offer.
Issue Price	The price at which the equity shares will be issued by the Company under this Letter of Offer.
Issuer/ Company/ BGL	Bharat Gears Ltd.
Letter of Offer/ LOO/ Offer Document	This Letter of Offer dated 23/05/2006 circulated to the Equity Shareholders and filed with the Stock Exchanges containing <i>inter alia</i> the Issue price and the number of equity shares to be issued and other incidental information.
NSE	National Stock Exchange of India Limited

ABBREVIATIONS

AGM	Annual General Meeting
CDSL	Central Depository Services (India) Limited
CLB	Company Law Board
DCA	Department of Company Affairs
DP	Depository Participant



EOGM	Extra Ordinary General Meeting
EPS	Earnings Per Share
FCNR Account	Foreign Currency Non Resident Account
FDI	Foreign Direct Investment
FEMA	Foreign Exchange Management Act, 1999 read with rules and regulations there under and amendments thereto
FI	Financial Institution
FII (s)	Foreign Institutional Investors registered with SEBI under applicable laws.
GIR Number	General Index Registry Number
GOI	Government of India
NA	Not Applicable
NAV	Net Assets Value
NR	Non Resident
NRE Account	Non Resident External Account
NRI(s)	Non Resident Indians
NRO Account	Non Resident Ordinary Account
NSDL	National Securities Depository Limited
MOU	Memorandum of Understanding
PAN	Permanent Account Number
PAT	Profit After Tax
PBDT	Profit Before Depreciation and Tax
PBIDT	Profit Before Interest Depreciation and Tax
PBT	Profit Before Tax
P/E Ratio	Price/Earnings Ratio
ROI	Return on Investment
RBI	The Reserve Bank of India
SBI	State Bank of India
SCRR	Securities Contracts (Regulations) Rules, 1957 as amended from time to time.
SEBI	Securities and Exchange Board of India

COMPANY/INDUSTRY RELATED TERMS

ACMA	Auto Component Manufacturers Association
BIFR	Board for Industrial and Financial Restructuring
BGL	Bharat Gears Ltd.
CAGR	Compounded Annual Growth Rate
CST	Central Sales Tax
EEPC	Engineering Export Promotion Council
ERP	Enterprise Resource Planning
HRD	Human Resource Development

BHARAT GEARS LIMITED

IAS	Indian Administrative Services
ISO	Organisation for International Standard
IDBI	Industrial Development Bank of India Ltd.
LCV	Light Commercial Vehicle
LDO	Light Diesel Oil
LPG	Liquefied Petroleum Gas
MNC	Multinational Corporation
MRP	Material Resource Planning
OEM	Original Equipment Manufacturer
QS	Quality Systems
R&D	Research and Development
TAFE	Tractors and Farm Equipments Limited
TDI	Tech Development Incorporation
US/USA	United States of America
USD	U S Dollar
VAT	Value Added Tax



SECTION I : RISK FACTORS

CERTAIN CONVENTIONS; USE OF MARKET DATA

In this Letter of Offer, unless the context otherwise requires, all references to one gender also refers to another gender and the word “Lakh” or “Lac” means “one hundred thousand” and the word “million” means “ten lac” and the word “Crore” means “ten million”. In this Letter of Offer, any discrepancies in any table between total and the sum of the amounts listed are due to rounding-off.

Throughout this Letter of Offer, all figures have been expressed in Lacs unless otherwise stated. All references to “India” contained in this Letter of Offer are to the Republic of India.

For additional definitions used in this Letter of Offer, see the section “Definitions and Abbreviations” on page iii of this Letter of Offer. Industry data used throughout this Letter of Offer has been obtained from industry publications and other authenticated published data. Industry publications generally state that the information contained in those publications has been obtained from sources believed to be reliable but that their accuracy and completeness are not guaranteed and their reliability cannot be assured. Although we believe industry data used in this Letter of Offer is reliable, it has not been independently verified. Similarly, internal Company reports, while believed by us to be reliable, have not been verified by any independent sources.

FORWARD-LOOKING STATEMENTS

This Letter of Offer contains certain “forward-looking statements”. These forward looking statements can generally be identified by words or phrases such as “aim”, “anticipate”, “believe”, “expect”, “estimate”, “intend”, “objective”, “plan”, “project”, “shall”, “will”, “will continue”, “will pursue” or other words or phrases of similar import. Similarly, statements that describe the objectives, plans or goals also are forward-looking statements.

All forward looking statements are subject to risks, uncertainties and assumptions about the company that could cause actual results to differ materially from those contemplated by the relevant forward-looking statement. Important factors that could cause actual results to differ materially from the expectations include, among others:

- General economic and business conditions in India;
- The ability to successfully implement the strategy, growth and expansion plans and technological changes;
- Changes in the value of Rupee and other currency changes;
- Changes in the Indian and international interest rates;
- Allocations of funds by the Government;
- Changes in laws and regulations that apply to the customers of the Company and the auto ancillary industry;
- Increasing competition in and the conditions of the customers of the Company and the auto ancillary industry; and
- Changes in political conditions in India.

For further discussion of factors that could cause actual results to differ, please see the section titled “Risk Factors” beginning on page no. v of this Letter of Offer. By their nature, certain market risk disclosures are only estimates and could be materially different from what actually occurs in the future. As a result, actual future gains or losses could materially differ from those that have been estimated. Neither the Company, the Directors, any member of the Lead Manager team nor any of their respective affiliates have any obligation to update or otherwise revise any statements reflecting circumstances arising after the date hereof or to reflect the occurrence of underlying events, even if the underlying assumptions do not come to fruition. In accordance with SEBI requirements, the Company and the Lead Manager will ensure that investors in India are informed of material developments until such time as the grant of listing and trading permission by the Stock Exchanges.

RISK FACTORS

An investment in equity shares involves a high degree of risk. The investors shall carefully consider all of the information in this Letter of Offer, in evaluating the Company and its business, including the risks and uncertainties described below, before making any investment decision. If any of the following risks actually occur, the business, financial condition and results of operations could suffer, the trading price of the Equity Shares could decline, and the investors may lose all or part of their investment.

Unless specified or quantified in the relevant risk factors below, the financial or other implications of any of the risks described in this section cannot be quantified:

INTERNAL RISK FACTORS

1. Outstanding Litigations/disputes/cases pending against the Company/ Promoter / Directors and Group companies :

I. Litigations against the Company

The Company is involved in certain legal proceedings, incidental to its business and operations, which if determined against the Company, may have an adverse impact on the results of its operations and financial condition.

Sr. no	Particulars	No. of cases/disputes	Approx. amount involved where quantifiable (Rs. in lacs)
1	Civil Proceedings	06	6.58
2.	Labour Cases	10	No financial liability Amount Not quantifiable
3.	Income Tax related appeals (Tax liability)	06	66.90
4.	Sales Tax related	03	6.33

For more information please refer to the section “Outstanding Litigations and Defaults” commencing on page no. 80 of this Letter of Offer.

II. Litigations pending against Group Companies

There are no outstanding litigations against any group companies of BGL except Raunaq International Limited, which is involved in certain legal proceedings, incidental to its business and operations, which if determined against RIL, may have an adverse impact on the results of its operations and financial condition. The brief particulars of the pending litigations are as follows:

Sr. no	Particulars	No. of cases/disputes	Approx. amount involved where quantifiable (Rs. in lacs)
1	Civil Proceedings	05	99.63
2.	Income Tax related appeals (Tax liability)	04	8.37
3.	Sales Tax related	03	38.86
4.	Excise related demand	02	70.26

For more information please refer to the section “outstanding litigations against group companies” commencing from page no. 84 of this Letter of Offer.



III. **Litigation pending against Promoters/Directors of the Company**

There are no litigations pending against Promoters / Directors except one litigation pending against a non-executive independent director. The details pertaining to the said litigation is given below:

Dr. Ram S.Tarneja was a non-executive alternate Director of Forward Securities Limited, registered under the Companies Act, 1956, - a non banking financial company. He resigned on July 24, 2000. A complaint was filed against Dr. Tarneja among the other directors of the Company under the Maharashtra Protection of Interests of Depositors (in Financial Establishments) Acts, 1999 (the "Act") for fraudulent defaults in repayment of deposits by the Company. The Complaint now here states that Dr. Tarneja was in the management of the affairs of the company. Dr. Tarneja had also filed a Writ Petition, being Writ Petition No.1900 of 2002 in the Bombay High Court challenging the constitutional validity of the Act. The Writ Petition was a part of group petitions which were heard by a Full Bench of three judges of the Bombay High Court in August, 2005. The Full Bench held that the Maharashtra legislature was not competent to pass the Act and struck down the Act as unconstitutional. The Government of Maharashtra has filed an appeal in the Supreme Court, being Appeal No. CA 6475-79/05, which is pending. In the Appeal, the Supreme Court passed an order on November 18, 2005 in which the Court directed that in the case of pending cases, status quo as on the date of the Order shall be maintained. The case against Dr. Tarneja was already stayed by the High Court and that stay, therefore, continues. Dr. Tarneja had also filed an application in the Designated Court in Nagpur, the Case No. 1 of 2002 for his discharge on various grounds. Since that application was not entertained, a Revision Petition Application No.1919 of 2003 has been filed before Nagpur Bench of Bombay High Court, which has been admitted and the same is pending.

2. **Risk associated with contingent liabilities**

As on 31/03/2006, the company has contingent liabilities not provided for in respect of items detailed below:

(Rs. in lacs)

Particulars	As at March 31, 2006
Bills discounted	635.35
Claims against company not acknowledged as debts:	
- Sales tax	7.63
- Employees State Insurance Corporation	5.80
Income tax	66.90
Guarantee given to Housing Development Finance Corporation for loans availed by employees	8.74

In the event such contingent liabilities materializes it may have an adverse affect on the company's financial performance.

3. **Past Losses and non payment of dividend in past five years**

The company has made losses from FY 2001 to FY2004. The company had incurred losses in these years on account of high input cost, depreciation and financial charges. The details of the losses made by the company is given below:

Year	Amount (Rs. in lacs)
2001	407.22
2002	1295.99
2003	970.81
2004	167.68

The company recorded profits in the FY 2005 and FY 2006. This was on account of robust growth registered in heavy/ medium commercial vehicle, utility vehicle and tractor segments of automobile industry where the company is a major player. The Company has not paid dividend on equity shares for the past five years.

4. *Volatile price of steel which is the main raw material consumed by the company and spiraling cost of LPG/LDO may affect the profitability of the company.*

The principal raw material in making automotive Gears is alloy steel and alloy steel forgings. Off late, the steel prices have been on an upward trend. There has been an increasing trend in the prices of LPG/LDO. Any increase in the prices of the steel and fuel would adversely impact the business of the Company. Further, it being a consumer market and to retain competitiveness, the company is not always able to pass on all the increase in steel prices to the customers. The cost of fuel has increased by about Rs. 220 lacs and raw material has increased by about Rs. 34 lacs as compared to the previous year. Further, the Faridabad plant is entirely dependent on generated power and increase in diesel cost will affect the profitability of the Company.

5. *The technical agreement between the Company and ZF Friedrichshafen has not been renewed.*

The Company had entered into an agreement with ZF Friedrichshafen for Licensed Products/Technology dated 25.03.1985 / 19.04.1985. The said agreement expired on 09.12.2005 and was not renewed further. Due to the expiry of the said agreement the facility of training of employees of BGL at ZF or by ZF Personnel is no longer available to BGL. BGL's right to be appointed as exclusive agent in India for ZF vehicle transmissions & components is extinguished. However, the Company has the right to further use and keep the documentation and to manufacture and to sell the Licensed Products under the provisions of this Licence Agreement, but without further payments.

6. *BGL's business is dependent on the manufacturing facilities. The loss of or shutdown of operations at any of the manufacturing facilities may have a material adverse effect on the business, financial condition and results of operations.*

The Company's principal manufacturing facilities, located at Mumbra and Faridabad are subject to operating risks, such as breakdown or failure of equipment, power supply or processes, performance below expected levels of output or efficiency, obsolescence, labour disputes, strikes, lock-outs, earthquakes and other natural disasters, industrial accidents and the need to comply with the directives of relevant government authorities. The occurrence of any of these risks could significantly affect the operating results. Although the Company normally carries out planned shutdowns of the aforesaid plants for maintenance, and takes precautions to minimize the risk of any significant operational problems at these facilities, the business, financial condition and results of operations may be adversely affected by any disruption of operations at the facilities, including due to any of the factors mentioned above.

7. *Changes in technology may impact the business by making the plants less competitive*

Application of advanced technology in making automotive components in India, may require the company to make additional capital expenditure for upgrading the manufacturing facilities. In case the company is unable to keep up with the growth rate of technology improvement or process change, the company may be unable to service the demand which may adversely affect the revenue.

8. *Seasonality of the business*

Demand in automotive gear market gets affected marginally due to seasonality, especially the tractor segment, where demand is low during monsoons and peaks during harvesting season.

9. *Geographical Concentration*

Company exports approximately 45% of its total exports sales to USA. Thus USA is the major client for company's exports. This could have a material adverse effect on business of the Company

10. *All the assets of the company, at both its plants have been mortgaged with the Financial Institutions in lieu of the loan taken by them.*

11. *Presently the Company is utilizing 66% of its installed capacity.*



12. The value of BGL's brand and sales could be diminished if the company is associated with negative publicity.

BGL's business is dependent on the trust the customers have in the quality of the merchandise. Any negative publicity regarding the company, brands, or products, or any other unforeseen events could adversely affect the company's reputation and results from operations.

13. Pending Government approvals

The following licences/certificates for the manufacturing facilities of the Company located at Faridabad having different validation dates are under renewal:

Nomenclature	Nature of license	Validation Date:	Remarks
Air Pollution Emission License	Consent for emission of Air Pollutants	31.03.2005	Applied for renewal on 11.02.2005
Water Effluent Discharge License	Consent for discharge of effluent	31.03.2005	Applied for renewal on 11.02.2005
Waste Management License	Authorisation for operating a facility for collection, reception, treatment, storage, transportation and disposal of Hazardous wastes	31.03.2005	Applied for renewal on 11.02.2005

14. BGL's success depends largely on the senior management and the company's ability to attract and retain the key personnel.

BGL's success depends on the continued services and performance of the members of the management team and other key personnel. Competition for senior management in the industry is intense and the company may not be able to retain the existing senior management or attract and retain new senior management in the future. The loss of the services of the Promoters could seriously impair the ability to continue to manage and expand the company's business. Further, the loss of any other member of the senior management or other key personnel may adversely affect the business, results of operations and financial condition. The Company does not maintain 'key man' life insurance for the Promoters, senior members of the management team or other key personnel.

15. The redemption of preference shares has been rolled over by IDBI.

The proposed redemption of preference shares through the proceeds of the present rights issue has been rolled over by IDBI. To that extent there has been a delay in schedule of implementation.

16. Promise Versus Performance

The Company made a Composite Issue of Equity Shares and 9.5% Redeemable Cumulative Preference shares in 29/11/1972. The Issue was made with the object of providing a part of the finance required for setting up of a Plant at Village Sheel and Kausa in Thane District, for manufacture of Automotive Gears of various types at an estimated cost of Rs. 4.60 Crores and production was scheduled to commence by December, 1973. The Project was commissioned during May, 1974, hence there was a delay of 5 months.

17. Loss Making Group Companies

The following group companies of BGL have made losses during one or more of the last three financial years (as per the latest available audited results).

(Rs. in Lacs)

Particulars (as at 31 st March)	2004-05	2003-04	2002-03
Ultra Consultants Pvt. Ltd.	0.80	(0.33)	(0.66)
Clip Lok Simpak (India) Pvt. Ltd.	(0.16)	0.79	1.22

18. The Objects of the Issue for which funds are being raised has not been appraised by any Bank or Financial Institution

The funds raised through the present Rights Issue are not being utilized for any project specific but for repayment of outstanding term loans and repayment of preference shares. Objects of the Issue for which the funds are being raised have not been appraised by any Bank or Financial Institution. In the absence of any such independent appraisal, the requirement of funds raised through this Issue as stated in the section titled "Objects of the Issue" are based on the Company's estimates and deployment of these funds is at the discretion of the management and Board of Directors.

19. Arrears of dividend on preference shares not paid

The company has not paid dividend on the preference shares since 2002. The arrears of dividend are as follows:

(Rs. in lacs)

Particulars	As at March 31, 2002	As at March 31, 2003	As at March 31, 2004	As at March 31, 2005	As at March 31, 2006
Arrears of Dividend on cumulative preference shares	32.47	48.41	73.97	109.82	145.67

In addition to above, in respect of certain subscription agreements for preference shares, in the event of withdrawal of benefit available for exemption of tax on dividend income under section 10(33) of the Income Tax Act, 1961, the company has to pay dividend at a rate of 7.00% higher than the coupon rate from the date of withdrawal till the date of redemption. Further, in case of default on payment of dividend, 2% per annum over and above the normal coupon rate payable from the date of default till the date of actual payment.

20 Risk related to the Notes to the Accounts as given in the Auditor's Report for the adjusted financial statement for the last five years.

Mumbra plant of the company was shut down from August 10, 2001 to November 30, 2001 due to labour unrest. This resulted in loss of production and sales, which affected the profitability of the company for the year ended March 31, 2002.

21. Leasehold land in Faridabad has not been transferred in the name of the Company.

Pursuant to the sanction of the scheme of rehabilitation/ merger, by the BIFR vide its Order dated 6.10.1998, of erstwhile Universal Steel & Alloys Limited (USAL) with the Company, all the properties, assets including the Leasehold Lands, Liabilities etc., got vested in the Company. The Leasehold Lands are in the possession of the company pursuant to two 99 years Lease agreements/deeds entered on separate dates, by erstwhile USAL with Arya Pratinidhi Sabha, Punjab. No fresh/supplemental agreements/deeds have yet been entered by the Company for transfer of the said leasehold lands in the name of the company.



EXTERNAL RISK FACTORS

1. Risks relating to slowdown in auto markets

BGL is engaged in manufacturing of automotive gears and is mainly a player in Heavy/Medium Commercial vehicles and Tractor segment and is catering to both domestic and export markets as an OEM and aftermarket supplier of gears. Its performance depends on the performance of automobile sector engaged in the aforesaid market segments. Hence any slow down in demand in the Heavy/Medium Commercial Vehicle automobiles and Tractors would affect the company's performance. Historically, the fortunes of the Indian Auto Ancillary Sector are closely linked to those of the Automobile Sector. The demand swings in the 2 wheeler, passenger cars or commercial vehicles had a major impact on the auto ancillary makers. The downtrend in the domestic Automobile Industry especially in the 1997-00 period left the component makers into tough and challenging times.

2. The Company faces significant competition from the existing companies and future entrants in the industry

BGL conducts the business under a highly competitive environment. Competition is characterized by many factors, including innovation, after sale services, price, quality, service, location, reputation and credit availability. Further, the company mainly caters to the OEM and the replacement markets. The replacement market is price sensitive and the company faces competition from the unorganized sector, which is able to compete at lower prices due to application of low end technology. The company may not be able to match the price provided by the unorganized sector, which could limit its growth potential. Further, with the progressive reduction of import duties and norms for foreign direct investment being eased, the Company is exposed to competition from abroad and potential new entrants.

3. Buyer's Market

The auto components market has become a buyers market during the past decade, which has led to significant pressure on operating margins of the auto component suppliers.

4. The company is subject to adverse impact of economic and political conditions.

Global economic and political factors that are beyond the control, influence may directly affect performance. These factors include interest rates, rates of economic growth, fiscal and monetary policies of governments, inflation, deflation, consumer credit availability, consumer debt levels, tax rates and policy, unemployment trends, terrorist threats and activities, worldwide military and domestic disturbances and conflicts, and other matters that influence consumer confidence, spending and tourism. Increasing volatility in financial markets may cause these factors to change with a greater degree of frequency and magnitude. The taxation system within the country still remains complex.

5. Terrorist attacks or acts of war may seriously harm the company's business

Terrorist attacks may cause damage or disruption to company, its employees, facilities and the customers, which could impact the sales and results from operations. Any future terrorist attacks, the national and international responses to terrorist attacks, or other acts of war or hostility may cause greater uncertainty and cause the company's business to suffer in ways that cannot be predicted

6. The company is subject to risks arising from exchange rate fluctuation

Uncertainties in the global financial markets may have an adverse impact on the exchange rate between Rupee vis-à-vis other currencies. The exchange rate between Rupee and other currencies is variable and may continue to remain volatile in future depending upon the foreign exchange reserve position of India. Fluctuations in the exchange rates may have a serious impact on the revenues from the export business.

7. BGL's equity shares may experience fluctuations in the stock price, which may affect the trading price of the equity shares issued in this Offering.

The stock market in general and the market for shares of auto-ancillary companies in particular, have from time to time experienced considerable price fluctuations. Often, these changes may have been unrelated to the operating performance of the affected companies. In addition, factors such as competition, general regional and national economic conditions, bulk deal in Company's stocks, consumer trends and preferences, new product introductions may have an adverse effect on the market price of Company's shares.

NOTES:

1.	Pre issue Networth as on 31/03/2006	:	Rs. 1605.77 lacs
	Pre-issue Net Asset value per share (as on 31/03/2006)	:	Rs. 18.07
	Issue Size	:	Rights Issue of 18,04,115 Equity Shares of Rs. 10/- each for cash at a premium of Rs. 30/- (i. e. Issue Price of Rs. 40/-) per Equity Share aggregating Rs.721.65 lacs.
	Cost per share to the promoter	:	Rs. 24.35

2. There is no interest of promoters/directors/foreign collaborators/key management personnel other than reimbursement of expenses incurred or normal remuneration or benefits except to the extent of shareholding held by them or their relatives and associates and persons acting in concert or held by the associate/group Companies, firms & trusts in which they are directors, members, partner and/or trustee and to the extent of benefits arising out of such shareholding.

There is no transaction during the past 6 months on the stock exchanges in the equity shares of the Company by the Promoters/Promoter group/Directors of the Company except as follows:

Name of the entity	Nature of transaction	Date	Rate per share (Rs.)	No. of shares	Consideration
Future Consultants Private Limited	Market Purchase	17/01/2006	88.55	1,000	Cash
Mr. Devinder S. Puri	Market Purchase	29/03/2006	72.68	410	Cash
		28/03/2006	72.65	6075	
		28/03/2006	72.35	2781	
Ms. Reetika Puri Kanwar	Market Purchase	13/03/2006	77.51	3050	Cash
		13/03/2006	77.33	615	
		10/03/2006	80.62	4800	
		10/03/2006	81.73	200	
		09/03/2006	80.15	4508	
		08/03/2006	80.84	1220	
		08/03/2006	81.51	2600	
Samreet Investment and Management Consultancy Private Ltd.	Market Sale	13/03/2006	78.35	6064	Cash
		10/03/2006	80.58	5683	
		09/03/2006	80.21	4456	
		08/03/2006	81.15	3297	



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3. For details on Related party disclosures refer page no. 67 of this Letter of Offer.
 4. For details on loans and advances made by the Company refer page no. 67 of this Letter of Offer.
 5. All information shall be made available by the Lead Managers and the company to the public and investors at large and no selective or additional information would be available only to a section of the investors in any manner whatsoever.
 6. The Lead Manager and the Company shall update this Letter of Offer and keep the shareholders/public informed of any material changes till the listing and trading commencement.

PART I**SECTION II : INTRODUCTION****INDUSTRY SUMMARY**

The Indian auto component industry has grown over the years to become not only technologically advanced, but has also achieved strong international repute. The growth of auto ancillary industry depends on the performance of domestic automobile industry and the demand from global markets. The remarkable growth of domestic market is represented by rising demand for vehicles on the back of improving infrastructure and rising per capita income. Indian auto component industry has gained global eminence mainly due to its improving quality standards, lower labour costs, adopting and maintaining quality processes like TQM, JIT, etc. Today, Indian component manufacturers have global giants like GM, Ford, Daimler Chrysler, Cummins, Delphi, etc as their customers.

Indian auto components industry is a fragmented industry, of which organized sector accounts for about three- fourth of the total market size while the unorganized sector accounts for the balance. The unorganized segment focuses mainly on the replacement market on account of lower operating costs and excise exemptions. There are more than 400 players in organized sector. The market for auto components can be classified into original equipment manufacturers [OEMs] (accounting for around 60% of demand), replacement market (accounting for around 25% of demand) and export market (accounting for the balance 15%).

The Indian Auto component industry is currently estimated at Rs. 300 billion of which exports form 15% at Rs 45billion. The industry is no longer solely dependant on domestic automobile industry. India is slowly and steadily attracting the global auto makers to outsource auto components. Vehicle makers in high-cost countries like North America and Europe, impelled by increasing cost pressure in their home markets, are likely to increase purchase of auto parts from low cost countries like Brazil, China, India and Thailand. Indian companies are currently vying with their counterparts in China, Mexico, Brazil and Thailand to emerge as key suppliers to global companies.

COMPANY SUMMARY

Bharat Gears Limited (BGL) is one of the Leading Gear Manufacturers in India. The company is mainly a player in the Heavy/ Medium Commercial vehicles and Tractor segment. The Company has a financial collaboration with ZF Friedrichshafen AG [ZF] of Germany, a world leader in transmission technology. Further the company houses the latest technical facilities and even constructs its own tailor made furnaces for manufacture of its products. The company has developed the technical excellence to manufacture a variety of automotive gears both for domestic and export consumption and is a leading player in the domestic market.

The company caters to both the domestic and export markets. OEMs and exports account for around 80% of the total customer portfolio, the balance being the replacement market. Presently, exports [primarily US] account for around 15% of the total revenues of the company.

The Faridabad plant of BGL is accredited with the status of ISO/TS-16949 and ISO 14001:1996 and the Mumbra plant is accredited with the status of ISO/TS-16949. BGL is internationally reputed for its cutting edge technology, established quality processes, and capabilities developed over the years. With customer satisfaction at the foundation of its entire operation, BGL is dedicated to maintaining the Company's commitment to providing the highest quality products, the best customer service and the safest operating conditions in the industry.

KEY STRENGTHS OF THE COMPANY

- The Company has been engaged in manufacture of automotive gears since more than 30 years.
- The Company had entered into an agreement with ZF Friedrichshafen for Licensed Products/Technology dated 25.03.1985 / 19.04.1985. The said agreement expired on 09.12.2005 and was not renewed further. However, the Company has the right to further use and keep the documentation and to manufacture and to sell the Licensed Products under the provisions of this Licence Agreement, but without further payments.
- Skilled manpower.
- The company has an extensive network of dealers across the country to serve its after market sales.
- The company has a strong brand equity.
- The company has two locations with ideal proximity to its markets.
- Large OEM customer base both in India and abroad.



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- Faridabad plant has successfully achieved certification under ISO/TS 16949 and ISO 14001:1996 and the Mumbra plant has successfully achieved certification under ISO/TS 16949-a second edition which is an upgradation from QS 9000 and ISO 9001:2000.
 - Long term contracts with most domestic and export OEM's.

Objects of the Issue

1. Repayment of 1,50,000 10% Cumulative Redeemable non-convertible preference shares of Rs. 100/- each.
2. Repayment of a part of the outstanding Term loans.

Issue Details

Issue of 18,04,115 Equity Shares of Rs. 10/- each for cash at a premium of Rs. 30/- (Issue Price of Rs.40/-) per Equity Share on rights basis to the existing Equity Shareholders of the Company in the ratio of 3 (Three) Equity Shares for every 10 (Ten) Equity Shares held on May 22, 2006 (Record Date) aggregating Rs.721.65lacs. The face value of the Equity Shares is Rs. 10/- per share and the Issue Price is 4 times the face value.

SUMMARY OF FINANCIAL DATA

STATEMENT OF ADJUSTED ASSETS AND LIABILITIES

(Rs. in lacs)

	Particulars	As at March 31, 2002	As at March 31, 2003	As at March 31, 2004	As at March 31, 2005	As at March 31, 2006
A.	Fixed Assets :					
	Gross Block	15364.28	15251.96	15428.09	15796.68	16494.97
	Less: Depreciation	6790.15	7668.15	8512.02	9385.65	10241.76
	Net Block	8574.13	7583.81	6916.07	6411.03	6253.21
	Less : Revaluation Reserve	788.65	773.99	752.05	737.81	723.57
	Net Block after Revaluation Reserve	7785.48	6809.82	6164.02	5673.22	5529.64
	Add : Capital Work in Progress and Advances on Capital Account	10.35	13.36	110.35	195.98	679.51
	Total	7795.83	6823.18	6274.37	5869.20	6209.15
B.	Investments	86.20	86.20	86.20	-	-
C.	Deferred Tax Assets	1087.42	1116.95	1293.02	1228.95	960.71
D.	Current Assets, Loans and Advances :					
	Inventories	1585.14	1312.02	1571.98	2036.66	2385.87
	Sundry Debtors	2463.49	2376.17	2326.67	3302.16	3603.97
	Cash and Bank Balances	308.51	430.67	593.93	504.68	568.59
	Loans and Advances	697.40	775.66	897.40	1062.61	954.03
		5054.54	4894.52	5389.98	6906.11	7512.46
E.	Liabilities and Provisions :					
	Secured Loans	5841.18	6897.68	7494.85	7705.18	7567.32
	Unsecured Loans	153.41	55.67	172.48	264.88	100.16
	Finance Lease Obligations	16.48	13.21	9.45	24.68	61.68
	Deferred Tax Liabilities	1082.33	1116.95	1293.02	1228.95	960.71
	Current Liabilities and Provisions	5248.14	4143.55	3274.19	3542.34	4386.68
		12341.54	12227.06	12243.99	12766.03	13076.55
F.	Networth (A+B+C+D-E)	1682.45	693.79	799.58	1238.23	1605.77
G.	Represented by					
	1. Equity Share Capital	601.37	601.37	601.37	601.37	601.37
	2. Preference Share Capital	150.00	150.00	358.50	358.50	358.50
	3. Reserves and Surplus	3084.84	3070.18	3048.24	2950.66	2936.42
	Less: Revaluation Reserve	788.65	773.99	752.05	737.81	723.57
	Reserves and Surplus (Net of revaluation reserve but without adjustment of debit balance in the Profit and Loss Account)	2296.19	2296.19	2296.19	2212.85	2212.85
	4. Debit balance in the Profit and Loss Account	1138.25	2109.06	2276.74	1767.47	1405.98
	5. Miscellaneous Expenditure (to the extent not written off or adjusted)	226.86	244.71	179.74	167.02	160.97
	Networth (1+2+3-4-5)	1682.45	693.79	799.58	1238.23	1605.77



STATEMENT OF ADJUSTED PROFITS AND LOSSES

(Rs. in lacs)

	Particulars	Year ended March 31, 2002	Year ended March 31, 2003	Year ended March 31, 2004	Year ended March 31, 2005	Year ended March 31, 2006
	Income					
	Sales :					
a.	Of products manufactured by the Company including processing charges and tooling development	8553.24	10426.17	10921.48	16619.41	18410.28
b.	Of products traded in by the Company	72.79	36.44	30.37	72.87	254.20
	Total Gross Sales	8626.03	10462.61	10951.85	16692.28	18664.48
	Less : Excise Duty	1131.96	1437.34	1589.81	2252.62	2346.58
	Net Sales	7494.07	9025.27	9362.04	14439.66	16317.90
	Other Income	316.55	493.49	995.67	448.58	415.97
	Increase /(Decrease) in Inventories	(328.69)	(149.80)	116.22	263.20	92.03
	Total	7481.93	9368.96	10473.93	15151.44	16825.90
	Expenditure					
	Raw Materials and components consumed	2819.92	3060.38	3206.57	5555.92	6309.18
	Purchase of finished goods	51.62	19.01	20.38	55.77	216.37
	Staff Costs	1794.07	2149.29	2260.89	2712.22	2936.08
	Stores, spares & packing materials consumed	407.32	479.28	526.64	776.47	867.50
	Loose tools consumed	285.40	258.17	281.21	472.65	576.32
	Processing charges	238.22	284.96	337.31	483.84	620.30
	Power and fuel	724.66	935.14	990.19	1344.95	1578.21
	Freight, forwarding and other charges	95.48	120.47	89.38	196.66	194.68
	Commission to selling agents	26.56	34.41	22.17	43.74	39.94
	Other expenses	985.56	1000.92	911.46	1052.16	1137.05
	Interest and other finance charges	971.60	1080.01	1110.57	1112.11	971.08
	Depreciation	834.50	912.64	884.84	919.02	928.70
	Total	9234.91	10334.68	10641.61	14725.51	16375.41
	Net Profit / (Loss) before tax	(1752.98)	(965.72)	(167.68)	425.93	450.49
	Provision for tax :					
	Current Tax	—	—	—	—	33.00
	Deferred Tax charge/ (credit)	(456.99)	5.09	—	—	—
	Fringe Benefit Tax	—	—	—	—	56.00
	Net Profit/(Loss) after tax	(1295.99)	(970.81)	(167.68)	425.93	361.49

ACCOUNTING RATIOS

Particulars	Unit	Year ended March 31, 2002	Year ended March 31, 2003	Year ended March 31, 2004	Year ended March 31, 2005	Year ended March 31, 2006
Nominal value of shares	Rupees	10	10	10	10	10
Basic and diluted earnings per Share	Rupees	-22.09	-16.44	-3.27	6.41	5.33
Net Asset Value per share	Rupees	24.94	8.20	6.02	12.64	18.07
Return on net worth	Percentage	-77.03%	-139.93%	-20.97%	34.40%	22.51%

GENERAL INFORMATION

Name of the Company	:	Bharat Gears Limited
Registered Office	:	20 K.M. Mathura Road, P.O. Amar Nagar, Faridabad – 121 003, Haryana. Tel: 91-0129-225 0406-13; Fax: 91-0129-225 0422; Email: bglfbd@vsnl.com Website: www.bharatgears.com
Works	:	☞ Village Kausa Shil, Mumbra Distt. Thane – 400 612, Maharashtra ☞ 20 K.M. Mathura Road, P.O. Amar Nagar, Faridabad – 121 003, Haryana
Corporate Office	:	Hoechst House, 14 th Floor, Nariman Point, Mumbai – 400 021.
Name of the stock exchanges where the equity shares of the Company are listed	:	▪ Bombay Stock Exchange Ltd (The Designated Stock Exchange) ▪ National Stock Exchange of India Ltd. (NSE)
Registration No.	:	05-34365
Contact person:	:	Mr. Ashish Pandey, Group Leader (Legal) & Company Secretary
Registrar & Transfer Agent	:	Intime Spectrum Registry Ltd. 3 rd Floor Phase I A-31, Naraina Industrial Area, Near Payal Cinema, New Delhi – 110 028 .
Registrar to this Issue	:	Intime Spectrum Registry Ltd. C-13, Pannalal Silk Mills Compound, LBS Road, Bhandup West, Mumbai – 400 078

IMPORTANT

1. This Issue is pursuant to the resolution passed by the shareholders in the Extraordinary General Meeting held on 14th December, 2005.
2. This Issue is applicable to such Equity Shareholders whose names appear as beneficial owners as per the list to be furnished by the depositories in respect of the Equity Shares held in the electronic form and on the Register of Members of the Company at the close of business hours on the May 22, 2006 (Record Date)
3. Your attention is drawn to the section on risk factors starting from page no. v of this Letter of Offer.
4. Please ensure that you have received the CAF with this Letter of Offer.
5. Please read the Letter of Offer and the instructions contained herein and in the CAF carefully before filling in the CAFs. The instructions contained in the CAF are an integral part of this Letter of Offer and must be carefully followed. An application is liable to be rejected for any non compliance of the Letter of Offer or the CAF.
6. All enquiries in connection with this Letter of Offer or CAFs should be addressed to the Registrar to the Issue, quoting the Registered Folio number/ DP and Client ID number and the CAF numbers as mentioned in the CAFs.
7. The Lead Manager and the Company shall make all information available to the Equity Shareholders and no selective or additional information would be available for a section of the Equity Shareholders in any manner whatsoever including at presentations, in research or sales reports etc. after filing of the Letter of Offer with SEBI.
8. All the legal requirements as applicable till the filing of the Letter of Offer with the Designated Stock Exchange have been complied with.



BOARD OF DIRECTORS

The Board of Directors of the Company comprises of:

Name of the Director	Designation	Status
Mr. Surinder P. Kanwar	Chairman and Managing Director	Executive and Non-Independent
Mr. Sameer Kanwar	Executive Director	Executive and Non-Independent
Mr. W.R. Schilha	Director	Non Executive and Independent
Mr. A.F. Hartmann	Director	Non Executive and Independent
Dr. Ram S. Tarneja	Director	Non Executive and Independent
Mr. N.J. Kamath	Director	Non Executive and Independent
Mr. V.K. Pargal	Director	Non Executive and Independent
Mr. J.S. Bhandari	Director	Non Executive and Independent

Mr. Surinder P. Kanwar, Chairman & Managing Director

Mr. Surinder P. Kanwar, (53 years) is the Chairman & Managing Director of Bharat Gears Limited. A Commerce graduate from Delhi University, Mr. S. P. Kanwar is immensely experienced & has in-depth knowledge of the core business of the company i.e. Automotive Gears. He has wholesome exposure on all aspects of business of the company and is engaged in supervision & conduct of business of the Company, along with a team of senior management personnel, who assist him in carrying out his activities, subject to the overall supervision & control of the Board.

He has been associated with Late Dr. Raunaq Singh Group since 1975. He has also worked at various managerial positions in various Raunaq Group Companies viz. BST Manufacturing Limited (Bharat Steel Tubes Limited), Raunaq International Limited, Raunaq & Company Pvt. Ltd., to name a few. Mr. S. P. Kanwar is on the board of Bharat Gears Limited Company since 29th September, 1982. He served as a Joint Managing Director of Bharat Gears Limited for a period of 4 years w.e.f. 01.01.1983 till 31.12.1987. He is the Managing Director of the Company since 01st October 1990. He is also the Chairman & Managing Director of M/s Raunaq International Limited, a company engaged in engineering and consulting business. He is also a Director in a closely held Public Limited company and few Private Limited companies.

Mr. Sameer Kanwar, Executive Director - Strategic Planning

Mr. Sameer Kanwar, (28 years) Executive Director- Strategic Planning, is on the Board of Bharat Gears Limited since 1st February 2002. Mr. Sameer Kanwar holds a Bachelor's Degree in Business Economics from York University, Canada. He subsequently received training in the areas of planning, finance and control at ZF Friedrichshafen AG, Germany, BGL's collaborator, for 2 years, where he was exposed to the areas of Controlling, Purchasing and General Management. Subject to the overall supervision & control of the Board, he is engaged in overseeing Operations at the Faridabad Plant of Bharat Gears Limited and exploring and developing new customers, markets.

Mr. W R Schilha, Director

Mr. Wolfgang, Rudolf Schilha, (55 years) is a Director on the Board of the Company since 26.2.1986 as a representative of, ZF Friedrichshafen AG, Germany, the foreign collaborators of the Company. Mr. Schilha, in Tettngang, Germany is a Graduate of Business Administration. He is a Senior Vice President, Member of the executive board at ZF's Commercial Vehicle Driveline Division. He is head of Marketing, Service and Aftermarket as well as head of Strategy, Business Unit "Bus Driveline Technology". He is also the chairman of ZF Drivetech (Suzhou) Ltd. in Suzhou, PR China.

He is immensely experienced and has international exposure on various facets of Auto Industry as a whole including Gear Technology. He is having expertise in the area of sales, marketing and service.

Mr. A F Hartmann, Director

Mr. Andreas Friedrich Hartmann, (53 years) is a director on the board of the Company since 28.6.1996 as a representative of, ZF Friedrichshafen AG, Germany, the foreign collaborators of the Company. Mr. Hartmann, is Attorney at Law, admitted at the courts of Cologne. He is a Vice President, Group General Counsel. He is head of Corporate Development/Co-operations/Joint Ventures of ZF Friedrichshafen AG. He is also a member of the Board of ZF Getriebe GmbH and ZF Sachs AG, Germany and Kinowelt GmbH.

Dr. Ram S Tarneja, Director

Dr. Ram S. Tarneja (74 years) is a non-executive director of the Company since 31.12.1981. Dr. Tarneja, had done Ph. D from Cornell University. He is an M.A. both from University of Delhi & University of Virginia and also done B.A(Hons) from Delhi. He was the former Managing Director of Bennet, Coleman & Co. Ltd. He is on the board of several prominent companies, to name a few are Ballarpur Industries Limited., Bennet Coleman & Co. Ltd., GATI Ltd., ITC Ltd., Housing Development Finance Corporation, NESCO Ltd., Rallis India Ltd., SOWIL Ltd etc.

Mr. N J Kamath, Director

Mr. N.J. Kamath (84 years) is a non-executive director of the Company since 22.8.1985. Mr. Kamath is a retired IAS officer. He is vastly experienced and during his tenure with the Government of India, he has served in various capacities in the Ministry of Finance, Ministry of Industry, Ministry of Supplies & Ministry of Urban Development.

Mr. Kamath has rich experience in General administration, Management Strategy, HRD, Government-Industry relationship, Corporate Governance etc. He is also a visiting faculty and guest faculty of many Management Institutes.

Mr. V K Pargal

Mr. Virender K Pargal (73 years) is a non-executive director of the Company since 24.1.2002. Mr. Pargal, is a qualified Chartered Engineer from England. He is presently also managing a consultancy company specializing in Business Strategies & Structures and he holds the directorship in Pargal Consultants Pvt. Ltd.

Mr. J.S. Bhandari

Mr. J.S. Bhandari (64 years) is on the board of the Company since 18.10.2000. Mr. Bhandari, is a retired Executive Director, Life Insurance Corporation of India. He is acting on the Board of BGL as a representative of Life Insurance Corporation of India.

ISSUE MANAGEMENT TEAM***Compliance Officer*****Mr. Ashish Pandey**

Group Leader (Legal) & Company Secretary
Bharat Gears Limited 20 K.M. Mathura Road,
P.O. Amar Nagar, Faridabad – 121 003, Haryana.
Tel: 91-0129-225 0406-13;
Fax: 91-0129-225 0422
Email: investor@bglindia.com

Bankers to the Company**Industrial Development Bank of India Ltd.**

Western Regional Office
IDBI Tower, World Trade Centre,
Cuffe Parade, Mumbai 400 005
Tel: 22160696, **Fax:** 22160785

State Bank of India

Commercial Branch N.G.N.Vaidya Marg,
Horniman Circle, Mumbai 400023
Tel: 22662205, **Fax:** 22626474

Indian Overseas Bank

Ground Floor, Bakhtawar,
Nariman Point, Mumbai 400 021
Tel: 22021801 **Fax:** 22027461

Financial Institution**Export Import Bank of India**

Centre One Building, Floor 21
World Trade Centre, Cuffe Parade
Mumbai 400 005
Tel: 22185272, **Fax:** 22188076

The Federal Bank Limited

32, Bombay Samachar Marg,
Fort, Mumbai 400 001
Tel: 22654453, **Fax:** 22654464

Bank of Baroda

Ground Floor, Nirmal,
Nariman Point, Mumbai 400 021
Tel: 22021669, **Fax:** 22027168



Lead Manager to the Issue

KEYNOTE

CORPORATE SERVICES LTD

KEYNOTE CORPORATE SERVICES LIMITED

307, Regent Chambers,
Nariman Point, Mumbai – 400 021
SEBI Regn No.: INM 000003606
Tel.: (022) 22025230, **Fax:** (022) 22835467
Website: www.keynoteindia.net
E-mail: mbd@keynoteindia.net
Contact Person: Ms. Kavita Nachnani

Bankers to the Issue

HDFC Bank Ltd.

2nd Floor, Trade World
New Buildings, Kamala Mills,
Senapati Bapat Marg,
Lower Parel, Mumbai 400 013
Tel: (022) 24988484
Fax: (022)24963871

Auditors to the Company

A.F. Ferguson & Co.

Chartered Accountants
Allahabad Bank Building,
Mumbai Samachar Marg,
Mumbai, Pin: 400 001.
Tel: (022) 22663313
Fax: (022) 22661395

INTERSE ALLOCATION OF RESPONSIBILITIES

Not Applicable

CREDIT RATING/DEBENTURE TRUSTEE

This being Rights Issue of equity shares, no Credit Rating or appointment of Debenture Trustee is required.

MONITORING AGENCY

Not Applicable

APPRAISING ENTITY

Not Applicable

MINIMUM SUBSCRIPTION

If the Company does not receive the application money for atleast 90% of the issued amount, the entire subscription will be refunded to the applicants within forty two days from the date of closure of the Issue. - If there is a delay in the refund of application money by more than 8 days after the Company becomes liable to pay the amount (i.e. forty two days after closure of the issue), the Company shall pay interest for the delayed period, at prescribed rates under sub-sections (2) and (2A) of Section 73 of the Companies Act, 1956.

Registrar to the Issue



**INTIME SPECTRUM
REGISTRY LIMITED**

INTIME SPECTRUM REGISTRY LIMITED

C-13, Pannalal Silk Mills Compound,
LBS Road, Bhandup West, Mumbai – 400 078
SEBI Regn. No.: INR 000003761
Tel.: (022) 2596 0320 (9 Lines), **Fax:** (022) 2596 0329
Website: www.intimespectrum.com
E-mail: bglrights@intimespectrum.com
Contact Person: Mr. Vishwas Attavar

IMPERSONATION

Attention of the applicants is specifically drawn to the provisions of Sub-Section (1) of Section 68A of the Companies Act, 1956 which is reproduced below:

"Any person who-

- (a) makes in a fictitious name an application to a Company for acquiring, or subscribing for, any shares therein, or
- (b) otherwise induces a Company to allot or register any transfer of shares therein to him, or any other person in a fictitious name,

shall be punishable with imprisonment for a term which may extend to five years."

UNDERWRITING/ STANDBY SUPPORT

This issue of equity shares is not being underwritten and/or no standby support is being sought for the said issue.

ISSUE SCHEDULE

ISSUE OPENS ON	LAST DATE FOR RECEIVING REQUESTS FOR SPLIT FORMS	ISSUE CLOSES ON
Wednesday, 14/06/2006	Wednesday, 28/06/2006	Thursday, 13/07/2006



CAPITAL STRUCTURE OF THE COMPANY

No. of sharesAs at March 31, 2006 (Pre issue and adjusted for Post issue)		Aggregate Nominal Value (Rs.)
A.	Authorised Capital	
	1,00,00,000 Equity Shares of Rs. 10/- each	10,00,00,000
	15,00,000 Cumulative redeemable convertible or non-convertible preference shares of Rs. 100/- each	15,00,00,000
	TOTAL	25,00,00,000
B.	Issued, Subscribed & Paid-up Capital	
	60,13,718 Equity Shares of Rs. 10/- each, fully paid - up	6,01,37,180
	1,50,000 10% Cumulative redeemable non-convertible preference shares of Rs. 100/- each, fully paid - up	1,50,00,000
	2,08,500 10% Cumulative redeemable non-convertible preference shares of Rs. 100/- each, fully paid - up	2,08,50,000
	TOTAL	9,59,87,180
C.	Present Rights Issue	
	18,04,115 Equity shares of Rs. 10/- each for cash at a premium of Rs. 30/- per equity share i.e at a price of Rs. 40/- per equity share	1,80,41,150
D.	Post Issue Capital	
	78,17,833 Equity shares of Rs. 10/- each, fully paid - up	7,81,78,330
	2,08,500 10% Cumulative redeemable non-convertible preference shares of Rs. 100 each , fully paid - up	2,08,50,000
	TOTAL	9,90,28,330
E.	Share Premium Account	
	Before the offer	3,83,37,000
	Addition	5,41,23,450
	After the offer	9,24,60,450

1) Notes to Capital Structure:

i) Changes in the Authorised Capital of the Company:

Date of resolution	Increased From	Increased To
22/11/1972	Rs. 2.00 Crores consisting of Rs. 1.5 crores divided into 15,00,000 equity shares of Rs. 10 each & Rs. 50 lacs divided into 50,000 preference shares of Rs. 100 each.	Rs. 2.50 Crores consisting of Rs. 2 crores divided into 20,00,000 equity shares of Rs. 10 each & Rs. 50 lacs divided into 50,000 preference shares of Rs. 100 each
21/12/1979	Rs. 2.50 Crores consisting of Rs. 2 crores divided into 20,00,000 equity shares of Rs. 10 each & Rs. 50 lacs divided into 50,000 preference shares of Rs. 100 each	Rs. 5.00 Crores consisting of Rs. 4 crores divided into 40,00,000 equity shares of Rs. 10 each & Rs. 1 crore divided into 1,00,000 preference shares of Rs. 100 each.
19/05/1986	Rs. 5.00 Crores consisting of Rs. 4 crores divided into 40,00,000 equity shares of Rs. 10 each & Rs. 1 crore divided into 1,00,000 preference shares of Rs. 100 each.	Rs. 7.00 Crores consisting of Rs. 6 crores divided into 60,00,000 equity shares of Rs. 10 each & Rs. 1 crore divided into 1,00,000 preference shares of Rs. 100 each
12/08/1996	Rs. 7.00 Crores consisting of Rs. 6 crores divided into 60,00,000 equity shares of Rs. 10 each & Rs. 1 crore divided into 1,00,000 preference shares of Rs. 100 each	Rs. 13.00 Crores consisting of Rs. 12 crores divided into 1,20,00,000 equity share of Rs. 10 each & Rs. 1 crore divided into 1,00,000 preference shares of Rs. 100 each

BHARAT GEARS LIMITED

Date of resolution	Increased From	Increased To
02/04/1997	Rs. 13.00 Crores consisting of Rs. 12 crores divided into 1,20,00,000 equity share of Rs. 10 each & Rs. 1 crore divided into 1,00,000 preference shares of Rs. 100 each	Rs. 21.00 Crores consisting of Rs. 20 crores divided into 2,00,00,000 equity shares of Rs. 10 each & Rs. 1 crore divided into 1,00,000 preference shares of Rs. 100 each
27/08/1998	Rs. 21.00 Crores consisting of Rs. 20 crores divided into 2,00,00,000 equity shares of Rs. 10 each & Rs. 1 crore divided into 1,00,000 preference shares of Rs. 100 each	Rs. 25.00 Crores consisting of Rs. 10 crores divided into 1,00,00,000 equity shares of Rs. 10 each & Rs. 15 crores divided into 15,00,000 preference shares of Rs. 100 each.

ii) Details of increase in the paid-up Equity Share capital are as follows:

Date of Allotment	Face Value (Rs.)	Issue Price (Rs.)	No. of Shares	Cumulative No. of shares	Nature of allotment	Consideration	% to Post Issue Capital(%)
23/12/1971	10.00	10.00	340	340	Subscribers to Memorandum of Association upon Incorporation.	Cash	0.00
25/04/1972	10.00	10.00	55,410	55,750	Allotment of Shares to the promoters, associates and their nominees at par	Cash	0.71
25/05/1972	10.00	10.00	87,150	1,42,900	Allotment of Shares to the promoters, associates and their nominees at par	Cash	1.11
26/06/1972	10.00	10.00	1,07,100	2,50,000	Allotment of Shares to the promoters, associates and their nominees at par	Cash	1.37
23/11/1972	10.00	10.00	3,90,000	6,40,000	Allotment of Shares to the promoters, associates and their nominees at par	Cash	4.99
09/02/1973	10.00	10.00	9,60,000	16,00,000	Allotment of Shares pursuant to Issue of shares at par vide prospectus dated 29 November, 1972	Cash	12.28
01/05/1979	10.00	10.00	3,10,468	19,10,468	Shares issued to Financial Institutions at par, on conversion of loans	Cash	3.97
30/07/1982	10.00	10.00	1,20,000	20,30,468	Shares issued to Financial Institutions at par, on conversion of loans	Cash	1.53
27/02/1986	10.00	30.00	2,58,941	22,89,409	Issue of Equity Shares to ZF Friedrichshafen AG vide RBI's approval no. EC. DEL. CI.432/24 (Spl. 435) 86 dtd. 26.02.1986	Cash	3.31
01/03/1987	10.00	10.00	17,42,892	40,32,301	Conversion of part of the Convertible Debentures issued to public in the year 1986*	Cash	22.29
01/10/1991	10.00	22.50	7,86,000	48,18,301	Preferential Allotment to Foreign Collaborators (ZF Friedrichshafen AG, Germany)	Cash	10.05
24/11/1998	10.00	30.00	11,66,667	59,84,968	Preferential Allotment to promoters, promoter group and foreign collaborators (ZF Friedrichshafen AG, Germany)#	Cash	14.92
16/03/1999	10.00	10.00	28,750	60,13,718	Equity shares issued under scheme of merger/rehabilitation.**.	Take over of Assets & Liabilities pursuant to amalgamation.	0.37
TOTAL			60,13,718				76.92

*Allotment of 17,42,892 equity shares upon conversion of 1/5th of the 8,71,446 13.5% Secured Redeemable Convertible Debentures of Rs. 100/- each, issued pursuant to the rights offer dated 15/11/1986, made as per the provisions of the Capital Issue (Exemption) Order, 1969 in terms of the consent of the Central Government vide Order No. R.448/CCI/86-3773 dated 13/06/1986 as amended by Letter No. R.488/5/CCI/86-4236 dated 09/07/1986, Letter No. R. 448/CCI/86-3847 and Letter No. R.448/CCI/86-4303 dated 04/09/1986.



**The Company has issued 28,750 equity shares of Rs.10/- each as fully paid-up to the equity shareholders of Universal Steel & Alloys Limited (USAL) in the ratio of (one) 1: 20 (twenty) against the existing 5,75,000 Shares of USAL, pursuant to the Order of BIFR dated 06/10/.1998 approving the scheme of merger/ rehabilitation of USAL with BGL, without payment being received in cash.

Note: A.F.Ferguson & Co., Chartered Accountants and Statutory Auditors of the Company have vide their certificate dated August 25, 1998 in respect of preferential allotment made to ZF Friedrichshafen AG certified that the calculation of preferential issue price for the allotment is in accordance with the guidelines dated August 4, 1994 issued by SEBI.

iii) Detail of changes in the Preference Share Capital is as follows:

a)

Date of Allotment	Face Value (Rs.)	Issue Price (Rs.)	No. of Shares	Cumulative No. of shares	Nature of allotment / Redemption	Consideration
09/02/1973	100.00	100.00	30,000	30,000	Allotment of Cumulative Redeemable Preference Shares in terms of Public Issue on 29 th November, 1972.	Cash
08/02/1988	100.00	100.00	(5)	29,995	Redemption of Cumulative Redeemable Preference Shares of Rs. 100/- each.	—
08/02/1993	100.00	100.00	(29,995)	NIL	Redemption of Cumulative Redeemable Preference Shares of Rs. 100/- each.	—

b)

Date of Allotment	Face Value (Rs.)	Issue Price (Rs.)	No. of Shares	Cumulative No. of shares	Nature of allotment / Redemption	Consideration
19/07/1999	100.00	100.00	5,00,000	5,00,000	Allotment of 11.5% Redeemable Cumulative Non Convertible preference shares of Rs. 100/- each to IDBI Bank Ltd.	Cash
18/07/2000	100.00	100.00	(1,75,000)	3,25,000	Redemption of 11.5% Redeemable Cumulative Non Convertible preference shares of Rs. 100/- each allotted to IDBI Bank Limited	—
31/12/2001	100.00	100.00	(1,75,000)	1,50,000	Redemption of 11.5% Redeemable Cumulative Non Convertible preference shares of Rs. 100/- each allotted to IDBI Bank Limited*	—
31/08/2002	100.00	100.00	(1,50,000)	NIL	Redemption of 11.5% Redeemable Cumulative Non Convertible preference shares of Rs. 100/- each allotted to IDBI Bank Ltd.	—

*Rescheduling the redemption of Preference Shares amounting to Rs. 175 Lacs from July, 2001 to 31st December, 2001 vide Board Resolution dated 29th October, 2001.

c)

Date of Allotment	Face Value (Rs.)	Issue Price (Rs.)	No. of Shares	Cumulative No. of shares	Nature of allotment / Redemption	Consideration
31/08/2002	100.00	100.00	1,50,000	1,50,000	Allotment of 10% Redeemable Cumulative Non Convertible preference shares of Rs. 100/- each to IDBI Bank Ltd.**	Cash
29/09/2003	100.00	100.00	2,08,500	3,58,500	Allotment to IDBI Bank Ltd, EXIM Bank and Federal Bank Ltd.***	***

**Series IV and Series V 10% Redeemable Non Convertible Preference Shares of Rs. 75 Lacs each were redeemable at par on 1st March, 2004 and 1st September, 2004 respectively, which have been rolled over to 1st March, 2006 and 1st September, 2006 respectively with the consent of holders of these shares. Series IV 10% Redeemable Non Convertible Preference Shares of Rs. 75 Lacs has been further rolled over to 1st September, 2006 with the consent of holders of these shares.

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***Series VI, VII & VIII aggregating Rs. 208.50 Lacs were allotted on 29th September, 2003 in respect of the present value of 50% of the differential interest on account of reduction in the interest rate on the term loans as per the Corporate Debt Restructuring Scheme and are redeemable at par in two equal annual installments on 31st March, 2011 and 31st March, 2012.

2. Promoters' Contribution and Lock-in

The present issue being a rights issue, provisions of promoters' contribution and lock-in are not applicable.

3. Present Rights Issue :

Type of Instrument	Ratio	Face Value (Rs.)	No. of shares	Issue Price (Rs.)	Consideration
Equity Shares	3:10	10/-	18,04,115	40/-	Cash

4. Pre & Post issue shareholding pattern of the Company assuming full subscription in the rights issue is given below :-

Category	Pre-issue holding		Post issue holding	
	No. of shares	%	No. of shares	%
A. Promoter's holding				
Indian Promoters & their relatives	16,03,516	26.66	20,84,571	26.66
Persons Acting in Concert				
ZF Friedrichshafen AG (foreign collaborator)	15,63,567	26.00	20,32,637	26.00
SUB TOTAL	31,67,083	52.66	41,17,208	52.66
B. Non-Promoters holding				
1) Institutional Investors				
a. Mutual Funds & UTI	5,89,299	9.80	7,66,089	9.80
b. Banking, Financial Institution / Insurance Companies	2,38,784	3.97	3,10,419	3.97
c. FII's	50	-	65	-
SUB TOTAL	8,28,133	13.77	10,76,573	13.77
2) Others				
Private Corporate Bodies	4,78,217	7.95	6,21,682	7.95
Indian Public	14,90,901	24.79	19,38,171	24.79
NRI's/OCB's	49,384	0.82	64,199	0.82
SUB TOTAL	20,18,502	33.56	26,24,052	33.56
Grand Total	60,13,718	100.00	78,17,833	100.00

The total number of shareholders as on date in the company is 9010.

5. The shareholding pattern of the promoter group is as detailed below:

Particulars	Present		Post Rights	
	No. of equity shares of Rs. 10/- each	% of present capital	No. of equity shares of Rs. 10/- each	% of post issue capital
a) Promoters/Directors				
Dr. Raunaq Singh	605	0.01	786	0.01
Mr. Surinder P. Kanwar	8,75,958	14.57	11,38,745	14.57
b) Immediate relatives of promoters:				
Mrs. Reetika Puri Kanwar	23,732	0.39	30,852	0.39
Mr. Devinder S. Puri	9,266	0.15	12,046	0.15



Particulars	Present		Post Rights	
	No. of equity shares of Rs. 10/- each	% of present capital	No. of equity shares of Rs. 10/- each	% of post issue capital
c) Company in which 10% or more of the share capital is held by the promoter/his immediate relative firm or HUF in which the promoter or his immediate relative is a member.				
1. Vibrant Finance & Investment Pvt. Ltd.	1,03,695	1.72	1,34,803	1.72
2. Ultra Consultants Pvt. Ltd.	5,89,260	9.80	7,66,038	9.80
3. Future Consultants Pvt. Ltd.	1,000	0.02	1,300	0.02
d) Company in which the Company mentioned in © above holds 10% or more of the share capital	N.A.	N.A.	N.A.	N.A.\
e) HUF in which aggregate share of the promoter and his immediate relatives is equal or more than 10% of the total.	N.A.	N.A.	N.A.	N.A.
f) Persons Acting in Concert				
ZF Friedrichshafen AG (foreign collaborator)	15,63,567	26.00	20,32,637	26.00
Total	31,67,083	52.66	41,17,208	52.66

The promoters/directors/associates/promoter group intends to subscribe to their rights entitlement as well as the entire undersubscribed portion from public and/or foreign collaborator, if any, in this rights issue in full. The promoters/directors/associates/promoter groups of Bharat Gears Limited have brought in funds by way of unsecured loans to the extent of Rs. 100.16 lacs. The money brought in by the Promoters/Directors will be adjusted against the share application money due from them towards their subscription in the rights issue and also towards subscription to un-subscribed portion, if any, in the present rights issue.

Details of unsecured loans mentioned above are as follows:

	Name of Promoter/Director	Amount (in lacs)
1.	Mr. Surinder P. Kanwar	55.16
2.	M/s Ultra Consultants Private Limited	45.00
	Total	100.16

Presuming no subscription is received from other shareholders and the promoters/directors/associates/promoter group subscribing to the entire unsubscribed portion, their shareholding shall increase to 63.59% of the post rights issue equity capital of the Company.

This subscription and acquisition of additional Equity Shares by the Promoters, if any, will not result in change of control of the management of the Company and shall be exempt in terms of provision to Regulation 3(1)(b)(ii) of the SEBI (Substantial Acquisition of Shares and Takeover) Regulations, 1997. As such, other than meeting the requirements indicated in Objects of the Issue, there is no other intention/purpose for this Issue, including any intention to de-list the Company, even if, as a result of allotments to the Promoters through this Issue, the Promoter shareholding in the Company exceeds their current shareholding.

6. The Company has not issued any warrant, option, convertible loan, debenture or any other securities convertible at a later date into equity, which would entitle the holders to acquire further equity shares of the Company.
7. Equity shares of the Company are being traded in compulsory dematerialized mode. The market lot of the equity shares is 1 (one).
8. There are no transactions in the securities of the Company during preceding 6 months which were financed/undertaken directly or indirectly by the promoters, their relatives, their group companies or associates or by the above entities directly or indirectly through other persons except as follows:

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Name of the entity	Nature of transaction	Date	Rate per share (Rs.)	No. of shares	Consideration
Future Consultants Private Limited	Market Purchase	17/01/2006	88.55	1,000	Cash
Mr. Devinder S. Puri	Market Purchase	29/03/2006	72.68	410	Cash
		28/03/2006	72.65	6075	
		28/03/2006	72.35	2781	
Ms. Reetika Puri Kanwar	Market Purchase	13/03/2006	77.51	3050	Cash
		13/03/2006	77.33	615	
		10/03/2006	80.62	4800	
		10/03/2006	81.73	200	
		09/03/2006	80.15	4508	
		08/03/2006	80.84	1220	
		07/03/2006	81.51	2600	
Samreet Investment and Management Consultancy Private Ltd	Market Sale	13/03/2006	78.35	6064	Cash
		10/03/2006	80.58	5683	
		09/03/2006	80.21	4456	
		08/03/2006	81.15	3297	

9. The ten largest shareholders two years prior to the date of filing of this Letter of Offer with Stock Exchanges are as follows :

No.	Name	No. of Equity Shares	Percentage of shareholding
1.	ZF Friedrichshafen AG, Germany	15,63,567	26.00
2.	Surinder P. Kanwar	8,73,758	14.53
3.	Ultra Consultants Pvt. Ltd.	5,89,260	9.80
4.	Life Insurance Corporation	4,16,313	6.92
5.	The New India Assurance Co. Ltd.	1,64,250	2.73
6.	Vibrant Finance and Investment Pvt. Ltd.	93,025	1.55
7.	Vivek Mehrotra	62,591	1.04
8.	Pratibhuti Share Vinimay Pvt. Ltd.	58,000	0.96
9.	P.R.Gopala Krishna Reddy	51,500	0.86
10.	United India Insurance Company Ltd.	35,000	0.58
	TOTAL	36,99,401	61.53



10. The ten largest shareholders 10 days prior to the date of filing of the Letter of Offer with Stock Exchanges are as follows :

No.	Name of the Shareholders	Number of Equity Shares	Percentage of shareholding
1	ZF Friedrichshafen AG	15,63,567	26.00
2	Surinder P Kanwar	8,75,958	14.56
3	Ultra Consultants Pvt. Ltd.	5,89,260	9.80
4	Reliance Capital Trustee Co. Ltd.	5,84,799	9.72
5	Life Insurance Corporation of India	2,00,053	3.32
6	Vibrant Finance And Investment Pvt. Ltd.	1,03,695	1.72
7	Vishvesh Trading Pvt. Ltd.	58,000	0.96
8	Tijarat Impex Pvt. Ltd.	32,782	0.54
9	Vireet Investments Private Limited	31,975	0.53
10	Ms. Sujata Cowlagi	24,000	0.40
	TOTAL	40,64,089	67.58

11. The ten largest shareholders as on the date of filing of the Letter of Offer with Stock Exchanges are as follows :

No.	Name of the Shareholders	Number of Equity Shares	Percentage of shareholding
1	ZF Friedrichshafen AG	15,63,567	26.00
2	Surinder P Kanwar	8,75,958	14.56
3	Ultra Consultants Pvt. Ltd.	5,89,260	9.80
4	Reliance Capital Trustee Co. Ltd.	5,84,799	9.72
5	Life Insurance Corporation of India	2,00,053	3.32
6	Vibrant Finance And Investment Pvt. Ltd.	1,03,695	1.72
7	Vishvesh Trading Pvt. Ltd.	58,000	0.96
8	Tijarat Impex Pvt. Ltd.	32,782	0.54
9	Vireet Investments Private Limited	31,975	0.53
10	Reetika Puri Kanwar	23,732	0.39
	TOTAL	40,63,821	67.57

12. The Company/Promoters/Directors/Lead Merchant Bankers have not entered into buyback or similar arrangements for purchase of securities issued by the Company.

13. The equity shares of the company are of face value of Rs.10/- and marketable lot is 1 (one). At any given time there shall be only one denomination for the shares of the Company and the disclosures and accounting norms specified by SEBI from time to time will be complied with.

14. The Company shall not make any further issue of capital whether by way of issue of bonus shares, preferential allotment, rights issue or public issue or in any other manner during the period commencing from the submission of the Letter of Offer to SEBI for the Rights Issue till the securities referred in the Letter of Offer have been listed or application money refunded on account of failure of the issue.

15. Further, presently the Company does not have any proposal, intention, negotiation or consideration to alter the capital structure by way of split/ consolidation of the denomination of the shares/ issue of shares on a preferential basis or issue of bonus or rights or public issue of Equity Shares or any other securities within a period of six months from the date of opening of the present Issue. However, if business needs of the Company so require, the Company may alter the capital structure by way of split/ consolidation of the denomination of the shares/ issue of shares on a preferential basis or issue of bonus or rights or public issue of shares or any other securities whether in India or abroad during the period of six

months from the date of listing of the Equity Shares issued under this LOO or from the date the application moneys are refunded on account of failure of the Issue, after seeking and obtaining all the approvals which may be required for such alteration.

16. The entire issue price is to be paid on application hence there will be no partly paid up shares arising out of this issue.



OBJECTS OF THE ISSUE

OBJECTS OF THE ISSUE

BGL has been making losses from FY 2001 to FY2004 on account of higher fixed costs and substantial interest outgo. The fixed expenses were higher on account of heavy cost of plant and machinery procured for company's plant at Faridabad, Haryana. Interest Cost was higher because of borrowed capital and also high contracted rate of interest on these borrowings as per the then prevailing norms. The debt to equity ratio as on 31/03/2006 stands at 3.53:1. The high debt equity situation has resulted from a combination of factors like expansion of capacity, depressed conditions in the agriculture/non-agriculture Market Segment for Trucks and Tractors, Aftermarket Sales. These factors had an adverse impact on the overall borrowing cost of the Company, which is required to be corrected to keep the finance cost under control.

The main objects and objects incidental or ancillary to the main objects set out in the Memorandum of Association enables the Company to undertake the existing activities and the activities for which funds are being raised by this Issue.

The objects of the present issue of equity shares on rights basis are:

1. Repayment of 1,50,000 10% Cumulative Redeemable non-convertible preference shares of Rs. 100/- each.
2. Part repayment of the outstanding Term loans

FUNDS REQUIREMENT

	(Rs. In Lacs)
Repayment of Preference Shares	150.00
Part repayment of the outstanding Term Loans	571.65
Issue expense	48.00
Total	769.65

FUNDING PLAN

	(Rs. In Lacs)
Rights Issue of 18,04,115 equity shares at a price of Rs. 40/- per share	721.65
Internal Accruals	48.00
Total	769.65

The promoters have brought in an amount of Rs.100.16 lacs to finance the on-going fund requirements of the Company from time to time. The promoters have consented for adjusting their outstanding unsecured loan towards their subscription to their Rights entitlement. The details of outstanding unsecured loan as certified by M/s. Milind M. Dynate, Chartered Accountants vide their certificate dated 20/05/2006 is as follows:

Particulars	Amount (Rs. in Lacs)
Mr. Surinder P. Kanwar, Chairman and Managing Director	55.16
Ultra Consultants Pvt. Ltd.	45.00
TOTAL	100.16

DETAILED BREAK UP OF FUNDS REQUIREMENT

1. Repayment of Preference Shares

The Company has issued 75000 Series IV and 75000 Series V 10% Cumulative Redeemable Non Convertible Preference Shares of Rs. 100/- each, aggregating to Rs. 150.00 lacs, to IDBI Bank. These preference shares which were redeemable at par on 01st March, 2004 and 01st September, 2004, respectively were rolledover / postponed to 01/03/2006 and 01/09/2006 respectively and the consent letter for the same was received from IDBI Bank vide letter dated. 01/03/2004. Series IV 10% Redeemable Non Convertible Preference Shares of Rs. 75 Lacs has been further rolled over to 1st September, 2006 with the consent of holders of these shares. The company proposes to repay the preference shareholders as per the schedule of implementation given on page no.19 of this Letter of Offer.

2. Repayment of Part of the outstanding term loan

The company has been borrowing money from various Banks and Financial Institutions to meet their requirements. These loans were raised at various time intervals and the company has been paying higher rate of interest on these borrowings. In order to reduce its interest burden, the company proposes to utilize the proceeds of this rights issue in part repayment of term loans to the extent of Rs. 571 .65 Lacs.

The details of the term loans to be repaid from the issue proceeds is as given below:

Name of the bank / institution	Rs. in lacs
Industrial Development Bank of India	275.65
Export Import Bank of India	114.00
The Federal Bank Ltd.	135.00
State Bank of India	23.00
Bank of Baroda	13.00
Indian Overseas Bank	11.00
Total	571.65

For further details on the outstanding term loan refer page no. 65 - 67 of the letter of offer.

3. Issue Expenses

The rights issue expenses are estimated at Rs. 48.00 lacs. Breakup of the expenses is given below:

Sr. no.	Particulars	Amount (Rs. in lacs)
1	Fees to Intermediaries	15.00
2	Printing & Stationery and Postage expenses	12.00
3	Advertisement, travel and other Miscellaneous Expenses	21.00
	Total	48.00

Appraisal

The fund requirement is not appraised by any Bank or Financial Institution. The same is based on internal assessment by the Company.

SCHEDULE OF IMPLEMENTATION

Activity	July-August, 2006 (Rs. In Lacs)	September-October, 2006 (Rs. In Lacs)	Total (Rs. In Lacs)
Repayment of Preference Shares	-	150.00	150.00
Repayment of Term Loan	571.65	-	571.65
Total	571.65	150.00	721.65



INTERIM USE OF FUNDS

The deployment of funds raised through the rights issue would be mainly for the purposes mentioned above. Pending deployment, the funds raised through the rights issue would be secured in fixed deposits and other short term investment opportunities.

BASIC TERMS OF THE ISSUE

Face Value	Each Equity Share has the face value of Rs. 10/-
Issue Price	Each Equity Share is being offered at a price of Rs. 40/- (including a premium of Rs. 30/- per shares).
Entitlement Ratio	The Equity Shares are being offered on rights basis to the existing Equity Shareholders of the Company in the ratio of 3 (Three) Equity Shares for every 10 (Ten) Equity Shares (i. e. 3: 10) held as on May 22, 2006 (Record Date).
Market Lot	The market lot for the Equity Shares in dematerialized mode is 1 (One). In case of physical certificates, the Company would issue one certificate for the Equity Shares allotted to one folio ("Consolidated Certificate").
Terms of Payment	100% of the issue price i. e. Rs. 40/- per share shall be payable on Application.

BASIS FOR ISSUE PRICE

QUALITATIVE FACTORS

- BGL is a thirty four years old Company engaged in manufacturing of Automotive Gears.
- BGL is among country's top gear manufacturer having presence in a range of products and catering to various market segments, viz. Original Equipment Manufacturers, Replacement, and Exports.
- Firm foothold in export market for last many decades and has achieved several awards for export excellence from EEPC
- Strong Brand Equity.
- Extensive distribution network and strong technical service set up with high focus on after-sales service.
- Both the plants (Mumbra and Faridabad) are ISO/TS 16949 and Faridabad plant has also achieved ISO 14001:1996 certification.

Quantitative Factors (based upon adjusted Balance Sheet and Profit and Loss Account)

(a) Earnings Per Share (EPS)

Year ended 31 st March	EPS(Rs)	Wts
2003-2004	(3.27)	1
2004-2005	6.41	2
2005-2006	5.33	3
Weighted Average EPS	4.26	

(Figures in the bracket indicate negative figures)

(b) Price Earning Ratio (PE)

	Offer Price of Rs.40/- per share
P/E(based weighted average EPS)	9.39

(c) Return on Networth (RONW)

Year	RONW(%)	Wts
2003-04	(20.97)	1
2004-05	34.40	2
2005-2006	22.51	3
Weighted Average RONW	19.23	

(Figures in the bracket indicate negative figures)

(d) Minimum RONW required to maintain pre-issue weighted average EPS of Rs. 4.26 is 15.62%

(e) Net Asset Value (NAV)

NAV (pre issue) (as on 31/03/2006) (Rs.)	18.07
NAV (post issue) (at price of Rs.40/-) (Rs.)	24.57

(f) Industry P/E Ratio

Highest (Fairfield Atlas)	42.80
Lowest (Raunaq Auto)	2.8
Average	23.2

(Source: Capital Market, May 8-21, 2006 Sector :Auto Ancillaries)



Comparison of key ratios with the companies in the same industry group

Company Name	Equity (Rs. in Cr.)	Book Value (Rs.)	Sales (Rs in Cr.)	EPS (Rs.)	P/ERatio at the market price as on 29/04/2006
Fairfield Atlas	27.32	(2.80)	102.60	1.30	42.80
JMT Auto	13.40	50.70	98.90	5.30	26.90
Raunaq Auto	8.94	2.80	16.00	2.20	2.80
Bharat Gears Limited	6.01	18.07	163.18	5.33	26.40

(Source: Capital Market, May8-21, 2006 Sector :Auto Ancillaries)

The Issue Price of Rs. 40/- per share is 4 times the Face Value of Rs. 10/- per share of the equity shares being issued. The minimum Return on Networth required to maintain weighted average pre-issue EPS of Rs. 4.26 is 15.62%

Considering the above qualitative and quantitative factors, the issue price of Rs.40/- per equity share is justified.

STATEMENT OF TAX BENEFITS

The Chartered Accountants, A.F. Ferguson & Co. have vide letter dated 14/12/2005 issued a statement of tax benefit available to the company and its shareholders which reads as follows:

A INCOME TAX ACT**I To the Company**

1. The taxable income of the Company would not include dividend income in accordance with and subject to the provisions of Section 10(34) read with Section 115-O of the Income-tax Act.

Section 94(7) of the Income-tax Act provides that losses arising from the sale/transfer of shares purchased up to three months prior to the record date and sold within three months after such date, will be disallowed to the extent dividend on such shares is exempt.

2. The taxable income of the Company would not include income received in respect of units of Mutual Fund or units from the administrator of a specified undertaking or units from the specified company, in accordance with and subject to the provisions of Section 10(35).

Section 94(7) of the Income-tax Act provides that losses arising from the sale/transfer of units purchased up to three months prior to the record date and sold within nine months after such date, will be disallowed to the extent income on such units is exempt.

3. Under Section 10(38) of the Act, 1961, long term (period of holding more than 12 months) capital gains, if any, on transfer of equity shares is exempt from Income tax in the hands of members provided that such transactions are entered into a recognized stock exchange and is chargeable to Securities Transaction Tax (STT).
4. As per Section 115O, the Company is liable to pay tax on distributed profits at the rate of twelve and one-half percent (plus applicable surcharge and education cess) on the income declared, distributed or paid by it by way of dividends (whether interim or otherwise). Further, such tax on distributed profits is not allowed as a deduction to the shareholders or the Company.

II To the members (Resident and Non Residents)

1. Dividend

- 1.1 Any income received by members of the Company by way of dividend shall be exempt under Section 10(34) of the Act, 1961.

Section 94(7) of the Income-tax Act provides that losses arising from the sale/transfer of shares purchased up to three months prior to the record date and sold within three months after such date, will be disallowed to the extent dividend on such shares is exempt.

2. Long term capital gains

- 2.1 Under Section 10(38) of the Act, 1961, long term (period of holding more than 12 months) capital gains on transfer of equity shares is exempt from Income tax in the hands of members provided that such transactions are entered into a recognized stock exchange and is chargeable to Securities Transaction Tax (STT).

- 2.2 As per the provisions of Section 112 of the Act, long-term capital gains that are not exempt under the Section 10(38), would be subject to tax at a rate of 20% (plus applicable surcharge and education cess). Capital gains shall be computed after taking into account cost of acquisition as adjusted by Cost Inflation Index notified by the Central Government and expenditure incurred wholly and exclusively in connection with such transfer. In the case where taxable income as reduced by long term capital gains is below the exemption limit, the long term capital gains will be reduced to the extent of such shortfall and only the balance long term capital gains will be charged at the flat rate of 20% plus surcharge, as may be applicable and education cess. It is further provided that an assessee will have an option to apply concessional rate of 10% plus applicable surcharge and cess, provided the long term capital gains are computed without substituting indexed cost in place of cost of acquisition.

As per the provisions of the first proviso to Section 48 of the Income Tax Act, capital gains arising from transfer of equity shares acquired by non-resident in foreign currency are to be computed by converting the cost of acquisition / improvement, expenditure incurred wholly and exclusively in connection with such transfer and the full value of consideration received or accruing into the same foreign currency as was initially utilised in the purchase of equity shares, and the capital gains so computed in such foreign currency shall then be reconverted into Indian currency. Cost indexation benefit will not be available in such case.



- 2.3 As per Section 54EC and Section 54ED of the Income-tax Act subject to the conditions specified therein, tax on capital gains (not covered by section 10(38) of the Act) arising from the transfer of a long term capital asset (including Equity Shares of the Company) is exempt from tax, provided that the shareholder has at any time within a period of six months after the date of the transfer, invested the whole of the capital gains in any long-term specified asset for the purposes of Section 54EC or in acquiring equity shares of a public company offered for subscription by way of a public issue for the purposes of Section 54ED of the Income-tax Act. If only a portion of capital gains so invested, then the exemption is available proportionately.
- 2.4 As per the provisions of Section 54F of the Income-tax Act, subject to the conditions specified therein, long-term capital gains (not covered by Section 10(38) of the Act) arising to an individual or a Hindu undivided family on transfer of long-term capital asset (including Equity Shares of the Company) shall be exempt from tax, provided that the net consideration is utilized in the purchase of a residential house within a period of one year before or two years after the date of transfer, or in the construction of a residential house within a period of three years after the date of transfer of the long-term capital asset. If only portion of the net consideration is so invested, then the exemption is available proportionately.
- 2.5 Special benefits for Non Resident Indians (NRI).
- 2.5.1 Under Section 115E of the Act, capital gains arising to a NRI on transfer of shares in the company, subscribed in convertible foreign exchange and held for a period exceeding 12 months (not covered under Section 10(38) of the Act) shall be taxed at a concessional rate of 10% (without indexation benefit) plus surcharge and education cess as applicable.
- 2.5.2 Under Section 115F of the Act, long-term capital gains (not covered under Section 10(38) of the Act) to a NRI on transfer of shares in the company, subscribed in convertible foreign exchange shall be exempt from the income tax, if net consideration is invested in specified asset or specified saving certificates within six months of the date of transfer. If only part of the consideration is so invested, the exemption shall be proportionately reduced.
- 2.5.3 As per Section 115G of the Income-tax Act, a NRI would not be required to file a return of Income under Section 139(1) of the Income-tax Act, where the total income consists only of investment income and/or long-term capital gains and tax deductible at source has been deducted from such income.
- 2.5.4 As per the provision of Section 115I of the Income-tax Act, a NRI may elect not to avail the aforesaid special benefits for any assessment year by furnishing his return of income for that assessment year under Section 139 of the Income-tax Act, declaring therein that these provisions shall not apply to him for that assessment year and accordingly his total income for that assessment year will be computed in accordance with the provisions of the Income-tax Act.
3. Short term capital gains
- 3.1 Under Section 111A, short-term capital gains arising on sale of shares of the company are chargeable to income tax at a concessional rate of 10% plus applicable surcharge and cess, provided such transactions are entered into on a recognized stock exchange and are chargeable to STT. Further, Section 48 provides that no deduction shall be allowed in respect of STT paid for the purpose of computing capital gains.
- 3.2 In respect of capital gains not chargeable under Section 111A, the short-term capital gains in respect of shares held for a period less than 12 months is added to the total income. Total income including short-term capital gains is chargeable to tax as per the relevant rate applicable to the assessee, plus applicable surcharge and education cess.
1. If shares on which STT has been paid are treated as stock-in-trade liable to tax as business profits, such STT is not allowable as deduction in view of section 40(a) (ib).
- However, rebate can be claimed in accordance with provisions of Section 88E of the Income-tax Act towards such STT.
5. In case of all non-resident shareholders the above tax rates are subject to the benefits, if any, available under the double taxation avoidance agreement (DTAA) signed by India with the country of which the non-resident shareholder may be a tax resident.

III Foreign Institutional Investors (FII)

1. Dividend

Any income received by members of the Company by way of dividend shall be exempt under Section 10(34) of the Act, 1961.

Section 94(7) of the Income-tax Act provides that losses arising from the sale/transfer of shares purchased up to three months prior to the record date and sold within three months after such date, will be disallowed to the extent dividend on such shares is exempt.

2. Long term capital gains.

2.1 Under Section 10(38) of the Act, 1961, long term (period of holding more than 12 months) capital gains on transfer of equity shares is exempt from Income tax in the hands of members, provided that such transactions are entered into a recognized stock exchange and is chargeable to STT.

2.2 As per the provisions of Section 115AD of the Act, the long-term capital gains that are not exempt under the Section 10(38) would be subject to tax at a rate of 10% (plus applicable surcharge and education cess).

3. Short term capital gains.

3.1 As per Section 115AD read with Section 111A, short-term capital gains arising on sale of shares of the company are chargeable to income tax at a concessional rate of 10% plus applicable surcharge and cess, provided such transactions are entered into on a recognized stock exchange and are chargeable to STT. Further, Section 48 provides that no deduction shall be allowed in respect of STT paid for the purpose of computing capital gains.

3.2 In respect of capital gains not chargeable under Section 111A, the short-term capital gains in respect of shares held for a period less than 12 months shall be added to the total income and chargeable at the rate of 30%, plus applicable surcharge and education cess.

4. If shares on which STT has been paid are treated as stock-in-trade liable to tax as business profits, such STT is not allowable as deduction in view of section 40(a) (ib). However, rebate can be claimed in accordance with provisions of Section 88E of the Income-tax Act towards such STT.

5. In accordance with and subject to the provisions of Section 196D(2) of the Income-tax Act, no deduction of tax at source will be made in respect of capital gains arising from the transfer of the equity shares referred to in Section 115AD from sale proceeds payable to FIIs.

6. The above tax rates are subject to the benefits, if any, available under the double taxation avoidance agreement (DTAA) signed by India with the country of which the non-resident shareholder may be a tax resident.

IV. Mutual funds

As per the provisions of Section 10(23D) of the Income-tax Act, tax exemption is available on any income of a mutual fund registered under the Securities and Exchange Board of India Act, 1992 and Regulations made thereunder or mutual funds set up by the public sector banks or public financial institutions or authorized by the RBI and subject to such conditions as the Central Government may specify by notification in the Official Gazette.

B. WEALTH TAX ACT

Shares are not liable to Wealth-tax in the hands of the shareholder.

C. GIFT TAX ACT

Gifts of shares purchased in the issue would be exempt from gift-tax.



SECTION III : ABOUT COMPANY

The following information has been obtained from the public sources specifically mentioned where applicable and has not been independently verified. (Source of information for this section: ACMA)

INDUSTRY OVERVIEW

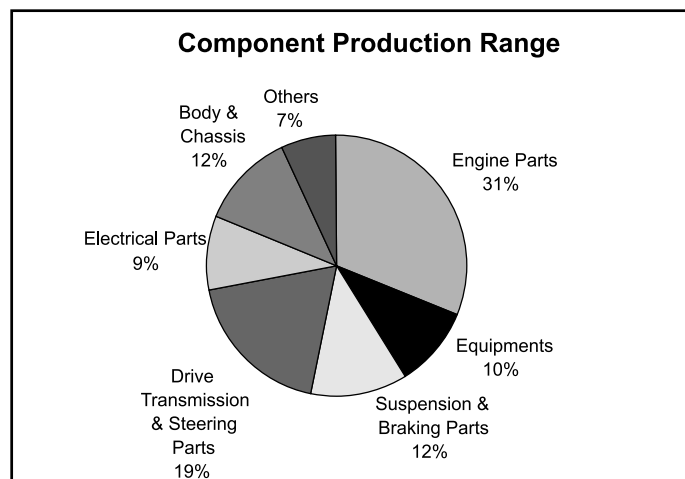
The Indian automotive industry is polarized into:

- ❖ Commercial Vehicles
- ❖ Utility vehicles
- ❖ Cars
- ❖ Two wheelers and three wheelers
- ❖ Tractors

The Indian auto industry is the:

- ❖ Largest 3 wheeler market in the world
- ❖ 2nd largest 2 wheeler market in the world
- ❖ 4th largest Passenger vehicle market in the world
- ❖ 4th largest Tractor market in the world
- ❖ 5th largest Commercial Vehicle market in the world

Historically, the fortunes of the Indian Auto Ancillary Sector were closely linked to those of the Automobile Sector. The Indian auto component industry has grown over the years to become not only technologically advanced, but has also achieved strong international repute. The demand swings in the 2 wheeler, passenger cars and/or commercial vehicles had a major impact on the auto ancillary makers.

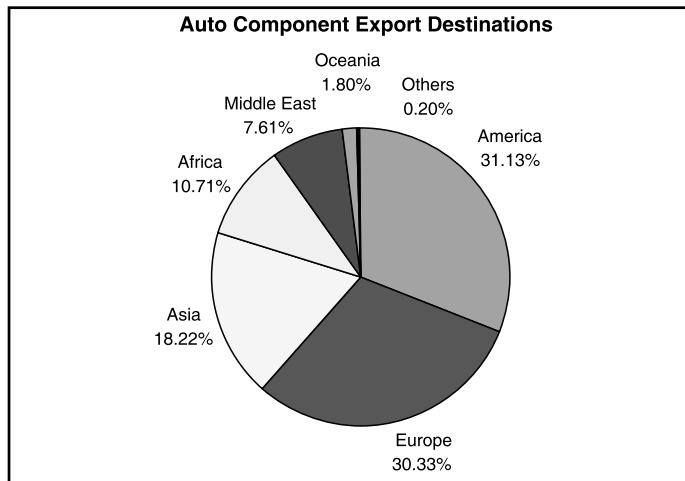


Today there are over 400 tiny, small, medium and large scale companies engaged in the manufacturing of automobile components. Currently, over two and a half lakh people find employment in this industry which has grown steadily over the years. The industry has grown at a CAGR of 10% in the last 3 years. The Auto Component Manufacturers Association (ACMA) estimates the industry to grow at 15% CAGR till 2012 and expects the contribution of exports to scale up further.

Today the Indian Auto component industry not only caters to the domestic demand but has also geared up to meet the needs of the foreign players. Auto component demand comes from Original Equipment Manufacturers (OEM) as well as the replacement market. The market for auto components can be classified into original equipment manufacturers [OEMs] (accounting for around 60% of demand), replacement market (accounting for around 25% of demand) and export market (accounting for the balance 15%).

The Indian Auto component industry is currently estimated at Rs. 300billion of which exports form 15% at Rs 45billion. The industry is no longer solely dependant on domestic automobile industry. India is slowly and steadily attracting the global auto

makers to outsource auto components. Vehicle makers in high-cost countries like North America and Europe, impelled by increasing cost pressure in their home markets, are likely to increase purchase of auto parts from low cost countries like Brazil, China, India and Thailand. Indian companies are currently vying with their counterparts in China, Mexico, Brazil and Thailand to emerge as key suppliers to global companies.



The Indian Automobile Industry offers significant growth potential, given its existing low penetration levels and a fast growing economy with a burgeoning middle and high income group of consumers. In terms of a manufacturing base, India offers some significant advantages vis-à-vis other competing investment destinations; Namely, a large pool of well qualified manpower which can be utilized in fostering local research and development; availability of enough land and other natural resources like iron ore, coal etc.; decreasing cost of funds and a well defined legal environment. These factors of competitive advantage assume special significance in light of changes in the business practices of Automobile majors.

COMPETENCIES OF THE DOMESTIC AUTO ANCILLARY INDUSTRY

The opportunity for the Indian Auto Ancillary sector is immense. The high labor costs to sales ratio and need for quality products at the right time attract the global OE makers towards India. The entry of the global players in to the Indian markets helped the component makers as they initiated supplies to Giants like Ford, Hyundai, GM, Toyota etc. The experience of initial supplies gave the domestic component makers enough confidence and guidance so as to improve in terms of quality and process.

The downtrend in the domestic Automobile Industry especially in the 1997-2000 period left the component makers into tough and challenging times. Wherein the idle capacities and employee costs inspired most of the companies to think about the export markets as well as gear up with restructuring strategies to improve on cost effectiveness.

Most large firms have changed the attitude of treating exports as fillers for idle capacity and a medium to insulate them from the volatile domestic market. Many of them have set significant targets to improve the share of exports from less than five percent of total sales in most cases to 25 – 50% of sales by the end of this decade, having realized their capability and the opportunity.

Advantages of Sourcing Components from India

Low cost labour

As per ACMA, the average wage rate in India is US\$8 per hour which is 60% lower than the rate prevailing in developed markets. Wages constitute 13% of sales for top US auto companies as compared to 6% in Indian companies. Thus US companies can save more than 50% of wage costs by outsourcing from Indian manufacturers. China is a big threat as far as labour cost is concerned (labour productivity is 60% higher than India in China) but India is more competitive than China as far as technical capability is concerned.

Established Quality System

The Indian Auto Component Industry comprises a large number of quality conscious and technologically advanced firms as evident by the fact that over the past two years, 7 Indian component manufacturers (Sona Koyo Steering, Sundaram Clayton etc) have won the coveted Deming Prize. Also, out of the 400-odd key Auto Component manufacturers in India, about 80% have an ISO 9000 certification and almost 50% also have a QS9000 certification (which is considered a pre-requisite for supply to US based OEMs). Indian companies are using a learning curve effect to further improve quality systems. Thus, quality technical skill at affordable rates makes India a preferred destination for outsourcing.



Low cost Research & Development

The global auto industry spends about 3% of revenues on R&D and there is immense pressure now to reduce R&D costs. India scores favourably, both in terms of R&D capabilities and availability and cost effectiveness of qualified and experienced engineers, as compared to other low cost production bases such as China, Brazil, Mexico etc.

Leverage High Software Skills

India is recognized for its high level of software skills and the auto component sector is using this platform to create software support for the auto sector. Indian companies also have implemented ERP and MRP systems to give support to their global clients on real time basis.

GROWTH POTENTIAL

The growth of the domestic Auto industry has also helped the ancillary industry as they have geared in respect of quality and productivity. The entry of global players such as Ford, GM, Toyota, Hyundai and Honda into the Indian market has allowed the Indian manufacturers to work with these players on global production, quality and delivery systems. It has also helped the global players to see for themselves the evolution of many auto components manufacturers and they are therefore now entrusting them with more work.

Apart from the growing outsourcing opportunity, the domestic auto market is also on an upsurge. Auto component companies are set to gain from the bullish domestic auto market as well. During FY'04 passenger vehicles sales crossed the 1-million mark (including cars and other utility vehicles).

The passenger car segment is expected to grow at 12% pa for next four to five years, the rising income levels and attractive loan packages shall help increase the penetration levels in the country. Two wheelers growth is likely to marginally slow down and further grow at around 10% pa. The commercial vehicles segment is likely to grow at a trend rate of 6-8% pa. The tractor segment is expected to out perform in the next 2 years due to rising farm incomes and under penetration.

Exports typically offer better margins for most component manufacturers than domestic sales. Thus, for the industry as a whole, margins are expected to improve with exports growing faster than domestic sales in the future.

Thus going forward domestic auto market presents a stable growth opportunity for auto ancillary companies with big growth thrust to be lead by exports.

BUSINESS OVERVIEW

Bharat Gears Ltd. (BGL) is one of the leading manufacturers in India for automotive gears. BGL had entered into a financial and technical collaboration with ZF Friedrichshafen AG of Germany - a world leader in transmission technology. BGL's delivery expands to nations across Europe, America and Asia. BGL is one of the major global supplier of automotive gears and heat treatment furnaces. The company manufactures a wide range of Ring Gears and Pinions, Transmission Gears and Shafts, Differential Gears, Gear Boxes mainly for the automotive industry

The company's modern manufacturing facilities are located at Village Kausa-Shil, Distt. Thane, and Faridabad. In its effort to meet and exceed the needs and demands of its customers BGL has made rapid progress in the international market. Leading OEM's like Ashok Leyland, Tata Motors, Mahindra & Mahindra, Escorts Limited, TAFE, Toyota Kirloskar, Spicer India, New Holland Tractors, John Deere, VST Tractors (Mitsubishi), Carraro, John Deere Coffeyville Works Inc., TDI and Tier I companies like Dana Corporation in USA, and several others source their complex gears and furnace requirements from Bharat Gears. BGL has strong technology and human resource base to meet the exacting standards of the most demanding customers in the world.

An ISO/TS-16949 (Mumbra and Faridabad plants) and ISO 14001:1996 (Faridabad plant) accredited company, BGL is internationally reputed for its cutting edge technology, established quality processes, and capabilities developed over the years. With customer satisfaction at the foundation of its entire operation, BGL is dedicated to maintaining the Company's commitment to providing the highest quality products, the best customer service, and the safest operating conditions in the industry.

INFRASTRUCTURAL FACILITIES

The company has two facilities which are located at:

- 1) 20 KM, Mathura Road, P.O. Amar Nagar, Faridabad – 121003, Haryana
- 2) Village Kausa Shil, Mumbra , Distt. Thane – 400 612, Maharashtra

Land at Mumbra is a freehold land and has a clear title. Land at Faridabad is leasehold land.

Capacity	Shilphata Plant (Nos.)	Faridabad Plant (Nos.)
Hypoid Ring	3,50,000	1,80,000
Differential Gear and Crosses	10,00,000	-
Transmission Gears	6,00,000	10,00,000

MANPOWER

The details of manpower are given below:

Sr. No.	Category	No.
1.	Senior Management	7
2.	Middle Management	8
3.	Junior Management	44
4.	Executives	256
5.	Workmen	997
6.	Contract Labour	419
7.	Trainees/apprentice	40
	Total	1771

MANUFACTURING PROCESS AND TECHNOLOGY

The company uses the finest in gear and transmission technology in collaboration with ZF Friedrichshafen AG of Germany - a world leader in transmission technology. BGL's Furnace Division engineers and constructs batch and continuous heat treating furnace systems.



The manufacturing process is as follows:-

Stage	Process Description
1.	Procurement of Forgings which is the only Raw Material from Forge Shops.
2.	Iso-thermal Annealing/Normalising of forgings for machinability.
3.	Conversion of forgings into gear blanks by Turning process.
4.	Cutting of Gears on the Gear Blanks.
5.	Case Hardening of Gear cut blanks (Heat Treatment)
6.	Finishing operations by grinding/lapping.

QUALITY

BGL has the most modern Gear Manufacturing and Testing facilities in India. Both the plants are certified to ISO/TS-1694 & Faridabad plant has also achieved certification under ISO 14001:1996. With quality as the backbone, BGL is continuously thriving towards 'Customer Delight' and the products see the light of most developed OEM's and replacement markets of the world.

The company is unendingly striving towards Improvement of the Quality Management Systems with the objective of doing the things right, the first time and every time. The growing markets and customer base is an indicator of the continuous efforts towards the achievement of the goal of Customer Delight.

BGL's "Quality Centered" team approach of manufacturing ensures products of the finest quality.

BGL's standards of Customer Service distinguish the company from its competitors. The company's focus is to identify the needs of the Customer in terms of Quality, Performance, Delivery and to provide the product at the right price.

The company is constantly looking for ways to advance the art of Gear Manufacturing and keeping abreast with the latest technology to ensure that it delivers only the highest quality product.

RAW MATERIAL

Alloy steel and alloy steel forgings are the main raw material required in the process of manufacturing automotive gears. In case of steel purchases, steel is converted into forgings, while steel forgings are supplied by forge shops based on the company's requirement. The following are the principal raw material suppliers:

FORGINGS

- a. Ahmednagar Forgings Ltd.
- b. Surendra Forgings Pvt.Ltd.
- c. Echjay Industries Ltd.
- d. Happy Forgings Limited
- e. Him Techno Forge Limited
- f. Sri Forge Pvt.Limited
- g. Maya Engineering Works

STEEL

- a. Kalyani Carpenter & Special Steel Ltd.
- b. Mahindra Ugine Steel Co. Limited
- c. Vardhaman Special Steels

PRODUCTS MANUFACTURED

A) GEARS

1) Ring Gears and Pinions

BGL manufactures over 4,40,000 hypoid/spiral ring gear and pinion sets to service a variety of trucks, tractors, buses, cars and utility vehicles. The Company offers both world famous systems of hypoid gear generation - Gleason (Face Milling) and Oerlikon (Face Hobbing). BGL manufactures gear sets from 6" to 18.5" ring gear sizes. These gear sets see application in heavy, medium and light duty trucks, buses, tractors, passenger cars, utility vehicles, forklift trucks, cooling towers and so on.

2) Transmission Gear and Shafts

BGL manufactures over 8.75 lacs transmission components annually.

3) Differential Gears

BGL manufactures a million components per annum and these gears find application in cars, utility vehicles, buses, trucks and tractors.

4) Gear Boxes

BGL manufactures Synchromesh Gear Boxes for light commercial vehicle application. Gear Boxes are manufactured under License from ZF Friedrichshafen AG of Germany. These Gear Boxes are light in weight with Aluminium Housing.

B) HEAT TREATMENT FURNACES

BGL's Furnace Division engineers and constructs batch and continuous heat treating furnace systems.

C) OTHER PRODUCTS

- 1) Gearbox Housing
- 2) Differential Cage
- 3) Brass Rings
- 4) Axle Shafts

MAJOR CUSTOMERS

A. DOMESTIC CLIENTS

1) GEARS – OEM

Name of the client	Application
Escorts Ltd.	Tractor
Toyota Kirloskar Auto Parts	Utility vehicle
Carraro India	Transmission for tractor
TAFE	Tractor
Ashok Leyland	Truck, Bus
Mahindra & Mahindra	Tractor, Jeep
Swaraj Mazda	Light Commercial Vehicles (LCV)
TATA Motors Ltd.	Trucks
Voltas Ltd.	Fork Lift
Godrej	Fork Lift
Paharpur Cooling Towers	Cooling Tower
Axles India	HCV and MCV
Spicer India	Utility vehicle
John Deere Equipments	Tractor



2) FURNACE DIVISION

Name of the client	No. of furnaces
Ashok Leyland	13
Bajaj Auto	19
BEML	1
Bharat Gears	17
Ceekay Daikin	3
Greaves	1
Hindustan Motors	2
M&M-Auto	2
Railway Workshop	6
Raunaq Auto	4
Sona Steering	5
Sundaram Fasteners	1
TELCO	1
Fairfield Atlas	1
Mukand Ltd.	1
NEI	1
Precision Fastners	3
Premier Auto	3

B. MULTINATIONAL CLIENTS

Name of the client	Application
New Holland	Tractor
John Deere Equipments	Tractor
Same Deutz-Fahr	Tractor
Cararro Italy	Transmissions for tractors
ZF Hungary/ZF China	Bus, Truck, Earthmoving
John Deere Coffeyville Works Inc.,	Tractors
TDI, USA	Turbo Starters
Dana Corporation, USA	Bus, Truck
Transaxle Manufacturing of America, (TMA) USA	Tractors, Utility Vehicles

AWARDS/RECOGNITIONS

YEAR	PARTICULARS
1991	EEPC award for export excellence
1992	EEPC award for export excellence
1994	Best Export Performance Trophy for 1992-93 by ACMA
1994	ISO 9000 Accreditation - 1987 norms.
1995	Export House recognition.
1995	ISO 9000 accreditation - 1994 norms
1995	Outstanding Export Award from Indo German Chamber of Commerce
1996	Certificate of merit for export performance from ACMA
1999	Certificate of merit for export performance for 1996-97 from EEPC
1999	QS 9000 accreditation
2005	ISO/TS 16949 accreditation – Mumbra and Faridabad plant ISO 14001:1996 accreditation – Faridabad plant

CAPACITY AND CAPACITY UTILISATION

Product wise installed capacity for the period FY 2004-2006 is as follows:

Year	Installed capacity	Production	% of capacity utilisation
2006	10594 MT per year	7035.874 MT	66.41
2005	10594 MT per year	6709.526 MT	63.33
2004	10594 MT per year	5214.523 MT	49.22

MARKETING AND SELLING ARRANGEMENTS

Sales to Original Equipment manufacturers and export customers are made directly to the buyers. Replacement sales are made through a wide network of distributors and dealers spread all over the country. The Company has distributors spread all over the country who in turn service the retailers. At least one distributor is appointed in each state and the replacement market reach for the company is wide. A well developed marketing department with field staff handles the marketing function.

The Company has sales offices at the following locations:

Sr. No.	Location
1.	New Delhi
2.	Jammu
3.	Jaipur
4.	Chandigarh
5.	Bangalore
6.	Kochi
7.	Chennai
8.	Patna
9.	Tripura
10.	Dhanbad
11.	Mumbai
12.	Ahmedabad
13.	Chattisgarh
14.	Jabalpur
15.	Haryana
16.	Jalandhar City
17.	Ambala
18.	UNA, Himachal Pradesh
19.	Haldwani
20.	Kanpur
21.	Vijaywada
22.	Kerala
23.	Coimbatore
24.	Kolkata
25.	Assam
26.	Ranchi
27.	Orissa
28.	Gwalior
29.	Indore
30.	Nagpur
31.	Hyderabad



COLLABORATION

The Company has financial collaboration with ZF Friedrichshafen AG [ZF] of Germany, a world leader in transmission technology. The collaborator has a 26% shareholding in the company. The collaboration agreement was signed in 1984-85 and the same was taken on record by the Central Government on 11th December, 1985. The agreement was for a period of 10 years from the date when the same was taken on record by the Central Government. Further, the agreement was extended after 10th December, 1995 for a period of 5 years. At the expiration of the License Agreement, BGL have the right to further use and keep the documentation and to manufacture and to sell the licensed products under the provisions of the license agreement, but without further payment.

ZF was incorporated in the year 1915 and has registered office in Local Court Tettang, Germany. The paid up share capital December 31, 2005 is euro 297 million and the turnover of the company during this period was euro 10.833 mill.

SCOPE OF THE AGREEMENT

ZF grants BGL the exclusive rights to manufacture and to sell the Licensed products and parts thereof in the present territory of the Republic of India.

ZF grants BGL the non-exclusive rights to sell the Licensed products outside of India with the exception of countries, where the Licensed products are or shall be manufactured by ZF in its own subsidiary companies or under license.

IMPACT OF EXPIRY OF LICENSE AGREEMENT/SIDE AGREEMENT

Positive Impact

- ☞ BGL can start any activity in competition to ZF Transmissions for passenger cars and commercial vehicles.
- ☞ BGL has the right to further use and keep the documentation and to manufacture and to sell the Licensed Products under the provisions of this Licence Agreement, but without further payments.
- ☞ BGL can offer and sell licenced products (complete units or spare parts thereof) in competition with ZF transmissions outside India subject to both parties deciding jointly which country(ies) shall become free for exports of BGL, after the expiry of Licence Agreement.

Negative Impact

- ☞ The facility of training of employees of BGL at ZF or by ZF Personnel no longer available.
- ☞ BGL's right to be appointed as exclusive agent in India for ZF vehicle transmissions & components is extinguished.

COMPETITION

In the organized sector, the main competition is from:

- In-house capacity of OEMs.
- Eicher Demm.
- Gajra Gears.
- Fairfield Atlas
- Graziano
- Other smaller companies

Traditionally OEMs in India are used to manufacture most of the items in-house. It is only now OEMs want to downsize their operations and opt for buying out components and assemblies.

EXPORT POSSIBILITIES AND EXPORT OBLIGATION

Synergies of high technology and service capability with low cost manufacturing strengths have put the company in an ideal position to exploit export markets. BGL's exports are currently largely to OEM's which confirms the company's technical strength.

EXPORT OBLIGATION

The company is under obligation to Export Item PUMP DRIVE GEAR worth USD 558614.04 i.e. 6 times the duty saved of Capital Goods or FOB basis within a period of 8 years (12 years in case of duty saved is Rs.100 crores or more) from the date of issue of License. The export obligation shall be fulfilled by the use of the Imported Capital Goods. The company is also

BHARAT GEARS LIMITED

required to maintain the average of the past three years export performance of the same and similar products mentioned above. The annual average of the past export performance of the same and similar products mentioned above is Rs. Nil

The details of the export volumes and revenues over the last five years in various products is given below:

(Rs. in lacs)

Party Name	Item	F 2002		F 2003		F 2004		F 2005		F 2006	
		Qty	Value	Qty	Value	Qty	Value	Qty	Value	Qty	Value
USA	Sets	3266	238.36	288	7.81	1080	21.66	2578	70.63	626	40.19
	Loose gears	7340	171.31	15617	464.69	21854	168.29	41659	604.26	91422	871.73
Sri Lanka	Sets	423	15.49	200	9.34	445	18.73	100	4.26	410	16.57
	Loose gears	-	-	-	-	-	-	-	-	335	16.33
Hungary	Sets	-	-	-	-	-	-	-	-	-	-
	Loose gears	-	-	52193	287.93	-	-	-	-	-	-
Italy	Sets	200	6.51	-	-	-	-	10576	349.13	13278	425.11
	Loose gears	30	0.32	-	-	-	-	-	-	-	-
China	Sets	-	-	37	2.55	400	24.83	1037	73.84	1211	116.62
	Loose gears	382	2.06	-	-	-	-	-	-	-	-
UAE / Iran/ Bangladesh	Sets	-	-	-	-	1190	32.31	11057	296.40	17250	498.24
	Loose gears	-	-	-	-	-	-	2000	17.77	1563	56.47
S.Africa	Sets	-	-	-	-	-	-	-	-	-	-
	Loose gears	-	-	1	0.05	-	-	-	-	-	-
Brazil	Sets	-	-	-	-	-	-	-	-	-	-
	Loose gears	-	-	-	-	-	-	24	0.06	-	-
Total	Sets	3889	260.36	525	19.70	3115	97.53	25348	794.26	32775	1096.73
Total	Loose gears	7752	173.69	67811	752.67	21854	168.29	43683	622.09	93320	944.53

MARKETING STRATEGY

The Company is a major player in the OEM market segment. The heavy/medium commercial vehicle and agricultural tractor segment dominates its portfolio of domestic customers. In the export market the company is in the heavy truck and also the tractor segment.

In the aftermarket the company sells under its own brand name.

PROPERTY

There is no proposal to purchase any property out of the proceeds of the rights issue.



Key Industrial Regulations which are applicable on Company

a) Factory Related Act(s)/ Regulation(s)

S.No	Act(s)/Regulation(s)
1	The Factories Act, 1948
2	The Air (Prevention & Control of Pollution) Act, 1981
3	The Water (Prevention & Control of Pollution) Act, 1974
4	Hazardous Waste (Management & Handling) Amendment Rules, 2005
5	The Petroleum Rules, 2005
6	The Indian Explosives Act, 1884
7	The Solvent, Reaffinate & Slop (Acquisition, sale, Storage & Prevention of use in Automobiles) order 2000
8	The Water (Prevention & Control of Pollution) Cess Act, 1977
9	The Manufacture, Storage & Import of Hazardous Chemical Rules, 1989
10	The Public Liability Insurance Act, 1991
11	The Noise Pollution (Regulation & Control) Rules, 2000
12	Ozone Depleting Substance (Regulating & Control) Rules, 2000
13	Batteries (Management & Handling) Rules, 2001
14	ISO 14001:1996
15	QS 9000:1998
16	Contract Labour (Regulation & Abolitions) Act, 1970

b) Statutory Dues Act(s)/Regulation(s)

S.No	Act(s)/Regulation(s)
1	Central Excise
2	Cess (including Education Cess)
3	Value Added Tax
4	Income Tax
5	Haryana Land Area Development Tax
6	Central Sales Tax
7	Customs Duty
8	Service Tax
9	Property Tax
10	Employees State Insurance
11	Provident Fund
12	Professional Tax
13	Octroi Duty
14	Fire Tax
15	Water Tax
16	Investors Education & Protection Fund
17	Bombay Sales Tax Act

HISTORY

Bharat Gears Limited was founded by Dr. Raunaq Singh, father of the present Chairman and Managing Director- Mr.Surinder P. Kanwar. With his dynamic leadership, Dr. Raunaq Singh was instrumental in strengthening Bharat Gears to leadership position it is in today.

Incorporated on 23rd December 1971, BGL is India’s one of the leading gear manufacturer. Since commencing business in 1974, BGL manufactures a wide range of gears for automotive trucks, tractors, buses and utility vehicles. The products include bevel, straight bevel and transmission gears.

BGL combines a modern line of machinery from all over the world with collaboration from ZF Friedrichshafen AG, Germany, the world’s largest maker of drivelines and chassis for automobiles. BGL also have financial collaboration with ZF Friedrichshafen AG since 1985.

BGL manufactures a wide range of hypoid/spiral gears, differential gears and shafts, complete automotive transmissions, gearbox sub-assemblies and differential assemblies. Parallel axis gear grinding and welding machines are deployed to enhance the capabilities to produce internals for heavy-duty power shift transmissions. BGL’s furnace division builds a variety of furnaces - sealed quench, continuous gas carburisers, rotary hearths etc.

With niche markets in the OEM segment being serviced from the Shilphata plant, BGL felt the need to penetrate the untapped replacement market that comprises about 50% of the auto component industry. The fresh capacity needed to address the opportunity was achieved by the amalgamation of Universal Steel & Alloys Limited with BGL under a scheme of rehabilitation sanctioned by BIFR effective April 1, 1998. The facilities so acquired at Faridabad was upgraded and expanded in May 2000 at substantial investment.

Apart from being the largest manufacturer of gears for OEM’s in India, BGL is a major exporter to countries around the world. BGL’s customer list includes almost all the players in the automobile industry in the tractors, trucks and buses and utility vehicle segments like John Deere, Escorts, Carraro India, Mahindra & Mahindra, Volvo, VST Tillers, TAFE, Ashok Leyland, Spicer India and Toyota Kirloskar. For several of the players, BGL is the single source supplier for gears. In the export market, BGL’s clients include Carraro Spa Italy, John Deere Coffeyville Works Inc, ZF Hungary and Tech Development Inc. USA. Dana Corporation has renewed development orders on BGL recently.

MAJOR MILESTONES

Year	Events
1972	Foundation Stone laid at Shilphata Factory
1974	Inauguration of the Hypoid Plant and Commencement of Production with ‘Gleason Machines’.
1980	First ‘Oerlikon Spiromatic Generator’ installed. BGL becomes the First Company in INDIA to have both Cutting Systems under one Roof.
1981	Memorandum of Association signed with AFC-Holcroft, U.S.A. for construction of furnaces in India
1985	Collaboration agreement with ZF Friedrichshafen AG, Germany
1987	Start of Assembly of ZF S5-24 Gear Boxes for Ashok Leyland.
1988	Start of business with Dana Corporation, USA
1994	BGL receives ISO 9002
1996	BGL crosses turnover of Rs. 1 Billion.
2000	BGL receives QS 9000
2005	BGL receives ISO/TS-16949 & ISO 14001:1996

Changes in Registered Office of the Company

Initial Registered Office was situated at Allahabad Bank Building, 17, Parliament Street, New Delhi-110 001. Then the registered office of the Company was shifted to New Delhi at: Chiranjiv Tower, 43 Nehru Place, New Delhi – 110 019.

Change in the registered office address of the Company from Delhi to Haryana:

The aforesaid registered office was shifted to the state of Haryana at 20 K.M. Mathura Road, P.O. Amar Nagar, Faridabad - 121 003 w. e. f. 8th October, 1999, pursuant to the order of CLB, Northern Region Bench, New Delhi vide its order dated 21.09.1999.



MAIN OBJECTS OF THE COMPANY

The main objects of the company are as follows:

(As set out in the Memorandum and Articles of Association of the Company)

- 1) To carry on business of designing, manufacturing, developing, hiring, repairing, buying, selling, and dealing in gears of all types including in particular Spiral Bevel, Straight Bevel, Spur & Helical and Worm Gears.
- 2) To carry on business as manufacturers, exporters, repairers, and dealers in ring gears and pinion sets, transmission gears and complete differential and components thereof and all parts, equipment, accessories, thereof and all other components thereof, and all parts equipment, accessories, thereof and all other materials, equipment, purchase of stores used therein or in any relation thereof.
- 3) To carry on business as manufacturers and dealers in ball and roller bearings and bearings of all kinds.
- 4) To carry on business as Merchant Exporters and Dealers in all kinds of engineering, metallurgical and other goods.

SUBSIDIARIES OF THE COMPANY

There are no subsidiary companies of Bharat Gears Limited.

SHAREHOLDERS AGREEMENTS

There is no subsisting shareholders agreement.

OTHER AGREEMENTS

- The Company had entered into a technical and financial collaboration with ZF Friedrichshafen AG [ZF] of Germany, vide the license agreement dated March 25, 1985 and April 19, 1985. The collaborator has a 26% shareholding in the company. A supplementary agreement dated September 6, 1985 was entered between the company and ZF for partial modification in the License Agreement. The collaboration agreement taken on record by the Central Government on 11th December, 1985. The agreement was for a period of 10 years from the date when the same was taken on record by the Central Government. Further, the agreement was extended after 10th December, 1995 for a period of 5 years vide a supplementary agreement dated June 30, 1994. The said agreement expired on 09.12.2005 and was not renewed further. However, the Company has the right to further use and keep the documentation and to manufacture and to sell the Licensed Products under the provisions of this Licence Agreement, but without further payments. At present the company only has a financial collaboration with ZF Friedrichshafen.

Dates on which the Memorandum of Association of the Company have been altered citing the details of Amendment.

Date of Approval	Clause	Amendment
21/12/1979	III (c) V	Amendment in the object clause of the MOA Following clauses were inserted in the other objects section of the Memorandum: 30. To undertake, carry out, promote & sponsor rural development including any programme for promoting the social, and economic welfare of or the uplift of the public in any rural area and to incur any expenditure on any programme of rural development, to assist execution and promotion and either directly or through an independent agency or in any other manner and for this purpose the directors may transfer & divest the ownership of any property to or in favour of any public or local body or authority or Central or State Government etc. 31. To undertake, carry out, promote & sponsor or assist any activity for the promotion and growth of national economy and for discharging what the directors may consider to be social and moral responsibilities of the Company to the public or any section of the public as also any activity which the directors consider likely to promote national welfare or social, economic or moral uplift of the public or any section of the public in such manner as Directors may think fit. The Authorised Capital of the Company increased from Rs. 2.50 crores to Rs. 5.00 crores.
19/05/1986	V	The Authorised Capital of the Company increased from Rs. 5 crores to Rs. 7 crores.
11/09/1992	III	Following was added to the main objects of the Company at sl. No. 44. To carry on business as Merchant Exporters and Dealers in all kinds of engineering, metallurgical and other goods.
12/08/1996	V	The Authorised Capital of the Company increased from Rs. 7 crores to Rs. 13 crores.
02/04/1997	V	The Authorised Capital of the Company increased from Rs. 13 crores to Rs. 21 crores.
27/08/1998	V	The Authorised Capital of the Company re-classified and increased from Rs. 21 crores to Rs. 25 crores.
08/10/1999	II	Registered Office of the Company shifted from Chranjiv Tower, 43, Nehru Place, New Delhi to 20K.M. Mathura Road, P.O. Amar Nagar, Faridabad-121 003 (Haryana).

MANAGEMENT

The details of the board of directors of the company is given below:

Sr. No.	Name, Age, Qualification and Address	Designation	Other Directorships	No. of equity shares of company held
1.	Mr. Surinder P. Kanwar (53 yrs) Graduate from Delhi University A-3, Greater Kailash – I, New Delhi – 110 048.	Chairman and Managing Director	Raunaq International Ltd. – CMD Raunaq ABM India Ltd. – Director Clip Lok Simpak (I) Pvt. Ltd. – Director Vibrant Finance & Investment Pvt. Ltd. – Director Ultra Consultants Pvt. Ltd. – Director	8,75,958
2.	Mr. Sameer Kanwar (28 yrs) Graduate in Business Economics – York University, Canada A-3, Greater Kailash – I, New Delhi – 110 048.	Executive Director	Samreet Investment & Management Consultancy Pvt. Ltd. - Director Clip Lok Simpak (I) Pvt. Ltd. – Director Vibrant Finance & Investment Pvt. Ltd. – Director Ultra Consultants Pvt. Ltd. – Director	—
3.	Mr.W.R.Schilha, (55 yrs) Graduate of business administration, Flursh-18,88069 Tettngang,Germany	Director	Suzhou, PR China –Chairman	—
4.	Mr. A.F. Hartmann, (53 yrs) Attorney at law, Courts of CologneD-88038, Friedrichshafen-IGermany	Director	ZF Sachs AG, Schweinfurt ZF Getriebe GmbH, Saarbrucken Kinowelt Medien AG i.L.,Leipzig	—
5.	Mr.Jai Singh Bhandari, (64 yrs) M.A., LL.BD-1203, Deeraj GangaChincholi Bunder Road, Malad (West), Mumbai.	Director	Nil	—
6.	Mr.N.J.Kamath, (84 yrs) B-38 Kailash Aptts, Lala Lajpatrai Road New Delhi-110048	Director	Rajdhani Leasing & Industries Ltd.	—
7.	Mr. V.K. Pargal, (73 yrs) Chartered Engineer16, Ganga Jamuna,17 th Road, Santacruz (W), Mumbai – 400 054	Director	Pargal Consultants Pvt. Ltd.	—



Sr. No.	Name, Age, Qualification and Address	Designation	Other Directorships	No. of equity shares of company held
8.	Dr.Ram S Tarneja, (74 yrs) Ph.D Cornell University, M.A. Mumbai-400026 (University of Delhi & University of Virginia)B.A. (Hons). 4 Pashmina33-A Pedder Road,	Director	Member, Board of Directors 1. NESCO Ltd. 2. Otis Elevator Company (I) Ltd., 3. Jolly Board Ltd 4. Bennet, Coleman & Co. Ltd, 5. Rallis India Ltd. 6. Ballarpur Industries Ltd., 7. Phillips Carbon Black Ltd., 8. Housing Development Finance Corporation Ltd. 9. GATI Ltd., 10. ITC Ltd., 11. Transcorp International Ltd. 12. Phoenix Township Ltd. 13. SOWiL Ltd., Alternate Director- 1. GIVO Ltd. Private Limited Companies 1. ARIM Metal Industries Pvt Ltd. 2. NISSIN ABC Logistics Pvt.Ltd. 3. Engineering Projects (India)Ltd.	—

RELATIONSHIP AMONG DIRECTORS

Mr. Surinder P. Kanwar is the father of Mr. Sameer Kanwar. Besides this none of the directors are related.

CHANGE IN BOARD OF DIRECTORS

There are no changes in the Board of Directors for the past three years.

DETAILS OF BORROWING POWER

Subject to the provisions of the section 293(1) (d) and other applicable provisions of the Companies Act, 1956 and subject to such approvals as may be required, consent of the Company be and is hereby accorded to the Board of Directors, to borrow from time to time, such money or monies as it may deem fit, for the purpose of the Company notwithstanding that the money/ monies to be borrowed together with monies already borrowed by the Company (apart from the temporary loans obtained from the Company's Bankers in the ordinary course of business) may exceed the aggregate of the paid up share capital of the Company and its free reserves, that is to say, reserves not set apart for any specific purpose, provided that the total amount of money/monies borrowed at any time shall not exceed Rs. 100 crores.

COMPENSATION OF DIRECTORS

(Rs. in lacs)

Name of Members	Sitting Fees	Salaries and Perquisites	Total	
Mr. N. J. Kamath	0.24	NIL	0.24	
Mr. J. S. Bhandari	0.08	NIL	0.08	
Mr. V. K. Pargal	0.22	NIL	0.22	
Dr. Ram S. Tarneja	0.20	NIL	0.20	
Mr. Surinder P Kanwar@	Nil	Salary	42.00	69.36*
		- Monetary Value of Perquisites	13.40	
		- Contribution to Provident and other funds	13.96	
Mr. Sameer Kanwar#	Nil	Salary	10.20	22.50*
		- Monetary Value of Perquisites	3.60	
		- Contribution to Provident and other funds	8.70	

* Excludes provision for leave encashment, which is made based on the actuarial valuation done for the company on an overall basis.

@ Approved in the Annual General Meeting held on 27th July 2005 for a further period of five years w. e. f. 01st October, 2005.

Approved in the Annual General Meeting held on 17th September 2001 for a period of five years w.e.f. 01st February 2002.

INTEREST OF DIRECTORS

All the Directors may be deemed to be interested to the extent of reimbursement of expenses, if any, payable to them under the articles. The Directors may also be deemed to be interested to the extent of the shares, if any, held by them or by the relatives or by firms or companies of which any of them is a partner and a Director/ Member respectively and the shares if any, out of the present Offer that may be subscribed for and allotted to them or their relatives or any Company in which they are Directors / members of firms in which they are partners.

CORPORATE GOVERNANCE

The Company has complied with SEBI guidelines in respect of Corporate Governance especially with respect to broad basing of Board, Constituting the Committees. The extract of the report on corporate governance as on 31/03/2006 as incorporated in Clause 49 of the Listing Agreement with the Stock Exchanges is set out below:

COMPANY'S PHILOSOPHY

Corporate Governance is a combination of voluntary practices and compliances of laws and regulations leading to effective control and management of the Organization and its valuable resources through effective and transparent business conduct integrating communication, integrity and accountability towards its stakeholders.

The Company is following transparent and fair practices of good Corporate Governance and its constant endeavor is to continually improve upon those Practices. The Company recognizes communication as key element in the overall Corporate Governance framework and therefore, emphasizes on keeping abreast its stakeholders including investors, lenders, vendors & customers on continuous basis by effective and relevant communication through Annual Reports, quarterly results, corporate announcements and reflecting the same on the Company's website www.bharatgears.com.

The Securities and Exchange Board of India (SEBI) the regulatory body for Capital Market, vide its circular dated 29th March, 2005, has extended the date for ensuring compliance with the revised clause 49 of the listing agreement which was introduced by it vide SEBI Circular dated 29 October, 2004 suggesting changes to the then existing clause – 49 and has mandated listed companies to comply with the revised Clause – 49 by 31st December, 2005. In view of the above this report complies with earlier Clause 49 for the transition period i. e. 01st April, 2005 to 31st December, 2005 and also with the revised Clause 49 for the period from 01st January, 2006 till 31st March, 2006.



BOARD OF DIRECTORS

The Company has an optimum combination of executive and non-executive independent directors on the Board. The Board consists of 8 members, the Chairman of the Board is an executive director and half of the strength of the Board consists of non-executive independent directors. All non-executive Independent Directors bring a wide range of expertise and experience to the Board. The Board believes that the current size of the Board is appropriate based on the Company's present requirements.

Composition of the Board

Executive Directors

1. Mr. Surinder P. Kanwar - Chairman & Managing Director
2. Mr. Sameer Kanwar - Executive Director (Strategic Planning)

Nominees of Collaborators - (ZF Friedrichshafen AG)

3. Mr. W. R. Schilha - Director
4. Mr. A. F. Hartmann - Director

Non-Executive Independent Directors

5. Dr. Ram S. Tarneja - Director
6. Mr. N. J. Kamath - Director
7. Mr. V. K. Pargal - Director
8. Mr. J. S. Bhandari - Director

(Representative of Life Insurance Corporation of India- Equity Investor)

The **Table 1** gives Composition of the Board, Attendance record of the directors at the Board Meetings and at the last Annual General Meeting (AGM); Number of their outside directorships and their memberships/chairmanships in Board Committees.

Table 1.

Name of Director	Category	No. of Board Meetings attended ^A	Attendance at Last AGM	No. of outside Directorships held ^B	No. of memberships/ Chairmanships in Board Committees ^C	
					Member	Chairman
Mr. Surinder P. Kanwar	Executive	4	Present	2	1	—
Mr. Sameer Kanwar	Executive	4	Present	—	1	—
Mr. W. R. Schilha	Independent	2	Present	—	—	—
Mr. A. F. Hartmann	Independent	2	Present	—	—	—
Dr. Ram S. Tarneja	Independent	4	Present	13	9	4
Mr. N. J. Kamath	Independent	4	Present	1	2	1
Mr. V. K. Pargal ^D	Independent	4	Present	—	1	—
Mr. J. S. Bhandari	Independent	3	—	—	—	—

AAttendance at the Board Meetings relevant to the period when Director of the Company.

BIncludes Directorship in companies registered under the Companies Act, 1956, excluding directorship in private companies, section 25 companies, unlimited companies and alternate directorship.

CIncludes Membership/Chairmanship of Audit Committee and Shareholders' /Investors' Grievance Committee.

DMr. V. K. Pargal is also a Director on the Board of Pargal Consultants Pvt. Ltd (PCPL), which is providing consultancy service to the Company in its professional capacity. Professional fees paid to PCPL for the year 2005-2006 is Rs. 1,08,000/-. The Board is of the opinion that such payments in the context of overall expenditure by the Company, is not significant and does not affect his independence.

Apart from this, no other non-executive director has any pecuniary relationships/transactions vis-vis the Company (other than the sitting fees for attending the Board/Committee meetings).

None of the Directors of your Company is a member of more than 10 committees or is the chairman of more than five committees across all companies in which they are Directors.

BOARD MEETINGS

During the year under review, four (4) Board Meetings were held on the following dates. The gap between any two meetings was not more than 4 months as mandated in clause 49 of the listing agreement: -

18th May 2005;

27th July 2005;

27th October 2005 and

25th January 2006.

Information supplied to the Board

The Board has complete access to all information with the company. The information is provided to the Board and the agenda papers for the meetings are circulated in advance of each meeting.

BOARD COMMITTEES

1. Audit Committee

Constitution and Composition

The "Audit Committee" comprises of the following three non-executive & independent directors, who have financial/ accounting acumen to specifically look into internal controls and audit procedures. Dr. Ram S. Tarneja, the Chairman of the Audit Committee has accounting and financial management expertise.

The **Table 2** gives the composition of the audit committee and the attendance record of members of the committee:

Table 2 Composition and Attendance Record of Audit Committee

S. No	Name of Members	Designation	No of Meetings Held/attended
1.	Dr. Ram S. Tarneja	Chairman	4/4
2.	Mr. N. J. Kamath	Member	4/4
3.	Mr. V. K. Pargal	Member	4/4

In addition to the members of the Audit Committee, the Financial Controller, Internal Auditor and the Statutory Auditors attended these meetings as invitees. Members held discussions with Statutory Auditors during the meetings of the Committee. The Audit Committee reviewed the Quarterly & Half-Yearly Un-audited & Annual audited financials of the Company before consideration and approval by the Board of Directors. The Committee reviewed the internal control systems and conduct of the internal audit.

The Chairman of the Committee was present at the last Annual General Meeting to answer the shareholders' queries.

Mr. Gulshan K Bhatia – Group Head (Legal) & Company Secretary acts as the Secretary to the Committee, for the aforesaid meetings.

Audit Committee Meetings

During the year under review, four (4) meetings of the Audit Committee were held on the following dates:

17th May 2005;

26th July 2005;

27th October 2005 and

25th January 2006.



Terms of reference

The broad terms of reference as delegated to the Audit Committee by the Board are as follows:

- a) Overview of the Company's financial reporting process and disclosure of its financial information;
- b) Recommending the appointment/removal of external auditors, nature and scope of audit, fixation of audit fee and payment of fees for any other service rendered by external auditors;
- c) Reviewing with the management, the quarterly, half yearly and annual financial statements before submission to the Board;
- d) Reviewing with the management, internal and external auditors, the internal audit reports and the reports of the external auditors;
- e) Reviewing of the adequacy and effectiveness of internal audit function, the internal control system of the Company, compliance with the Company's policies and applicable laws and regulations;
- f) Reviewing the Company's financial and risk management policies;
- g) To look into the reasons for substantial defaults, if any, in the payment to the depositors, debenture holders, shareholders (in case of non payment of declared dividends) and creditors.

The Audit Committee may also review such matters as may be referred to it by the Board or which may be specified as role of the audit committee under amendments, if any, from time to time, to the Listing Agreement, Companies Act and other statutes.

2. Remuneration Committee

Constitution and Composition

In terms of the non-mandatory requirement of Clause 49 of the Listing Agreement, the "Remuneration Committee" was constituted on 22nd April, 2002. The said Committee has been empowered to consider, approve and recommend the remuneration of the Whole Time Director/Managing Director. The Remuneration Committee comprises of three non-executive & independent directors. Table 3 gives the details.

Table 3

S. No	Name of Members	Designation	No of Meetings Held / attended
1.	Mr. N. J. Kamath	Chairman	1/1
2.	Mr. J. S. Bhandari	Member	1/1
3.	Mr. V. K. Pargal	Member	1/1

Remuneration Committee meetings

The Remuneration committee meets as and when required. During the Year under review, the Remuneration Committee met once on 17th May, 2005 to consider the re-appointment of Mr. Surinder P. Kanwar – Chairman and Managing Director of the Company for a further period of five years w. e.f. 01st October, 2005 and payment of remuneration to him under the provisions of Section 198, 269, 309, 310, Schedule –XIII and other applicable provisions of the Companies Act, 1956, subject to the approval of the shareholders in the General Meeting, and further subject to the Approval of Central Government and other concerned authorities.

The Chairman of the Remuneration Committee was present at the Annual General Meeting, to answer the shareholders' queries.

The remuneration policy of the Company is based on the need to attract the best available talent and be in line with the industry levels.

REMUNERATION OF DIRECTORS FOR 2005-06

(Rs. In Lacs)

Name of Members	Sitting Fees	Salaries and Perquisites	Total	
Mr. N. J. Kamath	0.24	NIL	0.24	
Mr. J. S. Bhandari	0.08	NIL	0.08	
Mr. V. K. Pargal	0.22	NIL	0.22	
Dr. Ram S. Tarneja	0.20	NIL	0.20	
Mr. Surinder P Kanwar@	Nil	Salary	42.00	69.36*
		- Monetary Value of Perquisites	13.40	
		- Contribution to Provident and other funds	13.96	
Mr. Sameer Kanwar#	Nil	Salary	10.20	22.50*
		- Monetary Value of Perquisites	3.60	
		- Contribution to Provident and other funds	8.70	

* Excludes provision for leave encashment, which is made based on the actuarial valuation done for the company on an overall basis.

@ Approved in the Annual General Meeting held on 27th July 2005 for a further period of five years w. e. f. 01st October, 2005.

Approved in the Annual General Meeting held on 17th September 2001 for a period of five years w. e. f. 01st February 2002.

There is no notice period or severance fee in respect of appointment of any of the above Managerial Personnel. The Company does not have any stock option scheme.

3. Shareholders'/Investors' Grievance Committee

The "Shareholders'/Investors' Grievance Committee" has been empowered to look into the shareholders/investors grievances and redressal of the same. The said Committee is also authorised to effect transfers/transmissions of equity shares/debentures and other securities and also to issue Duplicate Shares and other securities and matters related or incidental thereto.

Table 4 gives the composition of the Shareholders'/Investors' Grievance Committee and the attendance record of members of the committee:

Table 4

S. No	Name of Members	Designation	No of Meetings Held/attended
1.	Mr. N. J. Kamath	Chairman	3/3
2.	Mr. Surinder P. Kanwar	Member	3/2
3.	Mr. Sameer Kanwar	Member	3/2

Mr. N. J. Kamath is a non-executive director whereas Mr. Surinder P. Kanwar and Mr. Sameer Kanwar are executive Directors.

Shareholders'/Investor's Grievance Committee meetings

During the year under review Three (3) meetings, of the Shareholders'/Investors' Grievance Committee, were held on the following dates:

15th April, 2005;

26th July, 2005; and

25th January, 2006



During the financial year 2005-2006, 21 complaints were received from the shareholders till 31st March 2006; all of them were resolved to the satisfaction of the shareholders. All the requests for transfers and transmissions have been duly acted upon and no such request was pending as on 31st March 2006.

Sub-Committee

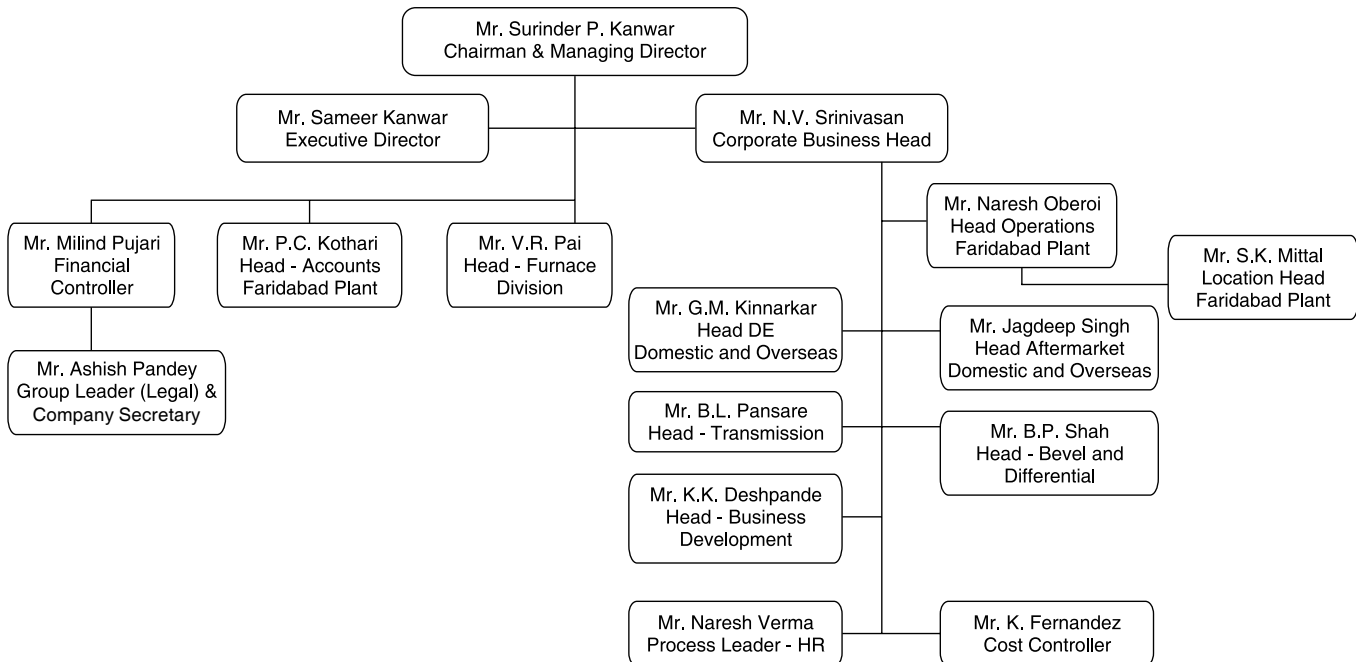
In order to have speedy disposal of the shareholders'/investors' requests for transfer and transmission, a sub-committee consisting of the following directors/officers of the Company is in place for effecting share transfer/transmission/ split/consolidation of shares.

1. Mr. Surinder P. Kanwar, Chairman & Managing Director
2. Mr. Sameer Kanwar, Executive Director
3. Mr. P.C. Kothari, General Manager (Accounts)
4. Mr. Gulshan Bhatia, Group Head (Legal) & Company Secretary

Any two of the above are authorised to consider and approve the share transfer/transmission/ split/consolidation of shares.

The sub-committee is attending to Share Transfer formalities at least once in a fortnight.

ORGANISATION STRUCTURE



DETAILS OF KEY MANAGERIAL PERSONNEL

The Company is managed by its Board of Directors, assisted by qualified professionals, with vast experience in the field of production/engineering/distribution/marketing/finance and corporate laws. Following are the key functionaries in different functions of the Company excluding the promoters/directors of the Company: -

Sl. No.	Name & Designation	Age (Years)	Date of appointment	Qualifications	Experience in the Company	Previous Company and Total Experience
1.	Mr. N.V. Srinivasan <i>Corporate Business Head</i>	61	16/01/1976	BE, MBA, MS	Manufacturing, Planning.	Larsen & Toubro Limited(38 years)
2.	Mr. Naresh K. Oberoi <i>Head (Operations) – Faridabad Plant</i>	54	01/12/2005	B. Tech (Hons.)	Manufacturing (Operations)	Force Motors Limited(32 years)
3.	Mr. G.M. Kinnarkar <i>Head (OE)</i>	56	01/08/1972	BE, M. TECH.	Engineering	First Company (33 years)
4.	Mr. Jagdeep Singh <i>Head (After Market)</i>	49	09/12/1991	BA	Marketing	Escorts Limited (29 years)
5.	Mr. V.R. Pai <i>Unit Head (Furnace Division)</i>	48	11/06/1984	B. TECH., DMS	Furnace	Blue Star Limited (22 years)
6.	Mr. Milind Pujari <i>Financial Controller</i>	36	01/06/1995	B.Com, FCA	Finance	Caprihans India Limited (11 years)
7.	Mr. S.K. Mittal <i>Location Head –Faridabad</i>	52	01/04/2000	BE (Elect.)	Purchase, Manufacturing	Raunaq International Limited(31 years)
8.	Mr. P. C. Kothari <i>Head-Accounts</i>	58	03/12/1992	B. Com	Accounts	Apollo Tyres (37 years)
9.	Mr. Naresh Verma <i>Process Leader-HR&PIA</i>	45	04/02/2004	B.Com, M.Com, PG-PM&IR, DIP-HR	Personnel Management & Industrial Relations	Daikin Shriram (21 years)
10.	Mr. Kenny Fernandez <i>Cost Controller</i>	54	01/03/1978	B. Com, AICWA	In-charge of Costing and MIS	Bombay Potteries and Tiles(29 years)
11.	Mr. Ashish Pandey <i>Group Leader (Legal) & Company Secretary</i>	28	23/05/2006	M. Com, ACS, LL.B	Secretarial & Legal	Usha India Ltd. (05 years)
12.	Mr. B.P.Shah <i>Head Bevel and Differential</i>	50	07/08/1978	B.E.	Production Planning	30 years
13.	Mr. B.L.Pansare <i>Head Transmission</i>	53	07/07/1975	B.E.	Production and Planning	30 years
14.	Mr. K.K.Deshpande <i>Head- New Business Development</i>	47	02/08/1982	LME, BE, DMS	Engineering and Business Development	23 years

All the above mentioned key managerial personnel are permanent employees of the Company. The remuneration of each of key managerial personnel includes salary, bonus, Company's contribution to Provident Fund, Leave Travel Allowance/Concession, Medical Expenses and value of other facilities inclusive of accommodation as may be applicable in such case. The Company has not offered any profit sharing plan to its Key Managerial Personnel.



Shareholding of the Key Managerial Personnel

Name	No. of equity shares of Rs.10/- held by the employees/ relatives of the employee
Mr. B.P.Shah	500
Mr. N.V. Srinivasan	300
Mr. P. C. Kothari	07

Changes in Key Managerial Personnel (last 3 years)

Sr No	Name	Designation & Functional Area	Date of Joining
1	Mr.Naresh Verma	Process Leader (HR) & P & A	04/02/2004
2	Mr.S.K.Gulati	Head (P &A/HR)	07/06/2004
3	Mr.Gulshan K.Bhatia	Group Head (Legal) & Company Secretary	04/12/2004
4	Mr.N.K.Oberoi	Head (Operations) Faridabad Plant	02/12/2005
5.	Mr. Ashish Pandey	Group Leader (Legal) & Company Secretary	23/05/2006

Sr No.	Name	Designation & Functional Area	Date Of Leaving	Reason
1	Mr.Hemant Kalia	Process Head (Systems)	24.10.2003	Resigned
2	Mr.B.Shankar	Sr. Vice President (Mktg. & Engg.)	31.05.2004	Superannuation
3	Mr.A.S.Raghavan	Sr. Vice President (Furnace Division)	30.06.2004	Superannuation
4	Mr.S.M.Mathur	Project Head (Faridabad Plant)	31.07.2004	Resigned
5	Mr.C.R. Phanse	Unit Head (CPE)	31.08.2004	Superannuation
6	Mr.S.K.Sachdev	AGM- (Legal) and Company Secretary	30.11.2004	Resigned
7	Mr.S.K.Sahay	Head (Legal & Policy Advisory Cell) P & A	28.02.2005	Superannuation
8	Mr.S.K.Gulati	Head (P &A/HR)	05.07.2005	Resigned
9	Mr.B.H.Nimat	Unit Head (QA) & MR	30.11.2005	Resigned
10.	Mr. Gulshan K. Bhatia	Group Head (Legal) & Company Secretary	22.05.2006	Resigned



EMPLOYEE STOCK OPTION SCHEMES

Till date, the Company has not introduced any Employees Stock Option Scheme/Employee Stock Purchase Scheme.

PAYMENT OR BENEFIT (NON-SALARY RELATED) TO OFFICERS OF THE COMPANY

Except as stated in this Letter of Offer, no amount or benefit has been paid or given or is intended to be paid or given during the preceding two years to any of its officers except for the normal remuneration paid to Directors, officers or employees since the incorporation of the Company. None of the beneficiaries of loans, advances and sundry debtors are related to the Company's Directors.

PROMOTERS

	<p>Mr. Surinder P Kanwar, Chairman & Managing Director</p> <p>Mr. Surinder P. Kanwar, (53 years) is the Chairman & Managing Director of Bharat Gears Limited. A Commerce graduate from Delhi University, Mr. S. P. Kanwar is immensely experienced & has in-depth knowledge of the core business of the company i.e. Automotive Gears. He has wholesome exposure on all aspects of business of the company and is engaged in supervision & conduct of business of the Company, along with a team of senior management personnel, who assist him in carrying out his activities, subject to the overall supervision & control of the Board.</p> <p>He has been associated with Late Dr. Raunaq Singh Group since 1975. He has also worked at various managerial positions in various Raunaq Group Companies viz. BST Manufacturing Limited (Bharat Steel Tubes Limited), Raunaq International Limited, Raunaq & Company Pvt. Ltd., to name a few. Mr. S. P. Kanwar is on the board of Bharat Gears Limited Company since 29th September, 1982. He served as a Joint Managing Director of Bharat Gears Limited for a period of 4 years w. e.f. 01.01.1983 till 31.12.1987. He is the Managing Director of the Company since 01st October 1990. He is also the Chairman & Managing Director of M/s Raunaq International Limited, a company engaged in engineering and consulting business. He is also a Director in a closely held Public Limited company and few Private Limited companies.</p> <p>The driving license no. of Mr. Surinder Kanwar is P0310 1999 163 178</p>
	<p>Mr. Sameer Kanwar, Executive Director - Strategic Planning</p> <p>Mr. Sameer Kanwar, (28 years) Executive Director- Strategic Planning, is on the Board of Bharat Gears Limited since 1st February 2002. Mr. Sameer Kanwar holds a Bachelor's Degree in Business Economics from York University, Canada. He subsequently received training in the areas of planning, finance and control at ZF Friedrichshafen AG, Germany, BGL's collaborator, for 2 years, where he was exposed to the areas of Controlling, Purchasing and General Management. Subject to the overall supervision & control of the Board, he is engaged in overseeing Operations at the Faridabad Plant of Bharat Gears Limited and exploring and developing new customers, markets.</p> <p>The driving license no. of Mr. Sameer Kanwar is P03072001272897</p>

We confirm that the Permanent Account Number, Bank Account Numbers, Passport Number have been submitted to the Stock Exchanges at the time of filing of the Draft Letter of Offer. Further, the Promoters have not been detained as a willful defaulter by the Reserve Bank of India or any other Government authority and there are no violations of securities laws committed by the Promoters in the past or any such proceedings are pending against the Promoters.

COMMON PURSUITS

The Associate Companies are carrying on separate businesses and there is no conflict of interest situation except certain related party transaction mentioned on page no.67 which are not significant.

INTEREST OF DIRECTORS

All the Promoters may be deemed to be interested to the extent of Remuneration and reimbursement of expenses, if any, payable to them. The Directors may also be deemed to be interested to the extent of the shares, if any, held by them or by the relatives or by firms or companies of which any of them is a partner and a Director/ Member respectively and the shares if any, out of the present Offer that may be subscribed for and allotted to them or their relatives or any Company in which they are Directors / members of firms in which they are partners.



PROMOTER GROUP COMPANIES

COMPANIES UNDER THE SAME MANAGEMENT

Except as stated follows in this Letter of Offer, there are no companies under the same management within the meaning of section 370(1) (B) of the Companies Act, 1956

1. Raunaq International Limited

VENTURES PROMOTED BY THE PROMOTERS

1. Ultra Consultants Private Limited
2. Vibrant Finance and Investment Private Limited
3. Clip-Lok Simpak (India) Private Limited
4. Samreet Investment and Management Consultancy Private Limited
5. Future Consultants Private Limited
6. Raunaq ABM India Limited

None of the Promoters or Promoter Group Companies have been restrained or prohibited by SEBI or any other regulatory authority from accessing the capital markets for any reason.

None of the companies promoted by the Promoters have been struck off from the records of the Registrar of Companies.

Brief details of the group companies are given below:

1) RAUNAQ INTERNATIONAL LIMITED (RIL)

Date of Incorporation	24/04/1965
Registered Office	20 K.M. Mathura Road, P.O. Amar Nagar, Faridabad – 121003 Haryana.
Board of Directors	Mr. Surinder P. Kanwar, Mr. P.K. Mittal, Mr. Yesh Pall Gupta and Mr. M.K.Vig
Nature of Business	Engaged in the business of Engineering and civil construction activities.
Listing status	Listed on Delhi Stock Exchange

Brief audited financials of the company are as follows:

(Rs. In Lacs)

Particulars (As at 31 st March)	2002-2003	2003-2004	2004-2005
Equity Share Capital	67.02	67.02	67.02
Reserves and Surplus	391.54	426.15	430.11
Total Income	2095.49	1400.83	898.04
Profit After Tax	7.57	34.61	3.96
Earning per share (EPS) (Rs.)	1.14	5.22	0.60
Book Value (Face value of Rs. 10/- per share)(Rs.)	68.98	74.34	74.93

Information about Share Price

The shares are listed only on Delhi Stock Exchange and are not actively traded.

Details of public issue/ rights issue of capital in the last three years

There has been no public issue of equity shares or rights issue in the three years preceding the date of this Letter of Offer.

Mechanism for redressal of investor grievance

In the case of Raunaq International Limited, a proper Investor Grievance Redressal system is in place which essentially comprises addressing complaints received from the investors. As per the stipulated procedure, the complaints received are entered in the register maintained for the purpose. The number of complaints received during each quarter along with status thereof is published in the newspaper along with quarterly/half-yearly results pursuant to the provisions of the Listing Agreement.

Litigation

For details on outstanding litigations against RIL please refer page no. 84 of the Letter of Offer

2) RAUNAQ ABM INDIA LIMITED

Date of Incorporation	25/10/1995
Registered Office	A-3, Greater Kailash-I, New Delhi – 110048
Board of Directors	Mr. Surinder P. Kanwar, Mr. Rajeev Chandra Rastogi and Mr. P.C. Kothari
Nature of Business	There was no business activity of the Company. The Company has not yet commenced its commercial activities.
Listing status	Unlisted

Brief audited financials of the company are as follows:

(Rs. In Lacs)

Particulars (As at 31st March)	2002-2003	2003-2004	2004-2005
Equity Share Capital	5.01	5.01	5.01
Reserves and Surplus	-	-	-
Total Income	-	-	-
Profit After Tax	-	-	-
Earning per share (EPS) (Rs.)	-	-	-
Book Value (Face value of Rs. 10/- per share)(Rs.)	8.43	8.43	8.43

There is no pending litigation against Raunaq ABM India Limited

3) ULTRA CONSULTANTS PRIVATE LIMITED

Date of Incorporation	05/09/1990
Registered Office	20/O Krishna Nagar, Sudarjung Enclave, New Delhi-110029
Board of Directors	Mr. Surinder P. Kanwar, Mr. Jagdeep Singh, Mr. Sameer Kanwar, Mr. S.K. Mittal and Mr. P.C. Kothari
Nature of Business	Ultra Consultants Private Limited is a Non-Banking Financial Company.
Listing status	Unlisted

Brief audited financials of the company are as follows:

(Rs. In Lacs)

Particulars (As at 31st March)	2002-2003	2003-2004	2004-2005
Equity Share Capital	63.49	95.82	95.82
Reserves and Surplus	0.78	145.61	145.61
Total Income	2.65	1.25	0.65
Profit After Tax	0.80	(0.33)	(0.66)
Earning per share (EPS) (Rs.)	1.26	(0.35)	(0.69)
Book Value (Face value of Rs. 100/- per share)(Rs.)	100.28	251.54	251.75

Litigation

There is no pending litigation against Ultra Consultants Private Limited



4) VIBRANT FINANCE & INVESTMENT PRIVATE LIMITED

Date of Incorporation	22/10/1981
Registered Office	2/33, Old Double Storey, Lajpat Nagar – IV New Delhi - 110024
Board of Directors	Mr. Surinder P. Kanwar, Mr. Sameer Kanwar and Mr. P.C. Kothari
Nature of Business	Vibrant Finance & Investment Pvt Ltd. is a finance company
Listing status	Unlisted

Brief audited financials of the company are as follows:

(Rs. In Lacs)

Particulars (As at 31 st March)	2002-2003	2003-2004	2004-2005
Equity Share Capital	6.44	6.44	6.44
Reserves and Surplus	22.53	28.42	32.78
Total Income	10.54	13.31	11.68
Profit After Tax	3.33	3.08	4.38
Earning per share (EPS) (Rs.)	5.17	4.78	6.80
Book Value (Face value of Rs. 10/- per share)(Rs.)	44.98	54.13	60.89

Litigation

There is no pending litigation against Vibrant Finance & Investment Private Limited

5) CLIP-LOK SIMPAK (INDIA) PVT. LIMITED

Date of Incorporation	17/04/1997
Registered Office	512, Surya Kiran Building, 19, Kasturba Gandhi Marg, New Delhi – 110 001
Board of Directors	Mr. Surinder P. Kanwar, Mr. Sameer Kanwar, Mr. S.K. Mittal and Mr. P.C. Kothari
Nature of Business	Clip-Lok Simpak (India) Pvt. Ltd. is engaged in supplies of Clip-Boxes.
Listing status	Unlisted

Brief audited financials of the company are as follows:

(Rs. In Lacs)

Particulars (As at 31 st March)	2002-2003	2003-2004	2004-2005
Equity Share Capital	3.50	3.50	3.50
Reserves and Surplus	-	-	-
Total Income	0.40	2.63	3.10
Profit After Tax	(0.16)	0.79	1.22
Earning per share (EPS) (Rs.)	(0.46)	2.26	3.48
Book Value (Face value of Rs. 10/- per share)(Rs.)	0.85	3.14	6.64

There is no pending litigation against Clip-Lok Simpak (India) Pvt. Ltd.

6) SAMREET INVESTMENT & MANAGEMENT CONSULTANCY PVT. LTD.

Date of Incorporation	14/01/2004
Registered Office	A-3, Greater Kailash Part – I, New Delhi – 110 048.,
Board of Directors	Mr. Sameer Kanwar and Mrs. Reetika Puri Kanwar
Nature of Business	Samreet Investment & Management Consultancy Pvt. Ltd. is a consultancy company, not engaged in any business at present.
Listing status	Unlisted

Brief audited financials of the company are as follows:

(Rs. In Lacs)

Particulars (As at 31st March)	2004-2005
Equity Share Capital	1.00
Reserves and Surplus	5.61
Total Income	9.39
Profit After Tax	5.61
Earning per share (EPS) (Rs.)	56.10
Book Value (Face value of Rs. 10/- per share)(Rs.)	66.10

There is no pending litigation against Samreet Investment & Management Consultancy Pvt. Ltd.

7) FUTURE CONSULTANTS PRIVATE LIMITED

Date of Incorporation	28/12/1988
Registered Office	21 NWA Club Road, IInd Floor, West Punjabi Bagh (Extn), New Delhi – 110 026
Board of Directors	Mr. Anand Agarwal, Mr. N.C. Bansal, Mr. Nikhil Bansal and Mr. P.C. Kothari
Nature of Business	Software development and providing computer training and shares trading
Listing Status	Unlisted

Brief audited financials of the company are as follows:

Particulars (As at 31st March)	2002-2003	2003-2004	2004-2005
Equity share capital	278.25	278.25	278.25
Reserves and Surplus	10.23	11.86	59.66
Total Income	30.26	35.70	110.44
Profit After Tax	1.65	1.63	47.80
Earning Per Share (EPS) (Rs.)	0.06	0.05	1.72
Book Value (Face Value = Rs. 10/-) (Rs.)	10.34	10.40	12.13

There is no pending litigation against Future Consultants Pvt. Ltd.



COMPANY/FIRM FROM WHICH THE PROMOTERS HAVE DISASSOCIATED THEMSELVES DURING PRECEDING THREE YEARS

The promoters have disassociated themselves from Raunaq Automotive Components Limited (RACL). BGL had invested Rs. 143.67 lacs in the equity shares of RACL. It was disposed off in the year 2004 since RACL was incurring huge losses and was referred to Board for Industrial & Financial Reconstruction (BIFR). The investment was disposed off vide Agreement of Sale & Purchase of Shares dated April 28, 2004.

COMMON PURSUITS

The Companies are carrying on separate businesses and there is no conflict of interest situation except certain related party transaction mentioned on page no.67 which are not significant.

RELATED PARTY TRANSACTIONS

There have been no sales or purchases between companies in the Promoter Group exceeding in value in the aggregate 10% of the total sales or purchases of our Company, except those transactions mentioned under the section titled "Related Party Transactions" on page 67 of this Letter of Offer.

CURRENCY OF PRESENTATION

In this Letter of Offer, all references to "Rupees" and "Rs." are to the legal currency of India.

DIVIDEND POLICY

The Company has been a regular dividend paying company till financial year 2000. In view of the accumulated losses of the previous years, the company has not been able to declare any Dividend on equity shares for the last five years and preference shares for the last 4 years.

PART II

SECTION IV : FINANCIAL INFORMATION

AUDITORS' REPORT

The Board of Directors
Bharat Gears Limited
20 K.M. Mathura Road,
P.O. Amar Nagar,
Faridabad- 121 003,
Haryana.

Dear Sirs,

We have examined the financial information of Bharat Gears Limited (the Company) annexed to this report which has been prepared in accordance with the requirements of:

- i. Paragraph B(1) of Part II of Schedule II to the Companies Act, 1956 (the Act);
- ii. The Securities and Exchange Board of India (Disclosure and Investor Protection) Guidelines, 2000 issued by the Securities and Exchange Board of India ('SEBI') and amendments made thereto from time to time in pursuance of section 11 of the Securities and Exchange Board of India Act, 1992; and
- iii. The instructions received from the Company, requesting to examine the financial information referred to above and proposed to be included in the Letter of Offer of the Company in connection with its proposed rights issue of equity shares.

Financial information of the Company

1. We have examined the attached Statement of Adjusted Assets and Liabilities of the Company as at March 31, 2002, 2003, 2004, 2005 and 2006 (Annexure-I) and the accompanying Statement of Adjusted Profits and Losses of the Company for the financial year(s) ended on March 31, 2002, 2003, 2004, 2005 and 2006 (Annexure-II) together referred to as 'Summary Statements' as prepared by the Company and approved by the Board of Directors. These statements reflect the assets and liabilities and profits and losses for each of the relevant years as extracted from the Financial Statements audited by us, after making therein the disclosures and adjustments required to be made in accordance with the provisions of paragraph 6.10.2 of the Securities and Exchange Board of India (Disclosure and Investor Protection) Guidelines, 2000.
2. Based on our examination of these Summary Statements, we confirm that:
 - i. Material amounts relating to adjustments for previous years have been identified and adjusted in arriving at the profits/losses for the years to which they relate irrespective of the years in which the event triggering the profit or loss occurred;
 - ii. The qualification in auditors' report has been adjusted in the relevant years in the Summary Statements.
 - iii. The Summary Statements have been restated after making adjustments with retrospective effect for changes in accounting policies. Further, there are no extraordinary items which are required to be disclosed separately in the Summary Statements.
3. We further report that as per the books and records produced to us, no dividend has been paid or declared by the Company on the equity shares in respect of each of the financial year (s) ended on March 31, 2002, 2003, 2004, 2005 and 2006. Further, no dividend has been paid or declared by the Company on cumulative redeemable non-convertible preference shares in respect of each of the financial year(s) ended March 31, 2002, 2003, 2004, 2005 and 2006. The Company had no other class of shares during these years.
4. We have examined the following financial information relating to the Company, proposed to be included in the Letter of Offer, as approved by the Board of Directors of the Company and attached to this report and found it to have been prepared in accordance with the Securities and Exchange Board of India (Disclosure and Investor Protection) Guidelines, 2000 as applicable:
 - i. The significant accounting policies followed by the Company, and Notes forming part of the Summary Statements including the details of Other Income, Unsecured Loans and Secured Loans given under Notes 6, 13 and 15 respectively, enclosed as Annexure-III.
 - ii. Statement of Adjusted Cash Flow, enclosed as Annexure-IV.



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- iii. Summary of Accounting Ratios based on the adjusted profits/losses, relating to earnings per share, net asset value per share and return on net worth, enclosed as Annexure-V.
 - iv. Statement of Capitalisation as at March 31, 2006 (Pre-Issue) and as adjusted for this issue (Post Issue) subject to reliance being placed on management representation in respect of post issue figures contained in the Statement of Capitalisation, enclosed as Annexure-VI.
 - v. Statement of Tax Shelter, enclosed as Annexure-VII.
 - vi. The details of transactions with the related parties in accordance with the Accounting Standard 18 – Related Party Disclosure issued by the Institute of Chartered Accountants of India , given under Note 18 in Annexure-III.
5. This report is intended solely for your information and for inclusion in the Letter of Offer in connection with the proposed rights issue of the Company and is not to be used, referred to or distributed for any other purpose without our prior written consent.

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

Sd/-

U.M.Neogi
Partner
Membership No.30235

Place:Mumbai

Date: 23/05/2006

STATEMENT OF ADJUSTED ASSETS AND LIABILITIES

(Rs. in lacs)

Particulars	As at March 31, 2002	As at March 31, 2003	As at March 31, 2004	As at March 31, 2005	As at March 31, 2006
A. Fixed Assets :					
Gross Block	15364.28	15251.96	15428.09	15796.68	16494.97
Less: Depreciation	6790.15	7668.15	8512.02	9385.65	10241.76
Net Block	8574.13	7583.81	6916.07	6411.03	6253.21
Less : Revaluation Reserve	788.65	773.99	752.05	737.81	723.57
Net Block after Revaluation Reserve	7785.48	6809.82	6164.02	5673.22	5529.64
Add : Capital Work in Progress and Advances on Capital Account	10.35	13.36	110.35	195.98	679.51
Total	7795.83	6823.18	6274.37	5869.20	6209.15
B. Investments	86.20	86.20	86.20	-	-
C. Deferred Tax Assets (Refer note 19 in Annexure III)	1087.42	1116.95	1293.02	1228.95	960.71
D. Current Assets, Loans and Advances :					
Inventories	1585.14	1312.02	1571.98	2036.66	2385.87
Sundry Debtors	2463.49	2376.17	2326.67	3302.16	3603.97
Cash and Bank Balances	308.51	430.67	593.93	504.68	568.59
Loans and Advances	697.40	775.66	897.40	1062.61	954.03
	5054.54	4894.52	5389.98	6906.11	7512.46
E. Liabilities and Provisions :					
Secured Loans	5841.18	6897.68	7494.85	7705.18	7567.32
Unsecured Loans	153.41	55.67	172.48	264.88	100.16
Finance Lease Obligations	16.48	13.21	9.45	24.68	61.68
Deferred Tax Liabilities (Refer note 19 in Annexure III)	1082.33	1116.95	1293.02	1228.95	960.71
Current Liabilities and Provisions	5248.14	4143.55	3274.19	3542.34	4386.68
	12341.54	12227.06	12243.99	12766.03	13076.55
F. Networth (A+B+C+D-E)	1682.45	693.79	799.58	1238.23	1605.77
G. Represented by					
1. Equity Share Capital	601.37	601.37	601.37	601.37	601.37
2. Preference Share Capital	150.00	150.00	358.50	358.50	358.50
3. Reserves and Surplus	3084.84	3070.18	3048.24	2950.66	2936.42
Less: Revaluation Reserve	788.65	773.99	752.05	737.81	723.57
Reserves and Surplus (Net of revaluation reserve but without adjustment of debit balance in the Profit and Loss Account)	2296.19	2296.19	2296.19	2212.85	2212.85
4. Debit balance in the Profit and Loss Account	1138.25	2109.06	2276.74	1767.47	1405.98
5. Miscellaneous Expenditure (to the extent not written off or adjusted)	226.86	244.71	179.74	167.02	160.97
Networth (1+2+3-4-5)	1682.45	693.79	799.58	1238.23	1605.77


ANNEXURE II
STATEMENT OF ADJUSTED PROFITS AND LOSSES

(Rs. in lacs)

Particulars	Year ended March 31, 2002	Year ended March 31, 2003	Year ended March 31, 2004	Year ended March 31, 2005	Year ended March 31, 2006
Income					
Sales :					
a. Of products manufactured by the Company including processing charges and tooling development	8553.24	10426.17	10921.48	16619.41	18410.28
b. Of products traded in by the Company	72.79	36.44	30.37	72.87	254.20
Total Gross Sales	8626.03	10462.61	10951.85	16692.28	18664.48
Less : Excise Duty	1131.96	1437.34	1589.81	2252.62	2346.58
Net Sales	7494.07	9025.27	9362.04	14439.66	16317.90
Other Income(Refer Note 6 of Annexure III)	316.55	493.49	995.67	448.58	415.97
Increase /(Decrease) in Inventories	(328.69)	(149.80)	116.22	263.20	92.03
Total	7481.93	9368.96	10473.93	15151.44	16825.90
Expenditure					
Raw Materials and components consumed	2819.92	3060.38	3206.57	5555.92	6309.18
Purchase of finished goods	51.62	19.01	20.38	55.77	216.37
Staff Costs	1794.07	2149.29	2260.89	2712.22	2936.08
Stores, spares & packing materials consumed	407.32	479.28	526.64	776.47	867.50
Loose tools consumed	285.40	258.17	281.21	472.65	576.32
Processing charges	238.22	284.96	337.31	483.84	620.30
Power and fuel	724.66	935.14	990.19	1344.95	1578.21
Freight, forwarding and other charges	95.48	120.47	89.38	196.66	194.68
Commission to selling agents	26.56	34.41	22.17	43.74	39.94
Other expenses	985.56	1000.92	911.46	1052.16	1137.05
Interest and other finance charges	971.60	1080.01	1110.57	1112.11	971.08
Depreciation	834.50	912.64	884.84	919.02	928.70
Total	9234.91	10334.68	10641.61	14725.51	16375.41
Net Profit / (Loss) before tax	(1752.98)	(965.72)	(167.68)	425.93	450.49
Provision for tax :					
Current Tax	-	-	-	-	33.00
Deferred Tax charge/ (credit)	(456.99)	5.09	-	-	-
Fringe Benefit Tax	-	-	-	-	56.00
Net Profit/(Loss) after tax	(1295.99)	(970.81)	(167.68)	425.93	361.49

SIGNIFICANT ACCOUNTING POLICIES AND NOTES FORMING PART OF ADJUSTED ASSETS AND LIABILITIES AND STATEMENT OF ADJUSTED PROFITS AND LOSSES FOR THE YEAR(S) ENDED MARCH 31, 2002, 2003, 2004, 2005 AND 2006.

1. SIGNIFICANT ACCOUNTING POLICIES.

i) Basis of Accounting:

The financial statements have been prepared under the historical cost convention on an accrual basis except for the revalued fixed assets as stated in (ii) below and comply with the Accounting Standards issued by the Institute of Chartered Accountants of India (ICAI) to the extent applicable.

ii) Fixed assets and depreciation:

Fixed assets are stated at cost of acquisition or at revalued amounts less accumulated depreciation.

The company provides for depreciation on fixed assets to write off 95% of the cost either on written down value method or straight line method (SLM) in the manner and at the rates prescribed in Schedule XIV to the Companies Act, 1956 except for certain assets acquired prior to 1.8.86, as below:-

		<u>Rate %</u>
Factory Buildings and roads	SLM	1.61/3.28
Leasehold Improvements	SLM	5.00

Depreciation on revalued amounts is transferred from revaluation reserve to the profit and loss account.

Leasehold land is amortised over the remaining period of lease.

iii) Inventories are valued as follows:

Stores, spare parts and loose tools at cost.

Raw materials and components, work in progress and finished goods at the lower of cost and net realisable value.

Cost comprises of material cost and expenditure incurred in normal course of business in bringing inventories to its location and includes, where applicable, appropriate overheads.

Material cost, other than those of traded goods which is on specific identification basis, is arrived at on weighted average basis.

Scrap is valued at net realisable value.

iv) Contracts for furnace construction:

Provision is made for estimated foreseeable future losses on contracts for furnace construction based on revenue and the estimated total costs of the contracts.

v) Investments:

Long Term Investments are valued at cost. However, provision is made for diminution other than temporary in nature, in the value of investments.

vi) Foreign Currency Transactions:

Transactions in foreign exchange are accounted at current rates. All assets and liabilities denominated in foreign currency are restated at relevant year end rates. Exchange gains or losses realised and arising due to translations of long-term loans/ liabilities relating to acquisition of imported fixed assets are treated as adjustments to the carrying cost of such fixed assets. All other exchange differences are accounted for in the profit and loss account except in case of transactions covered by forward exchange contracts where premium or discounts are amortised as expense or income over the life of the contract.

vii) Revenue recognition:

Sales/Processing charges of Automotive Gears & Gearboxes are accounted on the basis of actual despatches to the customers.



Revenue from contracts for construction of furnaces is recognized on the percentage of completion method based on the stage of completion determined with reference to the contract costs incurred upto the year end and the estimated total costs of the contracts.

Net income, if any, from development of tools is recognised as income as and when the tools are sold in terms of respective contracts/ supply under the contract is completed/ on the expiry of commercially useful life of tools/ on expiry of five years from completion of development, whichever is earliest.

viii) Amortisation of Miscellaneous Expenditure:

Preliminary expenses are amortised over a period of 60 months after the commencement of the commercial production.

Payments made to employees who left under Voluntary Retirement Scheme / Early Retirement Scheme are amortised over a period of 5 years from the year in which the liability accrues.

Share issues expenses are amortised over a period of 5 years from the year in which the shares are issued.

ix) Retirement benefits:

The company has various schemes of retirement benefits such as Provident Fund, Superannuation Fund and Gratuity Fund duly recognised by Income Tax authorities and the company's contributions are charged against revenue every year. Provision for leave encashment is made on the basis of actuarial valuation done based on the data as at 1st January by an independent actuary.

x) Taxation:

Current tax is determined as the amount of tax payable in respect of taxable income for the period.

Deferred tax is recognised, subject to the consideration of prudence, on timing differences, being the difference between taxable income and accounting income that originate in one period and are capable of reversal in one or more subsequent years.

Deferred tax assets are recognised on unabsorbed depreciation and carry forward of losses only to the extent that there are timing differences, the reversal of which will result in sufficient income or there is virtual certainty that sufficient taxable income will be available against which such deferred tax assets can be realised. The carrying amount of deferred tax assets is reviewed at each Balance Sheet date.

Minimum Alternative Tax (MAT) credit assets are recognized only when and to the extent there is convincing evidence that the company will pay normal income tax during the specified period. The carrying amount of MAT credit assets is reviewed at each Balance Sheet date.

NOTES

2. The statement of Adjusted Profits and Losses for the financial year(s) ended on March 31, 2002, 2003, 2004, 2005 and 2006 and the Statement of Adjusted Assets and Liabilities as at March 31, 2002, 2003, 2004, 2005 and 2006 reflect the assets and liabilities and the profits and losses for each of the relevant years indicated above. These statements have been prepared by extracting from the audited financial statement for the aforesaid years after making therein the disclosures and adjustments required to be made in accordance with the provisions of paragraph 6.10.2 of the Securities and Exchange Board of India (Disclosure and Investor Protection) Guidelines, 2000.
3. Mumbra plant of the company was shut down from August 10, 2001 to November 30, 2001 due to labour unrest. This resulted in loss of production and sales, which affected the profitability of the company for the year ended March 31, 2002.
4. The Company has not paid or declared any dividend on equity shares in respect of each of the financial year(s) ended March 31, 2002, 2003, 2004, 2005 and 2006. The Company has not paid or declared any dividend on cumulative redeemable non-convertible preference shares in respect of each of the financial year(s) ended March 31, 2002, 2003, 2004, 2005 and 2006. The Company had no other class of shares during these years.
5. The effect of adjustments relating to financial years prior to March 31, 2002 aggregating Rs. 94.56 lacs (after tax) has been adjusted against opening reserves as at April 01, 2001.

6. Details of Other Income

(Rs. in lacs)

Particulars	Year ended March 31, 2002	Year ended March 31, 2003	Year ended March 31, 2004	Year ended March 31, 2005	Year ended March 31, 2006	Nature of Income
Export incentives	41.74	74.20	15.13	89.56	64.17	Recurring
Interest on security deposits, deposits with banks, income tax refunds etc.	23.37	14.88	15.25	26.30	12.92	Recurring
Income from scrap	63.70	89.17	80.14	166.43	181.79	Recurring
Credit balances no longer payable written back	19.87	0.11	22.77	37.28	15.10	Recurring
Profit on sale of fixed assets (excluding profit on sale of land and part of corporate office building)	2.57	6.21	9.49	3.81	9.05	Recurring
Exchange Gain	2.21	7.45	7.08	2.66	18.24	Recurring
Cash discount from suppliers	-	-	7.41	57.34	35.32	Recurring
HT/Grinding/Resharpener charges	6.46	17.21	28.86	54.69	31.34	Recurring
Insurance claims	4.60	28.89	4.07	6.86	39.14	Recurring
Other miscellaneous income	134.18	96.11	64.58	3.65	8.90	Recurring
Total Recurring Income	298.70	334.23	254.78	448.58	415.97	
Compensation on termination of leave and license agreement	-	159.26	-	-	-	Non Recurring
Credit balances no longer payable written back						
- Provision for export commission	-	-	97.47	-	-	Non Recurring
- Waiver of earnest money	-	-	95.20	-	-	
Profit on sale of Fixed assets						
- Land	17.85	-	-	-	-	Non Recurring
- Part of Corporate Office Building	-	-	548.22	-	-	
Total Non Recurring Income	17.85	159.26	740.89	-	-	
Grand Total	316.55	493.49	995.67	448.58	415.97	



7. Contingent liabilities not provided for in respect of :

(Rs. in lacs)

	As at March 31, 2002	As at March 31, 2003	As at March 31, 2004	As at March 31, 2005	As at March 31, 2006
Bills discounted	90.52	536.32	450.33	668.50	635.35
Claims against company not acknowledged as debts:					
- Sales tax	8.04	10.18	7.61	10.68	7.63
- Excise	27.97	2.40	-	-	-
- Employees State Insurance Corporation	-	-	2.51	5.80	5.80
- Others	3.21	3.28	-	-	-
Income tax	-	-	-	66.90	66.90
Guarantee given to Housing Development Finance Corporation for loans availed by employees	39.01	26.28	20.39	15.76	8.74

8. Arrears of dividend on cumulative preference shares

(Rs. in lacs)

	As at March 31, 2002	As at March 31, 2003	As at March 31, 2004	As at March 31, 2005	As at March 31, 2006
Arrears of Dividend on cumulative preference shares	32.47	48.41	73.97	109.82	145.67

In addition to above, in respect of certain subscription agreements for preference shares, in the event of withdrawal of benefit available for exemption of tax on dividend income under section 10(33) of the Income Tax Act, 1961, the company has to pay dividend at a rate of 7.00% higher than the coupon rate from the date of withdrawal till the date of redemption. Further, in case of default on payment of dividend, 2% per annum over and above the normal coupon rate payable from the date of default till the date of actual payment.

9. Capital Commitments

(Rs. in lacs)

	As at March 31, 2002	As at March 31, 2003	As at March 31, 2004	As at March 31, 2005	As at March 31, 2006
Estimated amount of contracts remaining to be executed on capital account and not provided for (net of advances)	7.19	2.00	17.58	15.64	166.37

10. The future rental obligation as regards the assets taken on lease on or before March 31, 2001

(Rs. in lacs)

	As at March 31, 2002	As at March 31, 2003	As at March 31, 2004	As at March 31, 2005	As at March 31, 2006
Future rental obligation	387.86	199.72	32.15	11.52	-

11. The leasehold land at Faridabad of Rs. 581.40 lacs (revalued amount) included under 'Fixed Assets- Gross Block' in the Statement of Adjusted Assets and Liabilities is in the name of the erstwhile Universal Steel & Alloys Limited. The company is in the process of getting it transferred in its name.

12. Break-up of unsecured loans taken by the Company

(Rs. in lacs)

Particulars	As at March 31, 2002	As at March 31, 2003	As at March 31, 2004	As at March 31, 2005	As at March 31, 2006
Unsecured loan from enterprise over which key management personnel is able to exercise significant influence	-	-	45.00	45.00	45.00
From Director	-	-	55.16	55.16	55.16
Fixed Deposits	5.83	-	-	-	-
Housing Development Finance Corporation Ltd. (Under line of credit scheme)	57.28	42.02	35.57	28.15	-
LIC Housing Finance Ltd. (Under line of credit scheme)	15.30	13.65	11.75	9.57	-
Others	75.00	-	25.00	127.00	-
Total	153.41	55.67	172.48	264.88	100.16

13. Details of unsecured loans outstanding as at March 31, 2006

(Rs. in lacs)

Particulars	As at March 31, 2006	Repayment schedule
Unsecured loan from enterprise over which key management personnel is able to exercise significant influence	45.00	@
From Director	55.16	@
Total	100.16	

All the above loans are interest free.

@ Under Corporate Debt Restructuring Package Scheme (the Scheme) of lenders, these loans cannot be withdrawn during the currency of the loans covered under the Scheme.

14. Break-up of secured loans taken by the Company

A. Debentures

(Rs. in lacs)

Name of the Lender	As at March 31, 2002	As at March 31, 2003	As at March 31, 2004	As at March 31, 2005	As at March 31, 2006
LIC Mutual Fund	166.68	166.68	166.68	-	-
Total	166.68	166.68	166.68	-	-


B. Term Loans

(Rs. in lacs)

Name of the Lender

Name of the Lender	Nature of Loan	As at March 31, 2002	As at March 31, 2003	As at March 31, 2004	As at March 31, 2005	As at March 31, 2006
External Commercial Borrowing from Sumitomo Mitsui Banking Corporation (formerly Sakura Bank Limited)	Foreign currency loan	326.04	147.35	130.95	–	–
The Federal Bank Limited	Rupee loan	830.15	1081.10	1219.78	1269.63	1251.03
State Bank of India	Rupee loan	-	-	127.90	127.90	126.92
Indian Overseas Bank	Rupee loan	-	-	62.38	62.38	62.66
Bank of Baroda	Rupee loan	-	-	-	90.78	90.78
Industrial Development Bank of India Limited (formerly Industrial Development Bank of India)	Rupee loan	1978.68	2139.26	2567.42	2613.19	2412.12
Export Import Bank of India (Rupee loan converted into foreign currency loan from 10.01.2005)	Rupee loan	860.00	923.97	1113.75	-	-
	Foreign currency loan	-	-	-	1158.21	1161.95
ICICI Bank Limited (Formerly ICICI Ltd)	Rupee loan	13.80	27.35	21.98	24.07	45.81
ZF Friedrichshafen AG	Foreign currency loan	-	-	213.52	226.84	216.24
L&T Finance Limited	Rupee loan	-	182.50	25.00	-	-
Credit Agricole Indosuez	Rupee loan	-	640.74	-	-	-
Total		4008.67	5142.27	5482.68	5573.00	5367.51

C. Working Capital Facilities

(Rs. in lacs)

Name of the Lender	Nature of Loan	As at March 31, 2002	As at March 31, 2003	As at March 31, 2004	As at March 31, 2005	As at March 31, 2006
State Bank of India	Cash Credit and packing credit	425.48	486.83	562.78	700.75	672.33
Bank of Baroda	Cash Credit and packing credit	411.23	417.70	529.79	519.69	738.46
Indian Overseas Bank	Cash Credit	223.08	210.20	276.10	255.93	256.90
The Federal Bank Limited	Cash Credit	606.04	474.00	476.82	655.81	532.12
Total		1665.83	1588.73	1845.49	2132.18	2199.81

15. Details of secured loans outstanding as at March 31, 2006

I. Term Loans

(Rs. in lacs)

Name of the Lender	Nature of Loan	Loan Sanctioned	Loan Outstanding As at 31.03.2006	Rate of Interest As at 31.03.2006	Repayment Schedule	Security Offered
The Federal Bank Ltd.	Working Capital Rupee loan	300.00	292.52	10.25%	Refer Foot Note A(1) Refer Foot Note A(2)	Refer Foot Notes B(1) , (6) & (7)
	Funded Interest on above	34.53	29.00	10.25%		
The Federal Bank Ltd.	Working Capital Rupee loan	58.00	58.50	10.25%	Refer Foot Note A (1)	Refer Foot Notes B(1) & (7)
The Federal Bank Ltd.	Project Finance Rupee Loan	1000.00	790.32	10.25%	Refer Foot Note A(1) Refer Foot Note A(2)	Refer Foot Note B(2)
	Funded Interest on above	96.10	80.69	10.25%		
State Bank of India	Working Capital Rupee loan	122.00	122.00	10.25%	Refer Foot Note A(1) Refer Foot Note A(2)	Refer Foot Notes B(1) & (7)
	Funded Interest on above	5.90	4.92	10.25%		
Indian Overseas Bank	Working Capital Rupee loan	61.00	61.51	10.25%	Refer Foot Note A(1) Refer Foot Note A(2)	Refer Foot Notes B(1) & (7)
	Funded Interest on above	1.38	1.15	10.25%		
Bank of Baroda	Working Capital Rupee loan	90.00	90.78	10.25%	Refer Foot Note A(1)	Refer Foot Notes B(1)& (7)
ICICI Bank Ltd.	Vehicle Loan	58.60	45.81	6.50% to 7.50%	Equated Monthly Installment	Refer Foot Note B(3)
Industrial Development Bank of India Ltd.	Project Finance Rupee Loan	1500.00	1304.19	9.50%	Refer Foot Note A(1) Refer Foot Note A(2)	Refer Foot Note B(2)
	Funded Interest on above	296.20	187.32	9.50%		
Industrial Development Bank of India Ltd.	Equipment Finance Rupee Loan	1000.00	462.00	9.50%	Refer Foot Note A(1) Refer Foot Note A(2)	Refer Foot Note B(4)
	Funded Interest on above	107.80	68.12	9.50%		
Industrial Development Bank of India Ltd.	Working Capital Rupee loan	391.00	376.34	9.50%	Refer Foot Note A(1) Refer Foot Note A(2)	Refer Foot Notes B(1) & (7)
	Funded Interest on above	18.86	14.15	9.50%		
Export Import Bank of India	Project Finance Foreign Currency Loan	1000.00	878.81	USD Libor +3.75%	Refer Foot Note A(1) Refer Foot Note A(2)	Refer Foot Note B(2)
	Funded Interest on above	108.16	91.92	USD Libor +3.75%		
Export Import Bank of India	Working Capital Foreign Currency loan	183.00	187.01	USD Libor +3.75%	Refer Foot Note A(1) Refer Foot Note A(2)	Refer Foot Notes B(1) & (7)
	Funded Interest on above	4.96	4.21	USD Libor +3.75%		
ZF Friedrichshafen AG	Foreign Currency loan	199.84	216.24	Euribor +3% but not exceeding 5%	Refer Foot Note A(3)	Refer Foot Note B(5)
Total			5367.51			



Foot Notes:

A. Repayment Schedule

1. The term loan to be repaid in 24 quarterly installments starting from April 1, 2006. Until January 1, 2010 @ 15% of the loan amount per annum and @ 20% per annum from April 1, 2010 to January 1, 2012.
2. Funded interest term loans to be repaid in 12 equal quarterly installments starting from October 1, 2004/ 2005.
3. Under Corporate Debt Restructuring Package Scheme (the Scheme) of lenders, this loan cannot be withdrawn during the currency of the loans covered under the Scheme.

B. Security

1. Rupee loans from The Federal Bank Limited, State Bank of India, Indian Overseas Bank, Bank of Baroda, Industrial Development Bank of India Limited and Foreign currency loan from Export Import Bank of India are secured by first mortgage and charge created on the immovable and moveable assets at Mumbra unit, on parri passu basis with loans referred to in Foot Note B(4) below.
2. Rupee loans from The Federal Bank Limited, Industrial Development Bank of India Limited and Foreign currency loan from Export Import Bank of India are secured by way of joint mortgage of land at Faridabad plant together with all buildings and structures thereon and all plant & machinery attached to the earth and by way of hypothecation of all moveable fixed assets at Faridabad plant ranking parri passu with each other.
3. Secured against the hypothecation of respective vehicles.
4. Rupee loan from Industrial Development Bank of India Limited is secured by mortgage of immovable properties and hypothecation of moveable fixed assets located at Mumbra plant, both present & future, which ranks parri passu with charges created in respect of loans referred to in Foot Note B(1) above.
5. Foreign Currency loan from ZF Friedrichshafen is secured by charge created on specific assets located at Faridabad plant which rank subordinate and subservient to charges created in respect of the loans referred to in Foot Note B(2) and in Foot Note B under Note 15 II below.
6. Rupee loan from The Federal Bank Limited is also secured by mortgage of the company's office premises at Nariman Point, Mumbai.
7. Rupee loans referred to in Foot Note 1 above are also guaranteed by a director of the company aggregating Rs. 1242.09 lacs.

II. Working Capital Facilities

(Rs. in lacs)

Name of the Banke	Nature of Loan	Loan Sanctioned	Loan Outstanding As at 31.03.2006	Rate of Interest As at 31.03.2006	Repayment Schedule	Security Offered
State Bank of India	Cash credit	427.00	497.25	10.25%	Payable on demand Payable on demand Refer Foot Note A	Refer Foot Note B
	Packing credit	260.00	128.33	7.50%		
	Funded Interest on cash credit	56.09	46.75	10.25%		
Bank of Baroda	Cash credit	408.00	615.25	10.25%	Payable on demand Payable on demand Refer Foot Note A	Refer Foot Note B Refer Foot Note B
	Packing credit	100.00	100.00	7.50%		
	Funded Interest on cash credit	27.91	23.21	10.25%		
Indian Overseas Bank	Cash credit	296.00	233.06	10.25%	Payable on demand Refer Foot Note A	Refer Foot Note B
	Funded Interest on above	28.41	23.84	10.25%		
The Federal Bank Ltd.	Cash credit	634.00	486.90	10.25%	Payable on demand Refer Foot Note A	Refer Foot Note B
	Funded Interest on above	53.85	45.22	10.25%		
Total		2281.26	2199.81			

Foot Notes:

A. Repayment Schedule

Funded interest term loans to be repaid in 12 equal quarterly installments starting from October 1, 2005.

B. Security

Cash credits (including funded interest) and packing credits from banks are secured by hypothecation of stocks of raw materials, stock in process, semi finished and finished goods, loose tools, general stores and book debts and all other moveables both present and future and by joint mortgage created for all immoveable properties of the Company located at Mumbra and Faridabad which rank second subject and subservient to charges created in favour of loans referred to in Foot Notes B(1), (2) & (4) in Note 15 I above.

16. Analysis of Sundry Debtors

(Rs. in lacs)

Particulars	As at March 31, 2002	As at March 31, 2003	As at March 31, 2004	As at March 31, 2005	As at March 31, 2006
Debt outstanding for a period exceeding six months					
- Considered good	81.37	131.03	70.71	40.73	80.38
- Considered doubtful	-	6.19	9.59	9.59	9.59
Less: Provision for doubtful debts	-	6.19	9.59	9.59	9.59
	81.37	131.03	70.71	40.73	80.38
Other debts considered good	2382.12	2245.14	2255.96	3261.43	3523.59
Total	2463.49	2376.17	2326.67	3302.16	3603.97

17. Analysis of Loans and Advances

(Rs. in lacs)

Particulars	As at March 31, 2002	As at March 31, 2003	As at March 31, 2004	As at March 31, 2005	As at March 31, 2006
Prepaid expenses	256.51	321.75	500.98	525.43	354.26
Employee Loans	75.93	58.93	48.29	43.30	55.63
Balance with Excise authorities	19.60	33.45	12.74	46.54	40.95
Security Deposits	86.46	80.66	80.64	80.89	82.90
Income tax recoverable (net of provisions)	73.63	40.46	81.26	92.45	123.74
Others	185.27	240.41	173.49	274.00	296.55
Total	697.40	775.66	897.40	1062.61	954.03

18. Related party disclosures under Accounting Standard 18

A. Related parties with whom the company had transactions during the relevant years.

Key Management Personnel:

Mr. Surinder P. Kanwar – Managing Director of the company (who also has ability to exercise significant influence over the company)

Mr. Sameer S. Kanwar – Executive Director (son of Managing Director of the company).



Enterprises over which key management personnel is able to exercise significant influence:

Bharat Gears Officers Provident Fund
 Cliplok Simpak (India) Pvt. Ltd.
 Raunaq International Ltd.
 Vibrant Finance & Investments Pvt. Ltd.
 Ultra Consultants Pvt. Ltd.

The investing company of which the Company is an associate:

ZF Friedrichshafen AG, Germany

B. Transactions with the above parties

(i) Transactions with enterprises over which key management personnel is able to exercise significant influence :

(Rs. in lacs)

Sr. No.	Nature of Transactions	Year	Total Amount	Name of the Parties
1.	Rent & other expenses	F2002	10.20	Vibrant Finance & Investments Pvt. Ltd.
		F2003	10.20	
		F2004	10.20	
		F2005	10.20	
		F2006	10.20	
2.	Rent income	F2002	18.12	Raunaq International Ltd.
		F2003	9.29	
		F2004	0.66	
		F2005	0.66	
		F2006	0.66	
3.	Common expenses recovered	F2002	0.93	Raunaq International Ltd.
4.	Building repair expenses	F2002	3.57	Raunaq International Ltd.
		F2003	6.87	
		F2004	10.73	
		F2005	24.50	
		F2006	28.52	
5.	Purchases of packing material	F2004	2.38	Cliplok Simpak (India) Pvt. Ltd.
		F2005	1.32	
		F2006	6.18	
6.	Contribution to provident fund	F2002	7.07	Bharat Gears Officers Provident Fund
		F2003	7.98	
		F2004	7.92	
		F2005	10.32	
		F2006	10.43	
7.	Construction of water tank	F2005	0.50	Raunaq International Ltd.
		F2006	1.14	
8.	Loan availed	F2004	45.00	Ultra Consultants Pvt. Ltd.

(ii) Transactions with the investing company of which the Company is an associate:

(Rs. in lacs)

Sr. No.	Nature of Transactions	Year	Total Amount	Name of the Parties
1.	Receipt of Foreign Currency Loan	F2004	199.84	ZF Friedrichshafen AG
2.	Interest accrued on the above loan	F2004	6.58	ZF Friedrichshafen AG
		F2005	11.50	
		F2006	10.96	

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(iii) Transactions with the Key Management Personnel:

(Rs. in lacs)

Sr. No.	Nature of Transactions	Year	Total Amount	Name of the Parties
1.	Managerial Remuneration to the Managing Director	F2002 F2003 F2004 F2005 F2006	42.01* 44.87* 44.95* 50.09* 69.36*	Mr. Surinder P. Kanwar
2.	Managerial Remuneration to the Executive Director	F2002 F2003 F2004 F2005 F2006	@ 17.32* 17.49* 20.43* 22.50*	Mr. Sameer S. Kanwar
3.	Loan taken	F2004	55.16	Mr. Surinder P. Kanwar

* Excludes provision for leave encashment which is made based on the actuarial valuation done for the company on an overall basis.

@Rs. 2 for the period February 01, 2002 to March 31, 2002

C. Balances outstanding as at the year end:

(Rs. in lacs)

Particulars	Year	Amount payable	Amount receivable
Enterprises over which key management personnel is able to exercise significant influence	F2002	1.62	—
	F2003	1.28	—
	F2004	50.74	—
	F2005	57.63	0.43
	F2006	49.92	—
The investing company of which the Company is an associate	F2004	220.10	—
	F2005	245.33	—
	F2006	242.26	—
Key Management Personnel	F2002	1.34	—
	F2003	1.39	—
	F2004	56.80	—
	F2005	57.87	—
	F2006	75.34	—

D. No amounts have been written off/ provided for or written back in respect of amounts receivable from or payable to the related parties.

19. Deferred Tax

Components of deferred tax balances

(Rs. in lacs)

Particulars	As at March 31, 2002	As at March 31, 2003	As at March 31, 2004	As at March 31, 2005	As at March 31, 2006
Deferred tax liabilities					
On fiscal allowances on fixed assets	1076.57	1106.68	1282.72	1218.18	950.22
On other items	5.76	10.27	10.30	10.77	10.49
Total	1082.33	1116.95	1293.02	1228.95	960.71
Deferred tax assets					
On unabsorbed depreciation & carry forward of losses	1076.57	1105.96	1282.51	965.19	767.73
On interest funding	-	-	-	260.47	187.18
On other items	10.85	10.99	10.51	3.29	5.80
Total	1087.42	1116.95	1293.02	1228.95	960.71
Deferred tax assets/(liabilities) (net)	5.09	-	-	-	-


ANNEXURE IV
STATEMENT OF ADJUSTED CASH FLOW

(Rs. in lacs)

Particulars	Year ended March 31, 2002	Year ended March 31, 2003	Year ended March 31, 2004	Year ended March 31, 2005	Year ended March 31, 2006
A. CASH FLOW FROM OPERATING ACTIVITIES		#			
Net profit/(loss) before tax	(1752.98)	(965.72)	(167.68)	425.93	450.49
Adjustments for:					
- Depreciation	834.50	912.64	884.84	919.02	928.70
- Write off of capital work in progress	-	-	-	9.49	-
- Unrealised exchange Loss/(gain)	25.81	(1.50)	16.06	18.06	14.06
- Loss/(profit) on sale of fixed assets (net)	(19.83)	22.25	(554.61)	5.01	(4.34)
- Interest income	(23.37)	(14.88)	(15.25)	(26.30)	(12.92)
- Lease rent	170.61	166.20	81.67	20.35	11.21
- Interest expense	907.05	1006.31	1037.01	1036.83	922.08
- Provision for doubtful debts	-	6.19	3.39	-	-
Operating profit before working capital changes	141.79	1131.49	1285.43	2408.39	2309.28
Adjustments for :					
- Inventories	372.60	273.12	(259.96)	(464.68)	(349.21)
-Trade and other receivables	718.16	(5.58)	(108.85)	(1044.10)	(257.39)
-Trade and other payables / provisions	489.90	(1116.44)	(616.14)	147.28	581.82
-Miscellaneous expenditure	(219.10)	(17.85)	64.97	12.72	6.05
Cash generated from operations	1503.35	264.74	365.45	1059.61	2290.55
-Income taxes including Fringe Benefit Tax paid (net of refunds)	64.51	33.17	(40.80)	(11.19)	(124.29)
Net cash from operating activities	1567.86	297.91	324.65	1048.42	2166.26
B. CASH FLOW FROM INVESTING ACTIVITIES					
Purchase of fixed assets	(211.55)	(64.86)	(356.99)	(371.53)	(1097.45)
Sale of fixed assets	26.09	99.36	563.33	10.59	23.14
Interest received (inclusive of tax deducted at source)	23.37	13.17	14.77	25.47	10.68
Fixed deposits with bank not readily convertible in cash	-	(38.00)	-	-	(75.00)
Sale of long term investment	-	-	-	86.20	-
Net cash used in investing activities	(162.09)	9.67	221.11	(249.27)	(1138.63)

BHARAT GEARS LIMITED

(Rs. in lacs)

Particulars	Year ended March 31, 2002	Year ended March 31, 2003	Year ended March 31, 2004	Year ended March 31, 2005	Year ended March 31, 2006
C. CASH FLOW FROM FINANCING ACTIVITIES :					
Proceeds from issue of preference shares	-	150.00	@	-	-
Redemption of preference shares	(175.00)	(150.00)	-	-	-
Proceeds from long term borrowings	212.64	986.70	*1650.05	403.84	38.76
Repayment of long term borrowings	(815.29)	(260.74)	(646.22)	(348.50)	(319.69)
Proceeds from short term borrowings	150.00	840.00	450.00	-	-
Repayment of short term borrowings	(75.00)	(732.50)	(607.50)	(25.00)	-
Repayment of fixed deposits	(10.94)	(3.03)	-	-	-
Increase/(Decrease) in cash credits and packing credit	502.34	(77.10)	91.52	285.67	94.88
Payment of dividend etc. to Investor Education and Protection Fund	-	(1.80)	(1.30)	(23.56)	(3.82)
Equity dividend paid (including tax on distributed profits)	(0.12)	-	-	-	-
Interim preference dividend paid (including tax on distributed profits)	(12.73)	-	-	-	-
Lease rent paid (net)	(191.64)	(201.15)	(76.28)	(20.38)	(19.40)
Interest paid	(944.35)	(773.80)	*(1242.75)	(1160.49)	(829.45)
Net cash used in financing activities	(1360.09)	(223.42)	(382.48)	(888.42)	(1038.72)
Net Increase / (decrease) in cash & cash equivalents (A+B+C)	45.68	84.16	163.28	(89.27)	(11.09)
Cash & cash equivalents at the beginning of the year	262.83	308.51	392.67	555.95	466.68
Cash & Bank Balances	308.51	430.67	593.93	504.68	568.59
Add: Unrealised loss on cash equivalents	-	-	0.02	-	-
Less: Fixed deposits with bank not readily convertible in cash	-	38.00	38.00	38.00	113.00
Cash & cash equivalents at the end of the year	308.51	392.67	555.95	466.68	455.59
	45.68	84.16	163.28	(89.27)	(11.09)

Compensation of Rs. 159.26 lacs received on termination of leave and license agreement has been included under operating activities

* Including funded interest Rs. 711.80 lacs

@ Excludes 10% Cumulative Redeemable Non- convertible Preference Shares aggregating Rs. 208.50 lacs issued during the year ended March 31, 2004 in respect of 50% of the differential interest on account of reduction in interest rate on the term loans as per the Corporate Debt Restructuring scheme.



ANNEXURE V

SUMMARY OF ACCOUNTING RATIOS

Particulars	Unit	Year ended March 31, 2002	Year ended March 31, 2003	Year ended March 31, 2004	Year ended March 31, 2005	Year ended March 31, 2006
Nominal value of shares	Rupees	10	10	10	10	10
Basic and diluted earnings per Share	Rupees	-22.09	-16.44	-3.27	6.41	5.33
Net Asset Value per share	Rupees	24.94	8.20	6.02	12.64	18.07
Return on net worth	Percentage	-77.03%	-139.93%	-20.97%	34.40%	22.51%

Foot Note:

Definition of ratios

Basic and diluted earnings per Share	=	{Adjusted Profit / (Loss) after tax as per the Statement of Adjusted Profits and Losses as reduced by dividend on cumulative preference shares including tax on distributed profit}/{Weighted average number of shares}
Net Asset Value	=	{Net worth as per Statement of Adjusted Assets and Liabilities as reduced by Preference share capital and as reduced by Arrears of dividend on cumulative Preference shares including tax on distributed profit}/ {Weighted average number of shares}
Return on net worth	=	{Adjusted Profit / (Loss) after tax as per Statement of Adjusted Profits and Losses} / {Net worth as per Statement of Adjusted Assets and Liabilities}

ANNEXURE VI

STATEMENT OF CAPITALISATION

(Rs. in lacs)

Particulars	Pre-issue as at March 31, 2006	As adjusted for the issue*
A. Total Debts	7729.16	7157.51
B. Short Term Debts		
- Cash credits and packing credits (excluding funded interest on cash credits)	2060.79	2060.79
C. Long Term Debts (A-B)	5668.37	5096.72
D. Shareholders Funds (Equity)		
Equity shares capital	601.37	781.78
Preference shares capital	358.50	208.50
Reserves and surplus (net of revaluation reserve, debit balance in the profit and loss account and miscellaneous expenditure to the extent not written off or adjusted)	645.90	1139.13
Total	1605.77	2129.41
E. Long Term Debts / Equity (C/D)	3.53:1	2.39:1

* Note :-The above statement of capitalisation is without considering the adjustment to which the Promoters/ Directors of Bharat Gears Limited can opt for, of the unsecured loans of Rs. 100.16 lacs brought in by them, against the share application money due from them towards their subscription in the rights issue component.

BHARAT GEARS LIMITED**Foot Note: 1**

(Rs. in lacs)

Long Term Debts (pre issue)	5668.37
Less: Payment of long term debts from issue proceeds	571.65
Long Term Debts (post issue)	5096.72

Foot Note: 2

(Rs. in lacs)

Equity share capital (pre issue)	601.37
Add: Proceeds to be received on Rights Issue (18,04,115 Equity shares of Rs. 10 each)	180.41
Equity share capital (post issue)	781.78

Foot Note: 3

(Rs. in lacs)

Preference Share Capital (pre issue)	358.50
Less: Redemption of Preference Share	150.00
Preference Share Capital (post issue)	208.50

Foot Note: 4

(Rs. in lacs)

Reserves and surplus (pre issue)	645.90
Add: Share premium to be received on Rights Issue (18,04,115 Equity shares of Rs. 10 each to be issued at a premium of Rs. 30 each)	541.23
Less: Issue expenses (out of internal accruals)	48.00
Reserves and surplus (post issue)	1139.13

Foot Note: 5

The issue proceeds, issue expenses and utilization of the proceeds of the issue are as given by the management and are not verifiable by the auditors.



ANNEXURE VII

STATEMENT OF TAX SHELTER

Particulars	Year ended March 31, 2002	Year ended March 31, 2003	Year ended March 31, 2004	Year ended March 31, 2005	Year ended March 31, 2006
Tax rate- Normal (including surcharge and education cess where applicable)	35.70%	36.75%	35.88%	36.59%	33.66%
Tax rate- MAT (including surcharge and education cess where applicable)	7.65%	7.88%	7.69%	7.84%	8.42%
Tax rate- Capital Gain (including surcharge and education cess where applicable)	20.40%	21.00%	20.50%	20.91%	22.44%
Net profit / (loss) before tax as per Statement of Adjusted Profits and Losses	(1,752.98)	(965.72)	(167.68)	425.93	450.49
Profit / (loss) to be considered under the head Capital Gains	17.85	(23.40)	(1.77)	-	-
Net profit / (loss) before tax chargeable at Normal rate	(1,770.83)	(942.32)	(165.91)	425.93	450.49
A. Tax on above at Notional rate	@-	@-	@-	155.86	151.63
B. Permanent differences					
- Deductions from Income from House Property	(17.24)	(6.44)	(0.13)	(0.13)	(0.13)
- Others	7.32	6.78	10.66	8.62	1.13
	(9.92)	0.34	10.53	8.49	1.00
C. Timing differences					
- Differences in book and tax depreciation	(514.23)	(127.78)	(443.93)	244.20	511.85
- Section 43B disallowances/(allowances) under the Income Tax Act, 1961	87.62	4.12	752.07	104.12	(93.42)
- Others (net)	(86.03)	77.61	47.83	(10.02)	66.84
	(512.64)	(46.05)	355.97	338.30	485.27
Total (B+C)	(522.56)	(45.71)	366.50	346.79	486.27
Tax (Saving) / Increase thereon	(186.55)	(16.80)	131.48	126.90	163.68
Tax on Income other than on 'Capital Gains'	-	-	131.48	282.76	315.31
Tax effect of brought forward business loss and unabsorbed depreciation (see Note IV below)	(364.18)	(1,217.71)	(1,543.17)	(1,500.63)	(1,120.28)
Net Tax	-	-	-	-	-
Tax effect of carried forward business loss and unabsorbed depreciation	(1,182.92)	(1,580.81)	(1,471.21)	(1,217.87)	(804.97)
Tax on Capital Gains at Notional rate	3.64	(4.91)	(0.36)	-	-
Difference between Tax & Book Capital Gains	(4.39)	(62.72)	(1.40)	(299.11)	-
Tax Saving on above	(0.90)	(13.17)	(0.29)	(62.54)	-
Tax on Capital Gain	2.74	-	-	-	-
Tax effect of brought forward Capital Loss (see Note IV below)	(5.49)	(2.83)	(20.41)	(21.48)	(90.17)
Net Tax	-	-	-	-	-
Tax effect of carried forward Capital Loss	(2.75)	(20.91)	(21.06)	(84.02)	(90.17)

BHARAT GEARS LIMITED

Particulars	Year ended March 31, 2002	Year ended March 31, 2003	Year ended March 31, 2004	Year ended March 31, 2005	Year ended March 31, 2006
Brought forward Tax Credit u/s 115JAA (MAT Credit)	(67.74)	(67.74)	(67.74)	(38.77)	-
Add : Tax Credit available	-	-	-	-	33.00
Less: Tax Credit lapsed	-	-	28.97	38.77	-
Carried forward Tax Credit u/s 115JAA (MAT Credit)	(67.74)	(67.74)	(38.77)	-	33.00
Tax Payable as per Return of Income	-	-	-	-	*33.00
Current Tax per Statement of Adjusted Profits and Losses	-	-	-	* -	*33.00

Notes:-

- I) The statement of tax shelter has been prepared based on the Income Tax Returns filed by the Company except for the year ended March 31, 2006 which has been prepared based on Income Tax Calculations made by the Company.
- II) @In view of book loss tax at notional rate has not been computed, however, the book loss has been considered for determining the figures of tax effect of carried/ brought forward business loss and unabsorbed depreciation.
- III) The permanent/timing differences have been computed considering the Income Tax Returns filed/ Income Tax Calculations made by the Company.
- IV) The tax rates considered for brought forward losses are the tax rates applicable to the year in which these are brought forward.
- V) * This represents tax payable under section 115 JB of the Income Tax Act, 1961 which has been determined on the book profit ascertained under the provisions of that section which is after adjustment of loss brought forward or unabsorbed depreciation whichever is less as per books of accounts.
- VI) The above excludes Fringe Benefit Tax Rs. 56 lacs paid for the year ended March 31, 2006.

END OF AUDITORS REPORT

DETAILS OF THE PRESENT WORKING CAPITAL REQUIREMENT

Details as on 31.03.2006.

Particulars	Amount (Rs. in lacs)
Inventory	
Stores and spare parts	280.41
Loose tools	476.24
Raw materials and components	354.03
Work in progress	910.36
Finished goods - manufactured	349.75
Finished goods - traded	13.45
Scrap	1.63
	2385.87
Sundry debtors	3603.97
Cash & bank balances	568.59
Loans & advances	954.03
Total current assets	7512.46
Less current liabilities & provision	4386.68
Net Current assets	3125.78
Bank Finance	2060.79
Internal accruals	1064.99
	3125.78
Profit after tax	361.49
Add : depreciation	928.70
Total internal accruals	1290.19



MANAGEMENT'S DISCUSSION AND ANALYSIS

OVERVIEW OF THE BUSINESS OF THE COMPANY

BGL is engaged in the business of manufacture of wide range of ring gears, transmission gears, differential gears and gear boxes to cater to various domestic and MNC OEMs of the automobile industry. The company is mainly a player in the Heavy/ Medium Commercial vehicles and Tractor segment. The company is one of India's leading gear manufacturers with manufacturing facilities in West and North India

Comparison of significant items of income & expenditure of Bharat Gears Limited for the past three years are as follows:

Particulars	(Rs. in lacs)			
	Year ended March 31, 2006	Year ended March 31, 2005	Year ended March 31, 2004	Year ended March 31, 2003
Income				
Gross Sales	18664.48	16692.28	10951.85	10462.61
Less : Excise Duty	2346.58	2252.62	1589.81	1437.34
Net Sales	16317.90	14439.66	9362.04	9025.27
Other income	415.97	448.58	995.67	493.49
Increase (Decrease) in Inventories	92.03	263.20	116.22	-149.80
Total	16825.90	15151.44	10473.93	9368.96
Expenditure				
Raw Materials consumed	6309.18	5555.92	3206.57	3060.38
Purchase of finished goods	216.37	55.77	20.38	19.01
Staff Costs	2936.08	2712.22	2260.89	2149.29
Stores, spares & packing material consumed	867.50	776.47	526.64	479.28
Loose tools consumed	576.32	472.65	281.21	258.17
Processing charges	620.30	483.84	337.31	284.96
Power and fuel	1578.21	1344.95	990.19	935.14
Other expenses	1371.67	1292.56	1023.01	1155.80
Total expenditure	14475.63	12694.38	8646.20	8342.03
Profit before interest, depreciation and taxes	2350.27	2457.06	1827.73	1026.93
Interest	971.08	1112.11	1110.57	1080.01
Depreciation	928.70	919.02	884.84	912.64
Net Profit / loss(-) before tax	450.49	425.93	-167.68	-965.72
Provision for taxation :				
Current tax	33.00	—	—	—
Deferred tax (charge)/ credit	—	5.09	—	—
Fringe Benefit Tax	56.00	—	—	—
Net Profit after tax	361.49	425.93	-167.68	-970.81

COMPARISON OF RESULTS OF OPERATION:

Year ended March 31, 2006 with year ended March 31, 2005

Revenue :

Net sales for the year ended March 31, 2006 increased by 13% to 16318 lacs in F 2006 as against net sales of Rs. 14440 lacs sales for the year ended March 31, 2005. This is as a result of growth registered in all segments where the company operates and due to increase in exports.

Expenditure :

Increase in expenditure for the year F 2006 is corresponding to increase in sales for the year. Components of cost of production as a % to net sales are marginally higher due to fuel cost increase.

Interest :

Interest expense for the year F 2006 is lower by Rs. 141 lacs on account of impact of rate reduction for the full year sanctioned by all term lenders and banks w.e.f. October 1, 2004. Also IDBI Ltd. has further reduced the rate of interest by 0.75% during the year effective July 1, 2005 and also due to better working capital management.

Profitability :

The company recorded a profit before tax of Rs. 450 lacs during the year as against a profit before tax of Rs. 426 lacs inspite of the operations of Mumbra plant of the company getting severely disrupted by unusual rainfall in July 2005 and subsequent power shortfalls. However, against an increase of 10% in total income profitability has increased by a meager 0.16% owing to increase in cost of fuel.

COMPARISON OF RESULTS OF OPERATION:**Year ended March 31, 2005 with year ended March 31, 2004.****Revenue :**

Net sales increased by 54% to Rs. 14440 lacs in F 2005 from Rs.9362lacs in F 2004. This was on account of robust growth registered in heavy/ medium commercial vehicle, utility vehicle and tractor segments of automobile industry where the company is a major player.

Expenditure :

Though the total cost of production was lower as compared to net sales in F 2005 over F 2004, raw material cost had gone up by 4.25% due to continuing increase in steel prices in F 2005.

Interest :

Though there is an increase of Rs. 210 lacs in secured loan funds, financing charges for FY 2005 are only marginally higher as compared to FY 2004 owing to reduction of interest rates from 12.50% to 10.25% on all term loans coming under the purview of CDR scheme.

Profitability :

The company recorded a profit of Rs. 426 lacs in FY 2005 against a loss of Rs. 168 lacs owing to increase in sales as well as easing up of pressure on working capital consequent to implementation of restructuring package under the Corporate Debt Restructuring Scheme.

Year ended March 31, 2004 with year ended March 31, 2003.**Revenue :**

Net sales for the year FY 2004 was higher by 3.73% as compared to FY 2003. This was due to disbursement of funds subsequent to approval of CDR package in the 2nd half of the year.

Further, the Indian tractor industry, one of company's major segments, which was undergoing difficult phase since last three years was showing signs of recovery at the end of FY 2004.

Expenditure :

Cost of production for the year FY 2004 was higher as compared to FY 2003 owing to large increase in steel prices during the year. Further, cost of fuel also increased due to increase in prices of LPG and LDO.

Interest :

In the year FY 2004, the financial restructuring package for the company was approved under Corporate Debt Restructuring (CDR) Scheme. In terms of this, financial institutions and banks sanctioned additional term loans amounting to Rs. 1205 lacs and enhanced working capital facilities. Interest falling due from term loans / working capital facilities for the year was funded by banks / institutions. Further, 10% preference shares of Rs. 208.50 lacs have been issued to institutions and banks as part of their dues under the CDR package. Monies were also received from ZF and domestic promoter aggregating to Rs. 300 lacs as stipulated in the CDR package.

As a result of additional loans received, the Financing charges for FY 2004 are higher as compared to FY 2003.

**Profitability :**

The company ended the year FY 2004 with a loss of Rs. 168 lacs as against a loss of Rs. 971 lacs reported for the year FY 2003. This was mainly due to profit on sale of part of company's corporate office premises and write back of provisions no longer payable.

Overview of the business of the company :

BGL is engaged in the business of manufacture of wide range ring gears, transmission gears, differential gears and gear boxes to cater to various domestic and MNC OEMs of the automobile industry. The company is mainly a player in the Heavy/ Medium Commercial vehicles and Tractor segment.

The company is one of India's largest gear manufacturer with manufacturing facilities in West and North India

The furnace division designs and constructs batch and continuous heat treating furnace systems for automotive manufacturers.

Significant development since the date of last financial statement

There are no material developments after the date of the latest balance sheet save and except as stated elsewhere in this document, that are likely to materially affect the performance and the prospects of the company. The company has not discontinued any of its existing business nor commenced any new business during past years.

FACTORS THAT MAY AFFECT RESULTS OF OPERATIONS**Unusual or infrequent events or transactions**

There have been no unusual or infrequent events or transactions.

Significant economic changes

Any slowdown in the growth of Indian economy or future volatility in global commodity prices, could adversely affect the business, including the future financial performance, shareholders' funds and ability to implement strategy and the price of the Equity Shares.

Known trends and uncertainties

To the best of our knowledge, other than as described elsewhere in this Letter of Offer, there are no known trends or uncertainties that may have material adverse impact on the income, costs and profits of the company from continuing operations.

Any depreciation of foreign currency would affect the realization.

Future changes in relationship between costs and revenues

Faridabad plant is entirely dependent on generated power. Increase in diesel cost will affect the profitability of the company. Further, the company is not able to pass on the increase in steel prices to the customers in full. This can be offset through cost reduction, product and process improvement.

Dependence of revenue on sales volume, new products and stores

The revenue depends directly on the number of units sold and its prices. Increase in profitability is directly proportional to increase in volumes.

Turnover of industry segment in which the company operates

The company is engaged in the manufacture of automotive gears.

Status of any publicly announced new products or business segment

The company has not launched any new products publicly or otherwise. However, the company is continuously developing products for existing and new customers.

Seasonality of the business

Demand in automotive gear market gets affected marginally due to seasonality, especially the tractor segment, where demand is low during monsoons and peaks during harvesting season.

Dependence on single or few suppliers / customers

The company's turnover is not dependent on single or few customers. BGL has a wide breadth of customer in all major market segments like Replacement, Original Equipment and Export.

Competitive conditions

With the progressive reduction of import duties and norms for foreign direct investment being eased, the company is exposed to competition from abroad and potential new entrants. BGL meets the challenge of competition continuously through its emphasis on product development, market exploration and value addition to its customer.

WORKING RESULTS

Information relating to the company sales, gross profit etc., as required by the Ministry of Finance Circular No.F2/5/SE/76 dated February 5, 1977 read with the amendments of even No. dated March 8, 1977 as under:

The unaudited working results of the company for the period 01/04/2006 to 30/04/2006 are given hereunder:

(Rs. Lacs)

Particulars	For April 2006
Net sales / Income from Operations	1040
Other Income	15
Total Expenditure	950
Gross profit	105
Interest	82
Depreciation	78
Profit before tax	-55
Provision for taxation	—
Net Profit	-55
Paid up equity share capital	601.37
EPS	-0.97



SECTION V LEGAL AND OTHER INFORMATION

OUTSTANDING LITIGATIONS AND DEFAULTS

Save as stated herein under, the Company, have not defaulted in meeting any of its statutory or institutional dues and have made all payments/refunds on fixed deposits or no proceedings have been initiated against the Company, for any of the offences specified in paragraph 1 of Part I of Schedule XIII of the Companies Act, 1956. Further, there are no disputes/litigations towards tax liabilities or criminal prosecutions against the Company and its Directors for any offence, economic or otherwise civil litigations against the Company and its Directors, there are no material disputes/legal actions other than those disclosed below.

There are no pending proceedings initiated for economic offences against the Company. No disciplinary action/ investigation have been taken by the SEBI against the Company, its group companies. The promoters, their relatives, Bharat Gears Ltd., group companies, associate companies are not detained as willful defaulters by RBI/Government authorities and there are no violations of securities laws committed by them in part or pending against them.

I. CONTINGENT LIABILITIES OF THE COMPANY

As on 31/03/2006, the company has some contingent liabilities not provided for in respect of items detailed below:

(Rs. in lacs)

Particulars	As at March, 31 2006
Bills discounted	635.35
Claims against company not acknowledged as debts:-	
Sales tax -	7.63
Employees State Insurance Corporation	5.80
Income tax	66.90
Guarantee given to Housing Development Finance Corporation for loans availed by employees	8.74

Pending Litigations against the Company

A. CIVIL CASES

The Company is involved in certain civil proceedings, pertaining to M/s. Universal Steel & Alloys Limited (USAL), which was a sick company and got merged/amalgamated with the company pursuant to the sanction of scheme of merger/rehabilitation by BIFR w. e. f. 01/04/1998, pursuant to its order dated 06/10/1998.

The brief information of these cases are given below:

Tis Hazari District Court, Delhi

1. Summary Suit no. 178/1998 filed by Mr. Anil Kumar Aggarwal Proprietor of M/s. Aggarwal Steel Traders, for recovery of dues of Rs. 1,15,000/- against supply of CI Turning Boring to Universal Steels & Alloys Limited (USAL).

The suit was originally filed in the High Court of Delhi, however, the matter was transferred to additional District Judge, Delhi, Tis Hazari courts due to enhancement of pecuniary jurisdiction of lower courts.

Status : Matter pending

2. Money Suit No. 164/88 filed by M/s. Shah Petroleum (P) Ltd., Delhi against Universal Steels & Alloys Limited (USAL) for recovery on 03/06/1988 for recovery of dues amounting to Rs. 53,688/- (being principal Rs. 33,320/- plus interest of Rs. 20,363) together with future & *pendentelite* interest @ 18% p. a. against unpaid bill for supply of oil.

The suit was dismissed in default in favour of USAL by the Additional Judge, Delhi, Tis Hazari Courts, on 20/04/1989.

The plaintiff filed an application for restoration of suit, reply filed.

Status : Matter pending

Ghaziabad District Court

3. Recovery Suit No. 819/1987 filed by M/s. Panchsheel Iron Foundry & Engineering Company (Partnership Firm) against Universal Steels & Alloys Limited (USAL) for recovery of Rs. 1,41,157.00 (towards dues of Rs. 1,13,128.35 against supply of materials and Rs. 28,028.65 against interest).

Court : In the court of 1st Additional. Civil Judge, Ghaziabad, U. P.

The Application was objected and was Stayed vide order dated 12/07/1990 by the 1st Additional Civil Judge, Ghaziabad.

Status : Matter pending

Delhi High Court

4. An execution application no. 72/1991 (86/92) was filed by Sandur Manganese & Iron Ores Ltd., against Universal Steels & Alloys Ltd. (USAL) with Delhi High Court, in 1991, in execution of decree passed against USAL in the Money Suit No. 219 /1987 filed by Sandur Manganese & Iron Ores Ltd. for recovery of dues against USAL and decreed against USAL on 05/08/1988.

Claim Amount: Rs. 3,27,492.40 with cost of Rs. 5,653.75 and *pendentelite* and future interest @ 12% p. a. from the date of institution of suit till realization.

Status: Matter Pending

The Application was objected on the grounds that USAL has been referred to BIFR, which declared USAL a "Sick Industrial Unit" within the meaning of Section 3 of SICA on 24th September, 1987 w.e.f. 30/04/1987.

The matter was adjourned sine die in 1992.

Status : Matter Pending.

Civil Court, District. Faridabad and The High Court of Chandigarh & Haryana

5. M/s. Mukand Silicate Works filed an Application u/section 151/152 C. P. C. in Faridabad District. & Sessions Court, in December, 2004 for correction/ rectification of Decree Sheet, passed by the said Court in March, 2004.

Case History

M/s. Mukund Silicate Works, filed a claim with Civil Court, for recovery of unpaid bills amounting to Rs. 14,225.75 plus interest @ 18% from 15th December, 1987 onwards drawn on Universal Steel & Alloys Limited (USAL).

After the merger of USAL with BGL, the matter was being dealt by BGL.

The lower court decided the case in favour of Mukund Silicate works, and the Company was ordered to pay a sum of Rs. 21,298 plus interest @ 12% p. a. along with the cost of the suit, vide a decree passed in 2002.

The company preferred an appeal in the Court of District & Sessions judge against the aforesaid decree/judgment of the lower court contending that the interest shall be payable w.e.f. 01/04/1998, the transfer date and not from the date of institution of the suit.

The District & Sessions Court dismissed the appeal, but modified the judgment stating that interest shall be payable on principal amount of Rs. 14,225.75 and not on decretal amount of Rs. 21,298 and the parties to bear their own costs vide its order dated 05/03/2004.

Against the aforesaid judgement of District & Sessions Court the Company filed a Revision Petition with the High Court of Punjab & Haryana, and also obtained a stay (interim order dated 24/09/2004) against the orders of Civil Court (Junior Division) and District & Sessions Court and deposited the decreed principal amount of Rs. 14,225.75 along with interest @ 12% p. a. from 01/04/1998 till 30/09/2004 with the District & Sessions Court, i.e. Rs. 24,157.75 after deducting a TDS of Rs. 1,161.00. M/s. Mukand Silicate Works, filed an application in December, 2004 with the District & Sessions Court for rectification/correction of decree sheet. Reply to the said application is already filed, with the District & Sessions Court. Further, M/s. Mukand Silicate Works, has also filed a Revision Petition with the High Court of Punjab & Haryana in August, 2005. The High Court has admitted the said Revision Petition. The matter was last heard on 19/09/2005 and the interim order dated 24/09/2004 was extended till further orders. Further, M/s. Mukand Silicate Works has also filed an application with the High Court of Punjab & Haryana for vacation of the stay and the same has been dismissed.

Status : Matter Pending

6. **TE&RSuit No. 252/299 of 2000.**

This is an application filed by D Drukker and Co. Pvt Ltd. in small causes court against Bharat Gears Limited for vacation of their flat C-62, Meherina Appt, Nepeansea Road, Mumbai. Since the filing of the application the matter is in progress (Cross Examination of witnesses).

B. LABOUR CASES

Following cases have been filed by the following parties against the Company in the labour courts at various places, claiming the reinstatement, continuity of service, back wages etc



1. The Application (MRTU) No. 5 of 2004 pending before Honourable Shri V.L. Kamble, Industrial Court, Thane is filed by the Bharatiya Kamgar Karmachari Mahasangh against the Association of Engineering Workers and the Company.

This is an Application by BKKM for cancellation of Registration of Association of Engineering Workers as a Recognised Union and granting Recognition to BKKM. The Company has taken neutral stand in the matter.

There is no financial liability to the Company in this case.

Status : Matter Pending

2. The Reference (IDA) No. 315 of 2002, pending before the First Labour Court at Thane.

This is a Reference given by the Dy. Commissioner of Labour, Thane in respect of the demand raised by the Association of Engineering Workers demanding reinstatement with full backwages and continuity of service with effect from 10.8.2001 of 16 employees, Shri P.S. Dalvi and 15 others, who were working in the Supervisory category – Executive Grade. The Company has raised Preliminary Objection that these 11 employees are not 'workmen' as per Section 2(s) of the Industrial Disputes Act 1947.

Status : Matter Pending

3. The Reference (IDA) No. 242 of 2002 pending before the Third Labour Court at Thane.

This is a Reference made by the Dy. Commissioner of Labour on the basis of demand for reinstatement of 21 employees raised by the Association of Engineering Workers, who were working in the Supervisory category and Executive Grade. It is the case of the Company that all the 21 employees have voluntarily resigned under the V.R.S. Scheme and collected their dues in full and final settlement on different dates and have encashed their cheques during May, June, July 2001. It is the case of the Union that the concerned employees have withdrawn the resignation before their relieving but the same were not accepted by the Company. Hence, the Union is alleging illegal termination of services of these employees on different dates.

Status : Matter Pending

4. Reference (IDA) No. 65 of 2002 pending before the Third Labour Court at Thane.

This is a case pertaining to demand for reinstatement by Shri Borade, who was appointed for a fixed period employment i.e. 05/06/1998 to 31/05/1999. His service was terminated from 31/05/1999 on completion of the fixed period of employment. It is the case of the workman that he was working on the permanent post of Machine Operator continuously for 240 days. On the other hand the Company has contended this under Section 2(oo)(bb) of the Industrial Disputes Act 1947.

Status: Matter Pending

5. Complaint (ULP) No. 329 of 2004 pending before the Industrial Court, Thane is filed by the Company against the Association of Engineering Workers alleging coercive activities, unfair labour practices etc.

The Court has passed ad-interim order against AEW restraining violent demonstrations etc. in front of the gate within 60 feet and from preventing entry and exit of officers, staff vehicles etc. The matter is at the stage of argument on interim relief.

There is no financial liability on the Company in this case.

Status : Matter Pending

6. Complaint (ULP) No. 355 of 2004 pending before the Industrial Court, Thane is filed by the Association of Engineering Workers against the Company alleging refusal to negotiate with them, challenging the Settlement with the Bharatiya Kamgar Karmachari Mahasangh etc. The BKKM is also impleaded as a Respondent its Application and the matter is now fixed for filing of documents and framing of issues There is no financial liability on the Company in this case.

Status : Matter Pending

7. Complaint (ULP) No.168 of 2005 : Bharatiya Kamgar Karmachari Mahasangh Vs.M/s.Bharat Gears Ltd., pending before Shri.S.S.Mudpe, Member, Industrial Court, Thane

This complaint is filed by the union on behalf of Mr.Avinash Sheth in respect of the Voluntary Retirement Scheme opted by him. He has also sought the relief of reinstatement in service by setting aside his letter of voluntary retirement. BGL; has already filed its Reply to Interim Relief and Written Statement in the matter along with supporting Affidavit.

The Application for Interim Relief is disposed off. Matter is fixed for hearing on main complaint.

Status : Matter Pending

8. Complaint (ULP) No.109 of 2005 : B. J. Dhopavkar Vs M/s.Bharat Gears Ltd., pending before Shri. U.B.Ingle, Judge, Third Labour Court at Thane.

The complaint is filed by Mr.B. J. Dhopavkar against his termination of services w.e.f.28/05/2005. He is seeking relief of reinstatement in service with back wages. The Company has filed its written statement contending that his services are terminated as he had committed some serious misconduct like leaving the place of work often, thereby disturbing the discipline in the department and also causing production loss.

The Application for Interim Relief is disposed off. Matter is fixed for hearing on main complaint.

9. Complaint (ULP) No.110 of 2005 : A. N. Malavade Vs.M/s.Bharat Gears Ltd. pending before Smt.V.A.Raut, Judge, Fourth Labour Court at Thane.

The complaint is filed by Mr.A.N.Malavade challenging his termination of services. He is seeking relief of reinstatement in service with back wages. The Company has received the notice and has filed a written statement. The Company has also made an application to the Hon'ble Court to direct Mr. A.N. Malavde to report for work pending the above referred complaint. In view of this application Mr. A.N. has reported to work. The Application for Interim Relief is disposed off. Matter is fixed for hearing on main complaint.

Status : Matter Pending

10. Reference Order No. 611/1999 dated 30.09.1999 pending before Labour Court Cum Industrial Tribunal – II, Faridabad against an alleged demand notice dated 28.07.1993 made by the Union of workmen of erstwhile Universal Steels & Alloys Limited, namely Universal Steel Employees Union, challenging the Retrenchment of 37 workmen under the Notice of Retrenchment dated 26.07.1993 as illegal.

After the merger of USAL with BGL, the matter was being dealt by BGL. BGL has contested the reference order and has filed its objections. It was contented that the termination was legal and as per the law.

Claim: Amount not quantifiable,

Status: Pending before the Labour Court Cum Industrial Tribunal – II, Faridabad

C. INCOME TAX

1. 1994-95

Amount in Dispute and demand created for Rs.50.33 lacs. Assessee has preferred an appeal in High Court. Appeal is admitted on substantial question of law. Hearing to be fixed on merits.

2. 1995- 96 to 1999-2000

Department is in appeal in respect of following before High Court in r/o machinery repair:

Sr. no	Particulars	Amount(Rs.)
1)	1995 - 96	14,87,173
2)	1996 -97	1,61,951
3)	1997 –98	3,65,193
4)	1998 – 99	30,24,994
5)	1999 – 2000	24,80,048

The High Court has sent back these appeals to ITAT for fresh hearing:

Appeals have been heard by Hon'ble ITAT. Orders are awaited.

D. DISPUTED DEMANDS OF SALES TAX

Demand of Rs.2,38,780.00 for FY 2003 (Dues of Rs.2,37,780+ Penalty Rs.1,000.00) towards sales tax not charged on free of cost materials issued under sales promotion scheme. This demand is by way of Assessment Order and pending in appeal.

Demand of Rs.2,63,742.00 for FY 2004 towards sales tax not charged on free of cost materials issued during September and December 2003. This demand notice is by way of verification letter of monthly returns and assessment is not yet over. Matter is pending at Asst Commissioner's level.

Demand of Rs.130291 for FY 2004 towards sales tax on branch transfers. This demand is by way of Assessment Order. Matter is pending at Deputy Commissioner's (Appeals) Commercial Taxes

Status : Matter Pending



E. DISPUTED DEMANDS OF OCTROI

The company has received a demand notice dated 21/08/1997 on 11/12/2002 from BMC for an amount of Rs. 1,52,287.00 towards octroi duty being payable by the company to BMC. However, the demand notice does not belong to the company. The company has written to BMC on 12/12/2002 and subsequently 9th time vide letter dated 23/06/2005.

Status: The matter under investigation at BMC's end.

OUTSTANDING LITIGATIONS AGAINST PROMOTERS / DIRECTORS

➤ **Litigations against the Promoter / Directors**

There are no outstanding litigations, disputes, non-payment of statutory dues, overdues to banks / financial institutions, defaults against banks / financial institutions, defaults in dues towards instrument holders like debenture holders, fixed deposits, and arrears on cumulative preference shares issued, defaults in creation of full security as per terms of issue, other liabilities, proceedings initiated for economic / civil / any other offences (including past cases where penalties may or may not have been awarded and irrespective of whether they are specified under paragraph (i) of Part I of Schedule XIII of the Companies Act, 1956) against the promoters and directors of the Company, except the following:

Dr. Ram S. Tarneja

Dr. Ram S. Tarneja was a non-executive alternate Director of Forward Securities Limited, registered under the Companies Act, 1956, - a non banking financial company. He resigned on July 24, 2000

A complaint was filed against Dr. Tarneja among the other directors of the Company under the Maharashtra Protection of Interests of Depositors (in Financial Establishments) Acts, 1999 (the "Act") for fraudulent defaults in repayment of deposits by the Company.

The Complaint nowhere states that Dr. Tarneja was in the management of the affairs of the company.

Dr. Tarneja had also filed a Writ Petition, being Writ Petition No.1900 of 2002 in the Bombay High Court challenging the constitutional validity of the Act. The Writ Petition was a part of group petitions which were heard by a Full Bench of three judges of the Bombay High Court in August, 2005. The Full Bench held that the Maharashtra legislature was not competent to pass the Act and struck down the Act as unconstitutional.

The Government of Maharashtra has filed an appeal in the Supreme Court, being Appeal No. CA 6475-79/05, which is pending. In the Appeal, the Supreme Court passed an order on November 18, 2005 in which the Court directed that in the case of pending cases, status quo as on the date of the Order shall be maintained.

The case against Dr. Tarneja was already stayed by the High Court and that stay, therefore, continues.

Dr. Tarneja had also filed an application in the Designated Court in Nagpur, the Case No. 1 of 2002 for his discharge on various grounds. Since that application was not entertained, a Revision Petition Application No.1919 of 2003 has been filed before Nagpur Bench of Bombay High Court, which has been admitted and the same is pending.

OUTSTANDING LITIGATIONS AGAINST GROUP COMPANIES

Litigation against the Promoter Group Companies

There are no outstanding litigation, disputes, non-payment of statutory dues, overdues to banks / financial institutions, defaults against banks / financial institutions, defaults in dues towards instrument holders like debenture holders, fixed deposits, and arrears on cumulative preference shares issued, defaults in creation of full security as per terms of issue, other liabilities, proceedings initiated for economic / civil / any other offences (including past cases where penalties may or may not have been awarded and irrespective of whether they are specified under paragraph (i) of Part I of Schedule XIII of the Companies Act, 1956) against the promoter group companies, except the following:

I. RAUNAQ INTERNATIONAL LIMITED

A. CIVIL CASES

1. RIL VS. MINI SEA FOOD - PENDING IN SUPREME COURT.

The Company entered into an agreement with M/s. Mini Sea Food on 08/03/1977 to grant credit facility against stock of frozen and peeled shrimps and made an advance of Rs. 1,98,692.51. However, the party exported a part quantity and only Rs. 1,26,528.38 was realised. The remaining quantity, against which advance was made, was disposed off for its purpose leaving a balance of Rs. 72,164.73. A criminal complaint was filed but the same was quashed by the High Court on the ground that the transaction was in the nature of commercial transaction. As per the agreement an application was made to the Delhi High Court to refer the dispute/differences arising out of this agreement for arbitration as in the agreement jurisdiction

is vested in the Court at Delhi. The Court decided the case in RIL's favour. However, the other party went to Supreme Court for appeal by filing Special Leave Petition (SLP) and obtained Ex- parte stay of proceeding before the arbitrator.

Amount Involved - Rs.1,79,800/-

Status – Matter Pending

2. RIL VS. UNION OF INDIA (INDIAN RAILWAYS) - PENDING BEFORE THE SUPREME COURT OF INDIA.

The Company had filed a petition under section 20 of Indian arbitration Act for removal of arbitrator and reference of claim of Rs. 94.61 lakhs to the Arbitrator. Out of Rs. 94.61 lakhs, the Addl. District Judge only referred claim for Rs. 39.38 lakhs and for balance, he declined. Against the order of District Judge, RIL filed appeal before the Jabalpur High Court and the Jabalpur High Court had decided in the company's favour. Against the order of Jabalpur High Court, the Union of India has filed an SLP before the Supreme Court. The Supreme Court has admitted the appeal of the Union of India.

AMOUNT INVOLVED - Rs. 94.61 lacs

STATUS – Matter Pending

3. PIZZO ENGG. VS. RIL - PENDING BEFORE MADRAS HIGH COURT.

RIL entered into a contract with TNEB for commissioning its Mettur Thermal Power Project. Subsequently, RIL entered into an Agreement dated 31/12/1985 with the Plaintiff Company entrusting them a part of painting work at this project. The said contract of the plaintiff was terminated by RIL on 18/07/1986 due to malfunctioning. However, the amount of the party for the job done was not settled. The party has filed claim for Rs. 1,02,529.22.

AMOUNT INVOLVED - Rs. 1,02,529.22

Status – Matter Pending

4. ENERGO ENGG. PROJECT (P) LTD.VS. RIL - PENDING IN DISTRICT COURT, DELHI.

M/s. Energo Engg. Projects (P) Ltd. has filed a suit for recovery of Rs. 1,97,792/- against RIL on the allegation that RIL offered to work for a sleeve coupling for the Chandrapur Ash Disposal Line Project of the value of Rs. 31,06,000/-. It was claimed that for a value of work done, a sum of Rs. 1,29,600/- has not been paid to him. Thereafter, he filed summary suit for Rs. 1,97,792 inclusive of interest. RIL filed its application for leave to defend the suit which was allowed by the court and, thereafter RIL have already filed its Written Statement. At the time of framing of issues, RIL requested the court to frame some additional issues and direct the Plaintiff to lead their evidence. However, the court declined RIL's request and directed RIL to file its evidence first. Against the said order, RIL filed Revision Petition before Delhi High Court and the revision is pending before Delhi High Court.

AMOUNT INVOLVED - Rs. 1,97,792

Status – Matter Pending

5. RAMAN IRON FOUNDRY - PENDING IN CITY CIVIL COURT, MATHURA/ ALLAHABAD HIGH COURT

RIL placed an order dated 06/09/1983 on the party for supply for supply of "G" bolts. The party supplied the goods but delivery of which was not taken by RIL as they were not of acceptable quality. The party filed the present suit at Mathura on 22/05/1984 for recovery of Rs. 21,663/- on account of cost of goods and transportation charges.

RIL raised objection regarding maintainability of the suit on the ground of lack of territorial jurisdiction. The preliminary objection was decided against RIL on 02/04/1986.

RIL filed a Revision Petition against the said order on 11/07/1986. The High Court vide order dated 20/10/1986 admitted RIL's revision and stayed the proceedings in the suit till the disposal of the revision.

Status - Proceeding adjourned sine-die in view of order of the High Court.

B. INCOME TAX

1) 1994 – 95	
Amount in appeal	Rs. in lakhs
1) Commission	11.90
2) Loan	24.90
3) W.I.P.	7.87
4) Miscellaneous	0.55
	45.22



The order of ITAT dated 04/07/2005 is received on 26/12/2005. ITAT has confirmed the disallowance of commission of Rs. 5.00 lacs against the departmental appeal of Rs. 11.90 lacs. Regarding loan, the matter is set aside. For W.I.P and Miscellaneous department appeals rejected. Tax is already paid. No further demand. However, Assessing Officer has levied a penalty of Rs. 2.75 lacs vide order dated 26/12/2005. The company has filed an appeal against the same on 24/01/2006. Appeal is pending.

2) 2000-01

Appeal of the department is admitted by the ITAT vide order dated 07/10/2005. Tax demanded is Rs. 85,356/-. The company has preferred an appeal before High Court. Appeal is admitted on question of law.

3) 2001 – 02

Amount in Appeal by department	Rs.
W.I.P.	10,17,204
Car expenses	1,03,484
Co. Telephone	96,664
	12,17,352

Appeal has been heard on 29/11/2005 and the order is awaited.

4) 2003-2004

Demand of Rs. 51264 is created. Appeal is pending before CIT(A)

C. DISPUTED DEMANDS OF EXCISE DUTY

1)	Authority	Customs Excise of Service Tax Appellate Tribunal, N. Delhi
	Liability	Duty Rs. 22.63 Lacs + penalty Rs. 22.63 Lacs, Total Rs. 45.26 Lacs plus interest on duty amount.
	Facts & Status	In the contract executed with NTPC in 1997-98 according to the excise department, pipes of 450 mm dia to 1500 mm dia has been manufactured at site for which Central Excise Registration & Complying with other formalities not done. The company's contention that Notice in time barred; that the product is not excisable as they are shells/spools to which the department wrongly refer as 'Pipes' that RIL is not the manufacturer since the work is done by Sub-Contractor.
		The case is pending before Customs Excise of Service Tax Appellate Tribunal, N. Delhi
2)	Authority	Central Excise of Customs, Belpahar Range, Jharsuguda
	Liability	Not quantified; likely demand Rs.25 lac.
	Facts & Status	On RIL's contract with M/s. Orissa Power Corporation Ltd for work of fabrication of LP Piping at Benlarpalli site in the year 1992-93, the dispute as to the excisability arose, which was confirmed by CE & Service Tax Appellate Tribunal, Kolkata vide its order A-820/KOL/2003 dated 14/11/2003. It was held that steel pipe in question are marketable and hence excisable and are classifiable under heading 7305 of first schedule to CE Tariff Act, 1985 and not under heading 7308 as held by Commissioner (Appeals). By observing so the appeal filed by the Revenue was allowed. RIL's civil appeal no.5490 of 2004 preferred before Hon'ble Supreme Court was dismissed as time barred on 01/04/2005. In the show cause notice issue by Supdt. CE, Belpahar Range in the first instant the department has not specified any amount of duty demand. The specification of the duty so demanded through corrigendum to the show cause notice issued earlier would be barred by time and therefore the demand would be time barred so held by the Tribunal in one of its judgement. By virtue of Excise Tribunal Kolkata holding RIL as Manufacturer there could be demand of Rs.25 lacs.

D. DISPUTED DEMANDS OF SALES TAX

1)	Authority	Deputy Commercial Tax Officer, Thiruvallur TN
	Liability	Rs. 24.96 Lacs (AY – 1997-98 Rs.17.21; AY 1998-99 Rs.7.75)
	Facts & Status	In respect of RIL's contract work with Hindustan Motors Ltd at their plant in Thiruvallur TN, the company was assessed for the year 1997-98 by DCTO Thiruvallur vide his order TNGST-1721309/97-98 Dt.12/11/99 by a demand of tax of Rs.8,49,240/- and penalty of Rs.8,71,407/-. On our appeal, the Appellate Asstt. Commissioner Kancheepuram vide his order 509/99 dated 27/04/2000 stayed the order of DCTO and decided that there is no liability under Sec-3B of TNGST Act for the AY 1997-98. The department had filed Appeal No. STA-1489/2000 & 81/2001 before Hon'ble Sales Tax Appellate Tribunal to restore the order of Assessing Authority (DCTO) and to cancel the order of Appellate Assistant Commissioner. The case is pending disposal before Hon'ble Sales Tax Appellate Tribunal, Main branch, Chennai.
		In the TNGST Asstt. Of 1998-99 at Tiruvallur RIL was assessed vide proceedings in TNGST/1721309/98-99 dated 15/3/2000 and further rectified vide order Dt.27/12/2000. A total arrear of Rs.7,75,124/- of tax and penalty in due for recovery for which there is no stay. RIL's application of rectification Dt.15/2/2003 u/s/ 55 TNGST Act is pending before DCTO, Tiruvallur Assessment Circle, Tiruvallur, TN. The ground for rectification is on two counts. Firstly liability u/s 3B of TNGST has been fastened on the company without deducting labour charges of 30% which is mandatory & Statutory Provision. Secondly, to reduce penalty calculated @ 150% on tax of Rs. 3 lacs which was deposited under protest in AY 1998-99 itself.
2)	Authority	Sales Tax Officer, Dhenkund Circle, Angul (Orissa)
	Liability	Rs.8.84 Lacs
	Facts & Status	In the Sales Tax Assessments with regard to RIL's contract work with NALCO Angul the Sales Tax Officer assessed u/s.12(4) of OST Act 1947 for the AY-1984-85 (QE 12/84&3/85) and 1985-86 involving demand of Rs.6,50,073/-. Further in the AY 1986-87 a demand of Rs.2,33,948/- was created. Thus the total demand is Rs.8,84,021/-. RIL's first appeal before the Asstt. Commissioner of Sales Tax Cuttack – II Range was dismissed. The Company has obtained stay of recovery proceedings till disposal of second appeal. The cases are pending disposal before Sales Tax Tribunal at Cuttack.
3)	Authority	Sales Tax Officer, Chandrapur, Maharashtra
	Liability	Rs.5.06 Lacs
	Facts & Status	In the contract work with MSEB, Chandrapur, RIL was assessed by STO, Chandrapur for the AY 1990-91 & 1991-92. Against these orders the company filed appeal before Assistant Commissioner of Sales Tax Appeal, Amravati, who vide his order passed on 30/09/1996 had given partial relief in respect of interest u/s 36(3) (b) by allowing a remission of Rs.20,000/- and had directed to recover the outstanding balance tax & interest amounting to Rs.5,06,999/- (Rs.2,40,606/- + Rs.2,66,393/-). Against this order RIL had filed second Appeal before Maharashtra Sales Tax, Tribunal Mumbai. The case is pending in Tribunal for disposal. RIL main grounds for Appeal before Tribunal relates to error in taxing the value of material supplied by the contractee and also as to taxing of goods purchased from registered dealers in the state and used in the execution of works contract amount to double taxation.



MATERIAL DEVELOPMENTS AFTER THE DATE OF THE LAST BALANCE SHEET

There are no material developments after the date of the latest balance sheet, that are likely to materially affect the performance and the prospects of the company. The company has not discontinued any of its existing business nor commenced any new business during past year.

ADVERSE EVENTS

There are no adverse events affecting the operations of the Company occurring within one year prior to the date of filing of the Letter of Offer with the Stock Exchanges.

GOVERNMENT APPROVALS

In view of the approvals listed below, the Company can undertake its current business activities. The Company has received the necessary consents, licenses, permissions and approvals from the Government and various Government agencies required for its present business and no further approvals are required for carrying on the present business except as mentioned below.

The important licenses and approvals procured by the Company are as follows:

LICENSES / CERTIFICATES FOR FARIDABAD UNIT

S. No.	Nomenclature	Nature of license	Reg No./date of license	Act	Validity/ Renewal up to	Remarks
1	Factory License	License to work a factory	FBD/B-2000/ 15809 dt.26/4/2000	Factories Act, 1948	31.12.2009	-
2	Petroleum License	License to import & store petroleum in installation Quantity licensed - 50KL	P-12(11)1163 dt. 29/7/99	The Petroleum Rules 1976	31.12.2007	-
3	Propane / LPG License	License to store compressed gas in pressure vessel or vessels Quantity Licensed-39.4 M T Propane / LPG	PV(NC)S-145/HN/ HN-91/PVS dt. 3/11/99	The Indian Explosives Act,1884	31.03.2009	-
4	Propane License	License to use propane gas	No. 1-EXP-2K dt. 8/9/2000	The Solvent, Reaffinate & Slop (Acquisition, Sale, Storage & Prevention of use in Automobiles) Order 2000	31.03.2007	
5	Air Pollution Emission License	Consent for emission of Air Pollutants	No./HSPCB/ Consent/2004/151 dt.11.03.2004 (Sections 21/22)	The Air(Prevention & Control of Pollution) Act 1974	31.03.2005	Applied for renewal on 11.02.2005
6	Water Effluent Discharge License	Consent for discharge of effluent	No./HSPCB/ Consent/2004/151 dt.11.03.2004	The Water (Prevention & Control of Pollution) Act, 1974 (section 25/26)	31.03.2005	Applied for renewal on 11.02.2005
7	Waste Management License	Authorisation for operating a facility for collection, reception,treatment, storage, transportation and disposal of Hazardous wastes	HSPCB/HWM/ Authorisation/594 dt. 14/6/2004	Hazardous Waste (Management & Handling) Amendment Rules, 2003	31.03.2005	Applied for renewal on 11.02.2005
8	ISO 14001:1996	Certificate pertaining to Environmental Management System	Approval date-30.12.2004 Certificate date-13.01.2005	-	15.05.2006	-
9	QS 9000:1998	Certificate pertaining to Quality Management System of the organisation	Certificate No.-161523 Approval date-01.11.2001 Certificate date-06.11.2004	-	14.12.2006	-
10	Certificate of registration	Regn with the Central Excise Deptt. to undertake activities detailed in the schedule to the certificate.	Certificate no. 72/R-II/98 dt. 17.11.1998	Central Excise Rules, 1944	till the holder carries on the activities as mentioned in the schedule/ surrendered.	-



S. No.	Nomenclature	Nature of license	Reg No./date of license	Act	Validity/ Renewal up to	Remarks
11	Certificate of registration	Registration as a dealer (to purchase without payment of tax) goods for resale in the state/sale in the course of inter-state trade etc.	FBD/HGST/1318181	Central Sales Tax Act, 1956	31.03.2006	-
12	Certificate of registration	Registration as a dealer u/s 7(1)&(2) of the Central Sales Tax Act, 1956 for inter state sales	FBD/CST 1318181 dt. 28.08.2000	The Central Sales Tax (Registration & Turnover) Rules, 1957	31.03.2006	Company registered under Haryana VAT Act 2003. Tax Identity No. allotted is 06361318181 applicable under Local as well as CST. Registration valid till cancellation.
13	Certificate of registration	Registration with the Central Excise Deptt. for collecting service tax on the services of Business Auxiliary Services.	Regn. No.-ST/ FBD/BAS/18/2004 cftf. Dated 27.09.2004	Finance Act, 1994	till the holder carries on prescribed activities/ surrendered	-

LICENSES / CERTIFICATES FOR MUMBRA UNIT

S. No.	Nomenclature	Nature of license	Reg No./date of license	Act	Validity/ Renewal up to	Remarks
1	Certificate of Registration	Registration with Central Excise Department for collecting service tax on Maintenance & Repair Services, Consulting Engineer, Business Auxiliary Services, Goods Transport Agency, Intellectual Property Services.	ST/MRS/BEL/563/ 2003 dt. 4.11.2003	Finance Act, 1994	Till the holder carries on the activities as mentioned in the schedule / surrendered.	-
2	Certificate of Registration	Registration for manufacture of excisable Goods	AAACB4860GXM001 dt. 25.02.2004	Central Excise Rules, 2002	Till the holder carries on the specified activities/ surrendered.	-
3	Water Effluent Discharge License	Consent to operate, Daily Quantity of Effluent not to exceed 3.5m ³ , Daily Quantity of sewage effluent not to exceed 60.0m ³	Consent No. MPCB/ WPAE//Thane-58 dt. 27.01.2005	The Water (Prevention & Control of Pollution) Act, 1974 (section 26)	31.08.2006	-
4	Air Pollution Emission License	Consent to operate, SPM not to exceed 150 mg/Nm ³	Consent No. MPCB/ WPAE//Thane-58 dt. 27.01.2005	The Air(Prevention & Control of Pollution) Act 1974(Sections 21)	31.08.2006	-
5	Waste Management License	Consent to operate	Consent No. MPCB/ WPAE//Thane-58 dt. 27.01.2005	Hazardous Waste (Management & Handling) Rules 1989 & Amendment	31.08.2006	-
6	Petroleum License	License to import & store petroleum in installation Quantity Licensed - 30KL	P/HQ/MH/15/15425 (P6456) dt. 26/7/ 2004	The Petroleum Rules 1976	31.12.2008	-

BHARAT GEARS LIMITED

S. No.	Nomenclature	Nature of license	Reg No./date of license	Act	Validity/ Renewal up to	Remarks
7	LPG License	License to store compressed gas in pressure vessel or vessels	PV(WC)S-192/MS/MR/TH/PVS-19 dt. 23.03.1983	The Indian Explosives Act, 1884	31.03.2008	-
8	Propane License	License to store compressed gas in pressure vessel or vessels	PV(WC)S-596/MS/MR/TH/PV/S-153 dt. 22.12.1992	The Indian Explosives Act, 1884	31.03.2008	-
9	Certificate of Registration	Registration as a dealer u/s 7(1)&(2) of the Central Sales Tax Act, 1956	400021 O 838	The Central Sales Tax (Registration & Turnover) Rules, 1957	until cancelled	-
10	Certificate of Registration	Registration as a dealer u/s 22/22A of the Bombay Sales Tax Act, 1959 to manufacture automotive gears, gear boxes and furnaces	Certificate no. 4000 S 841 dt. 26.02.1996	Bombay Sales Tax Act, 1959	-	-
11	Contract Labour License	Certificate of registration	24/2&D-3/5 dt. 12.7.1976	Contract Labour (Regulation & Abolitions) Act, 1970	-	-
12	Factory License	License to work a factory		Factories Act, 1948	31.12.2006	-

Except as stated above, the Company has received all the necessary permissions and approvals from the Government and various non-government agencies for conducting business. No further approvals from any Government Authority are required by the company to undertake the activities save and except those approvals, which may be required to be taken in the normal course of business from time to time. It must be understood that in granting the above approvals the Government of India and other authorities do not undertake any responsibility for the financial soundness of the undertaking or for the correctness of any of the statements made or opinions expressed in this regard.



SECTION VI : REGULATORY AND STATUTORY DISCLOSURES

AUTHORITY FOR THE PRESENT ISSUE

The Board of Directors at their meeting held on 27/10/2005 have approved the rights issue of the equity shares of the Company of Rs 10/- each to the existing holders of equity shares in the ratio of three equity shares for every 10 equity shares held by them on a date to be announced by the Board (Record Date) for a total amount of Rs 721.65 lacs and at price of Rs.40/- per equity share i.e. at a premium of Rs 30/- per equity share. The special resolution was passed in the Extra Ordinary General Meeting of the shareholders of the Company held on 14/12/2005 authorising the Board of the Company to raise capital up to Rs 721.65 lacs.

The Board of Directors of the Company has approved the draft Letter of Offer for the issue of 18,04,115 equity shares of Rs. 10/- each at a price of Rs.40/- in the ratio of three equity shares for every ten equity shares held as on the Record Date aggregating to Rs. 721.65 lacs in the board meeting held on 25/01/2006.

The Board of Directors of the Company has approved the final Letter of Offer for the issue of 18,04,115 equity shares of Rs. 10/- each at a price of Rs.40/- in the ratio of three equity shares for every ten equity shares held as on the Record Date aggregating to Rs. 721.65 lacs in the board meeting held on 23/05/2006.

PROHIBITION BY SEBI

The Company, its Promoters, Directors or any of the Company's associates or group companies with which the Directors of the Company are associated as Directors or Promoters have not been prohibited from accessing the capital market under any order or direction passed by SEBI.

ELIGIBILITY FOR THE ISSUE

Bharat Gears Limited is an existing listed Company. It is eligible to offer this Rights Issue in terms of Clause 2.4(iv) of the SEBI (DIP) Guidelines, 2000.

The promoters, their relatives, BGL, group companies are not detained as willful defaulters by RBI/Government authorities and there are no violations of securities laws committed by them in the past or pending against them.

DISCLAIMER CLAUSE

AS REQUIRED A COPY OF THIS LETTER OF OFFER HAS BEEN SUBMITTED TO SEBI. IT IS TO BE DISTINCTLY UNDERSTOOD THAT THE SUBMISSION OF THIS LETTER OF OFFER TO SEBI SHOULD NOT, IN ANY WAY, BE DEEMED OR CONSTRUED THAT THE SAME HAS BEEN CLEARED OR APPROVED BY SEBI. SEBI DOES NOT TAKE ANY RESPONSIBILITY EITHER FOR THE FINANCIAL SOUNDNESS OF ANY SCHEME OR THE PROJECT FOR WHICH THE ISSUE IS PROPOSED TO BE MADE, OR FOR THE CORRECTNESS OF THE STATEMENTS MADE OR OPINIONS EXPRESSED IN THE OFFER DOCUMENT. LEAD MANAGER M/S. KEYNOTE CORPORATE SERVICES LIMITED, HAS CERTIFIED THAT THE DISCLOSURES MADE IN THE LETTER OF OFFER ARE GENERALLY ADEQUATE AND ARE IN CONFORMITY WITH SEBI GUIDELINES FOR DISCLOSURES AND INVESTOR PROTECTION IN FORCE FOR THE TIME BEING. THIS REQUIREMENT IS TO FACILITATE INVESTORS TO TAKE AN INFORMED DECISION FOR MAKING INVESTMENT IN THE PROPOSED ISSUE. IT SHOULD ALSO BE CLEARLY UNDERSTOOD THAT WHILE THE ISSUER COMPANY IS PRIMARILY RESPONSIBLE FOR THE CORRECTNESS, ADEQUACY AND DISCLOSURE OF ALL RELEVANT INFORMATION IN THE LETTER OF OFFER, THE LEAD MANAGER IS EXPECTED TO EXERCISE DUE DILIGENCE TO ENSURE THAT THE COMPANY DISCHARGES ITS RESPONSIBILITY ADEQUATELY IN THIS BEHALF AND TOWARDS THIS PURPOSE, THE LEAD MANAGER, M/S. KEYNOTE CORPORATE SERVICES LIMITED HAS FURNISHED TO SEBI A DUE DILIGENCE CERTIFICATE DATED JANUARY 27, 2006 IN ACCORDANCE WITH SEBI (MERCHANT BANKERS) REGULATION 1992 WHICH READS AS FOLLOWS:

- (I) WE HAVE EXAMINED VARIOUS DOCUMENTS INCLUDING THOSE RELATING TO LITIGATION LIKE COMMERCIAL DISPUTES, PATENT DISPUTES, DISPUTES WITH COLLABORATORS ETC. AND OTHER MATERIALS IN CONNECTION WITH THE FINALISATION OF THE LETTER OF OFFER PERTAINING TO THE SAID ISSUE.**
- (II) ON THE BASIS OF SUCH EXAMINATION AND THE DISCUSSIONS WITH THE COMPANY, ITS DIRECTORS AND OTHER OFFICERS, OTHER AGENCIES, INDEPENDENT VERIFICATION OF THE STATEMENTS CONCERNING THE OBJECTS OF THE ISSUE, PROJECTED PROFITABILITY, PRICE JUSTIFICATION AND THE CONTENTS OF THE DOCUMENTS MENTIONED IN THE ANNEXURE AND OTHER PAPERS FURNISHED BY THE COMPANY.**

WE CONFIRM THAT:

- (A) THE LETTER OF OFFER FORWARDED TO SEBI IS IN CONFORMITY WITH THE DOCUMENTS, MATERIALS AND PAPERS RELEVANT TO THE ISSUE;**

- (B) ALL THE LEGAL REQUIREMENTS CONNECTED WITH THE SAID ISSUE, AS ALSO THE GUIDELINES, INSTRUCTIONS, ETC. ISSUED BY SEBI, THE GOVERNMENT AND ANOTHER COMPETENT AUTHORITY IN THIS BEHALF HAVE BEEN DULY COMPLIED WITH;
- (C) THE DISCLOSURES MADE IN THE LETTER OF OFFER ARE TRUE, FAIR AND ADEQUATE TO ENABLE THE INVESTORS TO MAKE A WELL INFORMED DECISION AS TO THE INVESTMENT IN THE PROPOSED ISSUE; AND
- (D) BESIDE OURSELVES, ALL THE INTERMEDIARIES NAMED IN THE LETTER OF OFFER ARE REGISTERED WITH SEBI AND TILL DATE SUCH REGISTRATION IS VALID.

THE FILING OF THE LETTER OF OFFER DOES NOT, HOWEVER ABSOLVE THE COMPANY FROM ANY LIABILITIES UNDER SECTION 63 OF THE COMPANIES ACT, 1956, OR FROM THE REQUIREMENT OF OBTAINING SUCH STATUTORY OR OTHER CLEARANCES AS MAY BE REQUIRED FOR THE PURPOSE OF THE PROPOSED ISSUE. SEBI FURTHER RESERVES THE RIGHT TO TAKE UP AT ANY POINT OF TIME, WITH THE LEAD MANAGER FOR ANY IRREGULARITIES OR LAPSES IN THE LETTER OF OFFER.

THE PROMOTERS / DIRECTORS OF BGL VIZ. MR. SURINDER P. KANWAR, MR. SAMEER KANWAR, MR. W R SCHILHA, MR. A F HARTMANN, DR. RAM S TARNEJA, MR. N J KAMATH, MR V K PARGAL AND MR J S BHANDARI DECLARE AND CONFIRM THAT NO INFORMATION/MATERIAL LIKELY TO HAVE A BEARING ON THE DECISION OF INVESTORS IN RESPECT OF THE SHARES OFFERED IN TERMS OF THIS LETTER OF OFFER HAS BEEN SUPPRESSED WITHHELD AND / OR INCORPORATED IN THE MANNER THAT WOULD AMOUNT TO MIS-STATEMENT/MISREPRESENTATION AND IN THE EVENT OF ITS TRANSPILING AT ANY POINT IN TIME TILL ALLOTMENT/REFUND, AS THE CASE MAY BE, THAT ANY INFORMATION/MATERIAL HAS BEEN SUPPRESSED/WITHHELD AND/ OR AMOUNTS TO A MIS-STATEMENT/MIS-REPRESENTATION, THE PROMOTERS/DIRECTORS UNDERTAKE TO REFUND THE ENTIRE APPLICATION MONIES TO ALL SUBSCRIBERS WITHIN 7 DAYS THEREAFTER WITHOUT PREJUDICE TO THE PROVISIONS OF SECTION 63 OF THE COMPANIES ACT.

CAUTION STATEMENT / COMPANY DISCLAIMER

The Issuer Company accepts no responsibility for statements made otherwise than in this Letter of Offer or in the advertisement or in any other material issued by or at the instance of the Company and the Lead Manager and any one placing reliance on any other source of information would be doing so at his/her/their own risks.

DISCLAIMER IN RESPECT OF JURISDICTION

This offer is being made in India to persons resident in India (including Indian nationals resident in India who are majors, Hindu Undivided Families, companies, corporate bodies and societies registered under the applicable laws in India and authorised to invest in shares, Indian mutual funds registered with SEBI, Indian financial institutions, commercial banks, regional rural banks, co-operative banks (subject to RBI permission), Trusts registered under the Societies Registration Act, 1860, or any other Trust law and who are authorised under their constitution to hold and invest in shares), Foreign Collaborators and to NRIs, OCBs and FIIs as defined under the Indian laws. This Offer Document does not, however, constitute an offer to sell or an invitation to subscribe to securities issued hereby in any other jurisdiction. Any person into whose possession this Offer Document comes is required to inform himself about and to observe any such restrictions. Any dispute arising out of this Offer will be subject to the jurisdiction of appropriate court(s) in India only.

No action has been or will be taken to permit a public offering in any jurisdiction where action would be required for that purpose, except that this Offer Document has been submitted to the SEBI. Accordingly, the equity shares represented thereby may not be offered or sold, directly or indirectly, and this Offer Document may not be distributed, in any jurisdiction, except in accordance with the legal requirements applicable in such jurisdiction. Neither the delivery of Offer Document nor any sale hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Bharat Gears Ltd. since the date hereof or that the information contained herein is correct as of any time subsequent to this date.

LISTING

The Equity shares of the company were originally listed on Bombay Stock Exchange Limited (BSE), National Stock Exchange of India Ltd. (NSE), Delhi Stock Exchange Association Limited, (DSE), Pune Stock Exchange Limited (PSE) and the Ludhiana Stock Exchange Association Limited (LSE). The Equity shares of the company has been delisted from DSE w.e.f. 23/01/2004 vide their letter no. DSE/LIST/NR/239 dated 20/01/2004, LSE w.e.f. 24/08/2001 vide their letter no. LIS/6117 dated 08/10/200 and PSE w.e.f. 20/04/2001 vide their letter no. PSE/L-65/2001/83 dated 20/04/2001.

The existing Equity shares of the company are listed on The Bombay Stock Exchange Ltd. (BSE), The National Stock Exchange of India Ltd. (NSE). The Company has received in-principle approval from BSE vide its letter no. DCS/SMG/SDM/RK/NS/06 dated March 01, 2006 and NSE vide its letter no. NSE/LIST/20792-L dated March 07, 2006 for listing of the equity share being issued in terms of this Letter of Offer.



If the permissions to deal in and for an official quotation of the equity shares are not granted by the stock exchange, the Company shall forthwith repay, without interest, all monies received from the applicants. In case of delay interest shall be paid in accordance with the provisions of Section 73 of the Act.

DISCLAIMER CLAUSE OF THE BOMBAY STOCK EXCHANGE LIMITED (BSE), THE DESIGNATED STOCK EXCHANGE

Bombay Stock Exchange Limited (the Exchange) has given vide its letter dated March 01, 2006, permission to this Company to use the Exchange's name in this Letter of Offer as one of the Stock Exchanges on which this Company's securities are proposed to be listed. The Exchange has scrutinized this letter of offer for its limited internal purpose of deciding on the matter of granting the aforesaid permission to the Company. The Exchange does not in any manner:

- (i) Warrant, certify or endorse the correctness or completeness of any of the contents of this letter of offer; or
- (ii) Warrant that this Company's securities will be listed or will continue to be listed on the Exchange; or
- (iii) Take any responsibility for the financial or other soundness of this Company, its promoters, its management or any scheme or project of this Company;

And it should not for any reason be deemed or construed that this letter of offer has been cleared or approved by the Exchange. Every person who desires to apply for or otherwise acquires any securities of this Company may do so pursuant to independent inquiry, investigation and analysis and shall not have any claim against the Exchange whatsoever by reason of any loss which may be suffered by such person consequent to or in connection with such subscription/acquisition whether by reason of anything stated or omitted to be stated herein or other reason whatsoever.

DISCLAIMER CLAUSE OF THE NATIONAL STOCK EXCHANGE OF INDIA LIMITED (NSE)

As required, a copy of this letter of offer has been submitted to National Stock Exchange of India Limited (hereinafter referred to as NSE). NSE has given vide its letter no. NSE/LIST/20792-L dated March 07, 2006 permission to the Issuer to use the Exchange's name in this Letter of Offer as one of the stock exchanges on which this Issuer's securities are proposed to be listed. The Exchange has scrutinized this letter of offer for its limited internal purpose of deciding on the matter of granting the aforesaid permission to this Issuer. It is to be distinctly understood that the aforesaid permission given by NSE should not in any way be deemed or construed that the letter of offer has been cleared or approved by NSE; nor does it in any manner warrant, certify or endorse the correctness or completeness of any of the contents of this letter of offer; nor does it warrant that the Issuer's securities will be listed or will continue to be listed on the Exchange; nor does it take any responsibility for the financial or other soundness of this Issuer, its promoters, its management or any scheme or project of this Issuer.

Every person who desires to apply for or otherwise acquire any securities of this Issuer may do so pursuant to independent inquiry, investigation and analysis and shall not have any claim against the Exchange whatsoever by reason of any loss which may be suffered by such person consequent to or in connection with such subscription/acquisition whether by reason of anything stated or omitted to be stated herein or any other reason whatsoever.

FILING

A copy of this Letter of Offer has been filed with SEBI (New Delhi), No. 32, Rajendra Bhavan, Rajendra Place, New Delhi 110008 SEBI (Mumbai), Mittal Court, "B" Wing, Nariman Point, Mumbai – 400021, Bombay Stock Exchange Ltd., Phiroze Jeejeebhoy Towers, Dalal Street, Fort, Mumbai (BSE) and with the National Stock Exchange of India Ltd. (NSE), Exchange Plaza, Bandra Kurla Complex, Bandra (East), Mumbai - 400 051

The Company has received in-principle approval from BSE vide its letter No. DCS/SMG/SDM/RK/NS/06 dated March 01, 2006 and NSE vide its letter no. NSE/LIST/20792-L dated March 07, 2006 for listing of the equity share being issued in terms of this Letter of Offer.

IMPERSONATION

Attention of the applicants is specifically drawn to the provisions of Sub-Section (1) of Section 68A of the Companies Act, 1956 which is reproduced below:

“Any person who-

- (a) **makes in a fictitious name an application to a Company for acquiring, or subscribing for, any shares therein, or**
- (b) **otherwise induces a Company to allot or register any transfer of shares therein to him, or any other person in a fictitious name,**

shall be punishable with imprisonment for a term which may extend to five years.”

CONSENTS

Consents in writing of the Directors, Auditors, Lead Manager, Registrar to the Issue, Bankers/Term lenders to the Company, Bankers to the Issue, to the Company to act in their respective capacities have been obtained and filed with Stock Exchanges at the time of filing this Letter of Offer and such consents have not been withdrawn up to the time of delivery of the Letter of Offer for registration with the stock exchanges.

EXPERT OPINION

The company has not obtained any expert opinion.

EXPENSES OF THE ISSUE

Sr. no.	Particulars	Amount (Rs. in lacs)	Amount as a % of total issue expenses(%)	Amount as a % of total issue size
1	Fees to Intermediaries	15.00	31.25	2.08
2	Printing & Stationery and Postage expenses	12.00	25.00	1.66
3	Advertisement, travel and other Miscellaneous Expenses	21.00	43.75	2.91
	Total	48.00	100.00	6.65

UNDERWRITING COMMISSION, BROKERAGE AND SELLING COMMISSION

No Underwriting, Brokerage and selling Commission will be payable for this issue.

PREVIOUS ISSUE DETAILS

The company has not made any public/rights issue of its equity shares during the last five years.

ISSUES OTHERWISE THAN FOR CASH

The Company has issued 28,750 equity shares of Rs.10/- each to the shareholders of Universal Steel & Alloys Limited (USAL) in the ratio of (one) 1: 20 (twenty) (one equity share of BGL for every 20 equity shares of USAL), pursuant to pursuant to the Order of BIFR dated 06.10.1998 approving the scheme of merger/ rehabilitation scheme of USAL with BGL.

COMMISSION AND BROKERAGE ON PREVIOUS ISSUES

In respect of 9,10,000 Equity Shares of Rs.10/- each and 30,000 9.5% Redeemable Cumulative Preference shares of Rs.100/- each offered to public vide prospectus dated 29/11/1972, the Company has paid an underwriting commission at the rate of 2.5% of the nominal value of the shares and Brokerage at the rate of 1% on the nominal value of shares. Besides this the Company has not paid any commission or brokerage on previous issues.

PROMISE VIS-À-VIS PERFORMANCE

a) Composite Issue:

The Company made a Composite Issue of Equity Shares and 9.5% Redeemable Cumulative Preference shares in 29/11/1972. The Issue was made with the object of providing a part of the finance required for setting up of a Plant at Village Sheel and Kausa in Thane District, for manufacture of Automotive Gears of various types at an estimated cost of Rs. 4.60 Crores and production was scheduled to commence by December, 1973. The Project was commissioned during May, 1974, hence there was a delay of 5 months.

There were no promises made in the Offer Document for the Issue and hence a comparison of the Company's actual performance vis-à-vis the projections made in the Offer Document/Prospectus is not possible.

Management Perception:

There was a delay in installation and commissioning of the Plant & Machinery. There was no significant variation in actual vis-à-vis estimated cost of the project.

b) Rights Issue

The Company made a Rights Issue of 13.5% Secured Redeemable Convertible Debentures in 15.11.1986. The Issue was made with the object to finance a part of the capital expenditure on projects for setting up a plant for the manufacture



of Gear Box in technical collaboration with Zahnradfabrik Friedrichshafen AG (ZF), West Germany and for substantial expansion of its existing capacity of Automobile Gears from 2,000 tons per annum to 4,000 tons per annum.

The rights issue was made in terms of the consent of the Central Government vide Order No. R. 448/CCI/86-3773 dated 13.06.1986 as amended by Letter No. R. 488/-5/CCI/86-4236 dated 9.07.1986, Letter No. R. 448/CCI/86-3847 and Letter No. R. 448/CCI/86-4303 dated 4.9.1986.

There were no promises made in the Offer Document for the Issue and hence a comparison of the Company's actual performance vis-à-vis the projections made in the Offer Document is not possible.

FOR PROMOTER GROUP COMPANIES:

M/s. Raunaq International Limited (RIL)

The Company had made an Issue of 1,20,000 Equity Shares of Rs. 10/- each at par aggregating to Rs. 12,00,000/- in September, 1976. The Issue was made with the object of providing a part of additional working capital requirements. The promised future performance of the Company was not presented in the Offer Document/Prospectus and hence a comparison of the Company's actual performance vis-à-vis the projections made in the Offer Document/Prospectus is not possible.

Outstanding Debentures or Bonds

As on the date of filing of this Letter of Offer, the Company does not have any outstanding Debenture or Bond Issue.

Outstanding Preference Shares

As on the date of filing of this Letter of Offer, the Company has 3,58,500 outstanding preference shares.

STOCK MARKET DATA FOR SHARES OF THE COMPANY

The equity shares of the company are listed on The Bombay Stock Exchange Ltd. (BSE) and The National Stock Exchange of India Ltd.(NSE).

The stock market data for the equity shares on the BSE are as follows:

Particulars	High			Low			Average Price (Rs.)	Total Volume
	High (Rs)	Date	Volume on date of high (no of shares)	Low (Rs)	Date	Volume on date of Low (no of shares)		
2003	37.68	29/12/2003	41,152	6.25	30/04/2003	551	13.55	28,00,652
2004	67.85	13/12/2004	40,539	17.50	19/05/2004	7,800	34.40	49,50,405
2005	111.85	13/09/2005	1,17,730	52.35	24/01/2005	2,398	77.24	43,88,154
Nov 2005	93.10	17/11/2005	1,49,004	77.40	01/11/2005	1,125	83.36	2,77,508
Dec 2005	84.35	12/12/2005	10,050	77.05	26/12/2005	5,441	80.74	1,14,172
Jan 2006	102.75	27/01/2006	1,00,243	80.10	09/01/2006	5,210	87.40	5,85,998
Feb 2006	94.55	13/02/2006	14,400	81.85	27/02/2006	1,844	87.88	1,44,707
Mar 2006	103.70	30/03/2006	2,13,655	69.95	24/03/2006	7,063	79.52	6,25,995
Apr 2006	99.45	10/04/2006	61,144	88.95	25/04/2006	4,856	93.98	4,76,967

Week end price of equity Shares of BGL on the BSE.

Week ended	Price (Rs)
19/05/2006	76.75
12/05/2006	94.20
05/05/2006	87.70
28/04/2006	89.85

The stock market data for the equity shares on the NSE are as follows:

Particulars	High			Low			Average Price (Rs.)	Total Volume
	High (Rs)	Date	Volume on date of high (no of shares)	Low (Rs)	Date	Volume on date of Low (no of shares)		
2003	35.30	30/12/2003	24,387	6.80	23/04/2003	174	12.32	32,63,785
2004	67.70	14/12/2004	56,132	16.85	19/05/2004	18,358	30.73	1,24,24,15
2005	112.05	13/09/2005	1,21,594	52.05	24/01/2005	6,753	77.35	63,94,204
Nov 2005	93.20	17/11/2005	2,58,322	77.30	01/11/2005	4,065	83.22	5,71,358
Dec 2005	84.10	12/12/2005	26,376	77.00	26/12/2005	8,758	80.90	1,92,756
Jan 2006	102.25	27/01/2006	1,30,743	80.05	06/01/2006	6,820	87.31	8,06,559
Feb 2006	94.05	13/02/2006	23,442	81.50	27/02/2006	6,439	87.97	1,95,990
Mar 2006	103.00	30/03/2006	4,24,103	69.65	24/03/2006	13,038	79.52	11,63,350
Apr 2006	99.95	12/04/2006	1,06,919	89.25	25/04/2006	11,793	94.29	6,08,393

Week end price of equity Shares of BGL on the NSE

Week ended	Price (Rs)
19/05/2006	78.45
12/05/2006	93.25
05/05/2006	88.30
28/04/2006	90.40

The market price of the equity shares of the Company as on 27/10/2005, the date on which the resolution of the Board of Directors approving the issue was passed is Rs. 82.10 (BSE) and Rs. 82.65 (NSE).

The market price of the equity shares of the company as on 14/12/2005 the date of EOGM was Rs. 81.80 and Rs. 81.85 (NSE)

The market price of the equity shares of the company as on 25/01/2006 the date on which the committee of Board of Directors approved the draft Letter of Offer was Rs.100.65 (BSE) and Rs.100.25(NSE).

The market price of the equity shares of the company as on 23/05/2006 the date on which the committee of Board of Directors approved the final Letter of Offer was Rs.73.35 (BSE) and Rs.73.55(NSE).

- The equity shares of the company were in no delivery period from to 15/05/2006 to 19/05/2006
- The cum-rights closing price of the shares of the company as on 12/05/2006 was Rs. 94.20 on BSE and Rs.93.25 on NSE
- The ex-rights closing price of the shares of the company as on 15/05/2006 was Rs. 89.80 on BSE and Rs. 89.05 on NSE

INVESTOR GRIEVANCE REDRESSAL SYSTEM

The investor grievances against the Company will be handled by the Registrars and Transfer Agent in consultation with the secretarial department of the Company. To handle the grievances received, the Company has appointed Mr. Ashish Pandey, as the Compliance Officer. He will supervise redressal of complaints received from the investors at the office of the Company as well as the Registrars to the Rights Issue and ensure timely settlement.

All grievances related to the offer may be addressed to the Registrar to the Rights Issue quoting the application No. (Including prefix), Number of equity shares applied for, amount paid on application, date, Bank and branch/ Collection center where application was submitted.



The normal time taken by BGL for redressal of investor grievance is given below:-

S.No	Type of Request	Normal Time Taken (No of Days)
1	Issue of Duplicate Share Certificate	30
2	Transfer of shares	15
3	Transmission of shares	15
4	Demat/remat of shares	15
5	Non receipt of dividend	7
6	Non receipt of Annual Report	2
7	Change of residential address/ Bank mandate	2
8	Consolidation/split of share certificates	7

The normal time taken by RIL for redressal of investor grievance is given below:-

S.No	Type of Request	Normal Time Taken (No of Days)
1	Issue of Duplicate Share Certificate	30
2	Transfer of shares	15
3	Transmission of shares	15
4	Demat/remat of shares	15
5	Non receipt of dividend	7
6	Non receipt of Annual Report	5
7	Change of residential address/ Bank mandate	5
8	Consolidation/split of share certificates	7

CHANGE IN AUDITORS

There has been no change in the Auditors of the company during the past three years.

CAPITALISATION OF RESERVES OR PROFITS

The company has not capitalized its reserves or profit during the last five years.

REVALUATION OF ASSETS

The company has not revalued its asset during the last five years.

SECTION VII : OFFERING INFORMATION

The Equity Shares now being offered are subject to the provisions of the Act and the terms and conditions of this Letter of Offer, the CAF, the Memorandum and Articles of Association of the Company, the approvals from the Government of India, FIPB RBI, SEBI, BSE, NSE, if applicable, the provisions of the Act, guidelines issued by SEBI, guidelines, notifications and regulations for issue of capital and for listing of securities issued by Government of India and/or other statutory authorities and bodies from time to time, Listing Agreements entered into by the Company with Stock Exchanges, terms and conditions as stipulated in the allotment advise or letter of allotment or Security Certificate and rules as may be applicable and introduced from time to time, the FEMA and the Letters of Allotment/Equity Shares to be issued. Over and above such terms and conditions, the Equity Shares shall also be subject to applicable laws, guidelines, notifications and regulations relating to issue of capital and listing of securities issued from time to time by SEBI, the Government of India, RBI and/ or other authorities.

RANKING OF EQUITY SHARES

The equity shares being offered through this Letter of Offer shall be subject to the Memorandum and Articles of Association of the Company and shall rank pari-passu with the existing paid-up equity shares of the Company in all respect including payment of dividend, if any.

PAYMENT OF DIVIDEND

The dividend is paid to all the eligible shareholders in terms of the provisions of the Companies Act, 1956 with regard to payment of dividend. The unclaimed dividend, if any are transferred to Investor Protection Fund as prescribed under the Companies Act.

FACE VALUE

The Face Value of equity shares of the company is Rs.10/-.

ISSUE PRICE

The equity shares of the Rs. 10/- each are being issued at a price of Rs. 40/- per share in the present rights issue.

RIGHTS OF EQUITY SHAREHOLDERS

The Shareholders are entitled to receive dividend, as and when declared and bonus and rights shares, as and when issued. Further, the rights of the above and other holders of shares are subject to the provisions of the Companies Act, 1956 the Memorandum and the Articles of Association of the Company, the terms of this Letter of Offer and other laws as applicable from time to time.

MARKET LOT

The market lot for the Equity Shares held in the De-mat mode is one share. In case of physical certificate, the Company would issue one certificate for the equity shares allotted to one person ("Consolidated Certificate"). In respect of consolidated certificate, the Company will, only upon request from the equity shareholder, split & return such consolidated certificate into smaller denominations within 7 days time in conformity with the clause 3 of the Listing Agreement. No fee would be charged by the Company for splitting the consolidated certificate.

NOMINATION

In terms of Section 109A of the Act, nomination facility is available in case of Equity Shares. The applicant can nominate any person by filling the relevant details in the CAF in the space provided for this purpose.

The sole Equity Shareholder or first Equity Shareholder, along with other joint Equity Shareholders (being individual(s) may nominate any person(s) who, in the event of the death of the sole holder or all the joint-holders, as the case may be, shall become entitled to the Equity Shares. Person(s), being a nominee, becoming entitled to the Equity Shares by reason of the death of the original Equity Shareholder(s), shall be entitled to the same rights to which he would be entitled if he/she were the registered holder of the Equity Shares. Where the nominee is a minor, the Equity Shareholder(s) may also make a nomination to appoint, in the prescribed manner, any person to become entitled to the Equity Share(s), in the event of death of the said holder, during the minority of the nominee. A nomination shall stand rescinded upon the sale/disposal of the Equity Share by the person nominating. A buyer will be entitled to make a fresh nomination in the manner prescribed. When two or more persons hold the Equity Share(s), the nominee shall become entitled to receive the shares only on the demise of all the holders.

Fresh nominations can be made only in the prescribed form available on request at the Registered Office of the Company located at BGL 20 K.M. Mathura Road, P.O. Amar Nagar, Faridabad – 121 003, Haryana or such other place at such addresses as may be notified by the Company. The applicant can make the nomination by filling in the relevant portion in the CAF. Only one nomination would be applicable for one folio. Hence, in case the shareholder(s) has (have) already registered the nomination with the Company, no further nomination need to be made for Equity Shares to be allotted in this Issue under the same folio.



In case the allotment of Equity Shares is in dematerialised form, there is no need to make a separate nomination for the Equity Shares to be allotted in this Issue. Nominations registered with respective Depository Participant of the applicant would prevail. If the applicant requires to change the nomination, they are requested to inform their respective Depository Participant.

MINIMUM SUBSCRIPTION

If the Company does not receive the minimum subscription of 90% of the issue, the entire subscription shall be refunded to the applicants within forty two days from the date of closure of the Issue. If there is a delay in the refund of subscription by more than 8 days after the Company becomes liable to pay the subscription amount (i.e. forty two days after closure of the issue), the Company shall pay interest for the delayed period at rates prescribed under sub-sections (2) and (2A) of Section 73 of the Companies Act, 1956.

DISPOSAL OF ODD LOTS

The Company has not made any arrangements for the disposal of odd lot Equity Shares arising out of this Issue. The Company will issue certificates of denomination equal to the number of Equity Shares being allotted to the Equity Shareholder.

FRACTIONAL ENTITLEMENT

On applying the rights may lead to fractional entitlement to some of the shareholders. In such an event the fractional entitlement will be rounded off to the next higher integer. The additional entitlement shall be made available out of the entitlement of one of the promoters. The adjustment will be made in the composite application form so as to ensure that allotment is made within the issue size.

ENTITLEMENT RATIO

The Equity Shares are being offered on rights basis to the existing Equity Shareholders of the Company in the ratio of 3: 10 i. e. Three Equity Shares for every Ten Equity Shares held as on the Record Date.

BASIS OF THE OFFER

The Equity Shares are being offered for subscription for cash to those existing Equity Shareholders whose names appear as beneficial owners as per the list to be furnished by the depositories in respect of the Equity Shares held in the electronic form and on the Register of Members of the Company in respect of Equity Shares held in the physical form at the close of business hours on the Record Date. The Company has in consultation with the Designated Stock Exchange fixed the Record Date for determining the shareholders who are entitled to receive this offer for Equity shares on a rights basis. The Equity Shares are being offered for subscription in the ratio of (Three) Equity Shares for every (Ten) Equity Shares held by the Equity Shareholders. The shareholders whose names appear as beneficial owners as per the list furnished by the depositories in respect of the Equity Shares held in electronic form and on the register of members of the Company in respect of the shares held in physical form on (Record Date) at the close of business hours shall be entitled to the equity shares on the Rights basis in the ratio of three equity shares for every ten equity shares held by them.

OPTION TO SUBSCRIBE

Applicants to the Equity Shares of the Company issued through this Rights Issue shall be allotted the securities in dematerialized (electronic) form at the option of the applicant. The Company has signed a tripartite agreement with National Securities Depository Limited (NSDL) and Intime Spectrum Registry Ltd. on 22/11/2000 and with Central Depository Services (India) Limited (CDSL) and Intime Spectrum Registry Ltd. on 28/11/2000, which enables the Investors to hold and trade in securities in a dematerialised form, instead of holding the securities in the form of physical certificates.

RIGHTS ENTITLEMENT

As your name appears as beneficial owner in respect of the shares held in the electronic form or appears in the register of members as an equity shareholder of the Company on the Record Date, you are entitled to this Rights Offer. The number of Equity Shares to which you are entitled is shown in Block I of Part A of the enclosed CAF and as shown in part A of the enclosed CAF.

JOINT-HOLDERS

Where two or more persons are registered as the holders of any Equity Shares, they shall be deemed (so far as the company is concerned) to hold the same as joint-tenants with benefits of survivorship subject to provisions contained in the Articles.

OFFER TO NON-RESIDENT EQUITY SHAREHOLDERS/ APPLICANTS

Applications received from NRIs and other NR shareholders for allotment of Equity Shares shall be, inter alia, subject to the conditions imposed from time to time by the RBI under the FEMA in the matter of refund of application moneys, allotment of Equity Shares, issue of Letter of Allotment / share certificates, payment of interest, dividends, etc. General permission has been granted to any person resident outside India to apply shares offered on rights basis by an Indian Company in terms of FEMA and the rules and regulations there-under. Vide notification dated June 18, 2003, bearing number FEMA 94/2003, RBI has granted general permission to Indian companies to issue rights/bonus shares to existing non-resident shareholders. The

existing non-resident shareholders may apply for issue of additional shares and the Company may allot the same subject to the condition that the overall issue of shares to non-residents in the total paid up capital does not exceed the sectoral cap. In other words, non-residents may subscribe for additional shares over and above shares offered on rights basis by the company and renounce the shares offered in full or part thereof in favour of a person named by them. Non Residents may subscribe for additional shares over and above the shares offered on rights basis by the Company and also renounce the shares offered either in full or part thereof in favour of a person named by them. The Equity Shares issued under the Rights Issue and purchased by NR shall be subject to the same conditions including restrictions in regard to the repatriability as are applicable to the previously held Equity Shares against which Equity Shares under the Rights Issue are issued.

As clarified in terms of AP DIR(SERIES) Circular No 14 dated 16th September 2003, entitlement of rights shares is not automatically available to investors who have been allotted such shares as OCBs. Such issuing companies would have to seek specific permission from RBI, Foreign Exchange Department, Foreign Investment Division, Central Office, Mumbai for issue of shares on right basis to erstwhile OCBs.

NOTICES

All notices to the Equity Shareholder(s) required to be given by the Company shall be published in one English national daily with wide circulation, one Hindi national daily with wide circulation and/or, will be sent by ordinary post to the registered holders of the Equity Share(s) from time to time.

ISSUE OF DUPLICATE EQUITY SHARE CERTIFICATE

If any Equity Share Certificate(s) is/are mutilated or defaced or the pages for recording transfers of Equity Shares are fully utilized, the Company against the surrender of such Certificate(s) may replace the same, provided that the same will be replaced as aforesaid only if the Certificate numbers and the Distinctive numbers are legible.

If any Equity Share Certificate(s) is/are destroyed, stolen, lost or misplaced, then upon production of proof thereof to the satisfaction of the Company and upon furnishing such indemnity/ surety and/or such other documents as the Company may deem adequate, duplicate Equity Share Certificate(s) shall be issued.

PRINTING OF BANK PARTICULARS ON REFUND ORDERS

As a matter of precaution against possible fraudulent encashment of refund orders due to loss or misplacement, the particulars of the applicant's bank account are mandatorily required to be given for printing on refund orders. Bank account particulars will be printed on the refund orders / refund warrants, which can then be deposited only in the account specified. The Company will in no way be responsible if any loss occurs through these instruments falling into improper hands either through forgery or fraud.

TO THE EQUITY SHAREHOLDERS

The Equity Shareholders will be having the following five options:

- Apply for his entitlement in part
- Apply for his entitlement in part and split and renounce the other part
- Renounce his entire entitlement
- Apply for his entitlement in full
- Apply for his entitlement in full and apply for additional Equity Shares

HOW TO APPLY**For Resident Indian Shareholders on Non-Repatriation basis**

Application should be made only on the enclosed CAF provided by the Company. The enclosed CAF should be completed in all respects, as explained in the instructions indicated in the CAF. Applications will not be accepted by the Lead Managers or by the Registrar to the Issue or by the Company at any offices except in the case of postal applications as per instructions given in the Letter of Offer. Payment should be made in cash (not more than Rs.20,000) or by cheque/bank draft drawn on any bank (including a co-operative bank) which is situated at and is a member or a sub-member of the bankers clearing house located at the centre where the CAF is submitted and which is participating in the clearing at the time of submission of the application. Outstation cheques/money orders/postal orders will not be accepted and CAFs accompanied by such cheques/money orders/postal orders are liable to be rejected.

Also mention regarding drawing of Cheques and to which account it shall be payable etc. as mentioned below

For Non-Resident Shareholders on Non-Repatriation basis

Applications received from the Non-Resident Equity Shareholders for the allotment of Equity Shares shall, inter alia, be subject to the conditions as may be imposed from time to time by the Reserve Bank of India, in the matter of Refund of application moneys, allotment of Equity Shares, issue of Letters of Allotment/ certificates/ payment of dividends etc. For NRIs



holding shares on non-repatriation basis, payment may also be made by way of cheque drawn on Non-Resident Ordinary (NRO) Account maintained in Mumbai or Rupee Draft purchased out of NRO Account maintained elsewhere in India but payable at Mumbai. In such cases, the allotment of shares will be on non-repatriation basis. If the payment is made by a draft purchased from an NRO account, an Account Debit Certificate from the bank issuing the draft, confirming that the draft has been issued by debiting the NRO account, should be enclosed with the CAF. In the absence of the above, the application shall be considered incomplete and is liable to be rejected. All cheques/bank drafts accompanying the CAFs should be crossed. A/c Payee Only. and made payable to “**BGL - Rights Issue - NR**” The CAF duly completed together with the amount payable on application must be deposited with the collecting bank/collection centres indicated on the reverse of the CAF, on or before the close of banking hours on or before the Issue closing date. A separate cheque or bank draft must accompany each CAF. Reference number of CAF should be mentioned on the reverse of the Cheque/Draft. New Demat account shall be opened for holders who have had a change of status from Resident Indian to NRI.

The CAF consists of four parts:

Part A : Form for accepting the Equity Shares offered and for applying for additional Equity Shares

Part B : Form for renunciation

Part C : Form for application for renounees

Part D : Form for request for split application forms

Acceptance of Offer

You may accept the Offer and apply for the Equity Shares offered, either in full or in part by filling Block III of Part A of the enclosed CAF and submit the same along with the application money payable to the bankers to the Issue or any of the branches as mentioned on the reverse of the CAF before the close of the banking hours on or before the Issue Closing Date or such extended time as may be specified by the Board thereof in this regard. Applicants at centers not covered by the branches of collecting banks can send their CAF together with the demand draft, net of demand draft and postal charges, payable at Mumbai to the Registrar to the Issue by registered post. Such applications sent to anyone other than the Registrar to the Issue are liable to be rejected.

You may apply for the equity shares offered wholly or in part by filling in the enclosed CAF and submitting the same along with the application money to the Bankers to the Issue or its designated branches on or before the closure of the subscription list. The CAF should be complete in all respects, as explained in the INSTRUCTIONS indicated in the CAF. The CAF should not be detached under any circumstances; otherwise the application(s) will be rejected forthwith.

Application for additional equity shares

You are also eligible to apply for additional equity shares over and above the number of equity shares offered to you provided you have applied for all the shares offered to you without renouncing them in full or in part. However, the additional equity shares cannot be renounced in full or in part, in favour of any other person(s).

If you desire to apply for additional equity shares, you may fill in the number of additional equity shares in Part A of the CAF. The allotment of additional equity shares will be at the sole discretion of the Board on an equitable basis with reference to the number of Equity Shares held by you on the Record Date in consultation with The Designated Stock Exchange. In the case of requests for additional equity shares by Non Residents, the allotment will be subject to the approval of Reserve Bank of India. The Board may reject any application for additional equity shares without assigning any reasons thereof. Renounees can apply for additional shares.

Renunciation

You may renounce all or any of the equity shares, you are entitled to in favour of any individual, limited companies, or statutory corporations / institutions. However renunciation in favour of more than three persons as joint holders, trust or society (unless the same is registered under the Societies Registration Act, 1860 or any other applicable trust laws and is authorised under its constitution to hold shares in a company), minors (unless acting through natural or legal guardians), Partnership Firms, or their nominees, or any of them will not be accepted.

Any renunciation from Resident(s) to Non- Resident(s) is subject to the renouncer(s)/ renounee(s) obtaining requisite approval(s) of the Reserve Bank of India (RBI) and the said permission must be attached to the CAF.

Procedure for renunciation

(i) To Renounce in WHOLE

If you wish to renounce this offer in whole, please complete PART ‘B’ of the CAF enclosed with the Letter of Offer for the number of equity shares renounced and deliver the CAF duly signed to the person(s) in whose favour the equity shares are so renounced. All joint holders must sign as per specimen signatures recorded with the Company at the place provided for the purpose and in the same order.

The person(s), in whose favour the offer has been renounced (renounees) should complete and sign PART C of the CAF. In case of joint renounees, all joint renounees must sign.

(ii) To Renounce in PART

If you wish to either accept this offer in part and renounce the balance of this offer the CAF must first be split into the requisite number of forms, by applying to the Registrar to the Issue. Please indicate your requirement of split forms in the space provided for this purpose in PART D of the CAF and return the entire CAF to the Registrar to the Issue so as to reach them latest by the close of business hours on or before the last date for receiving requests for split forms i.e.28/06/2006.

If you wish to apply for equity shares jointly with any person(s) who is/are not already joint holder(s) with you, then it would amount to renunciation and the procedure of renunciation as mentioned above shall have to be followed. Even a change in the sequence of the name of joint holders shall amount to renunciation and the procedure as stated above shall have to be followed.

Further, this right of renunciation is subject to the express condition that the Board shall be entitled in its absolute and unqualified discretion to reject any such request for allotment of equity shares from renounee(s) without assigning any reason thereof save where the equity shares have been renounced in favour of a person who is already a member of the Company.

Please note that:

- a) Part A of the CAF must not be used by any person(s) other than those in whose favour this offer has been made. If used, this will render the application invalid.
- b) Only the person to whom this Letter of Offer has been addressed and NOT the renounees shall be entitled to split forms. Forms once split cannot be resplit.

Request for split forms:

- Request for Split Forms should be addressed to the Registrar to the Issue so as to reach them on or before the last date for receiving of request for split forms by filling in PART D of the CAF.
- Requests for Split Forms will be entertained only once.

You may exercise any one of the following options with regard to the equity shares offered to you, using the enclosed CAF:

Sr. No	Options available	Action Required
1.	Accept whole or part of the equity shares offered to you without renouncing the balance	Fill in and sign Part A indicating in Block III of Part A the number of equity shares accepted. If you accept all the equity share offered in Block II of Part A you may apply for additional equity shares. Indicate in Block IV the additional equity shares applied for.
2.	Renounce all the equity shares offered to you to one person (joint renounees are deemed as one person) without your applying for any of the equity shares offered to you.	Fill in and sign Part B indicating the number of equity shares renounced in Block VII and handover the ENTIRE FORM to the renounee. The renounee/ joint renounee(s) must fill in and sign Part C of CAF.
3.	Accept a part of your entitlement and renounce the balance or part of it to one or more Renounee(s).	Fill in and sign Part D for the Split Form and send the ENTIRE CAF to the Registrar to the Issue.
	OR	On receipt of Split Forms :
4.	Renounce your entitlement or part of it to one or more persons (joint renounees are deemed as one person).	<ul style="list-style-type: none"> a For the equity shares you are accepting, fill in and sign Part A. b For the equity shares you are renouncing fill in and sign Part B indicating the number of equity shares renounced in Block VII. Each of the renounees should fill in and sign Part C.

Note: If application is made jointly with any other person(s) who is/are not already joint holders or change in the sequence of names of joint holders, it will amount to renunciation and the procedure mentioned in (2) above will have to be followed.



For applicants residing at places other than designated Bank Collecting branches.

Applicants residing at places other than the cities where the Bank collection centres have been opened should send their completed CAF by registered post/speed post to the Registrars to the Issue, Intime Spectrum Registry Ltd. alongwith demand drafts, net of demand draft and postal charges, payable at Mumbai in favour of “**BGL - Rights Issue**” crossed “A/c Payee only” so that the same are received on or before closure of the Issue i.e. 13/07/2006

The Company will not be liable for any postal delays and applications received through mail after the closure of the Issue are liable to be rejected and returned to the applicants. Applications by mail should not be sent in any other manner except as mentioned below.

All application forms duly completed together with cash/cheque/demand draft for the application money must be submitted before the close of the subscription list to the Bankers to the Issue named herein or to any of its branches mentioned on the reverse of the CAF. The CAF alongwith application money must not be sent to the Company or the Lead Manager to the Issue or the Registrar to the Issue except as mentioned above. The applications are required to strictly adhere to these instructions. Failure to do so could result in the application being liable to be rejected by the Company, the Lead Manager and the Registrar not having any liabilities to such applicants.

Availability of duplicate CAF

In case the original CAF is not received, or is misplaced by the applicant, the Registrar to the Issue will issue a duplicate CAF on the request of the applicant who should furnish the registered folio number/ DP and Client ID number and his/ her full name and address to the Registrar to the Issue. Please note that those who are making the application in the duplicate form should not utilize the original CAF for any purpose including renunciation, even if it is received/ found subsequently. If the applicant violates any of these requirements, he / she shall face the risk of rejection of both the applications as well as forfeiture of amounts remitted along with the applications.

Application on Plain Paper

An Equity Shareholder who has neither received the original CAF nor is in a position to obtain the duplicate CAF may make an application to subscribe to the Rights Issue on plain paper, along with a Demand Draft payable at Mumbai which should be drawn in favour of the Company and send the same by registered post directly to the Registrar to the Issue.

The application on plain paper, duly signed by the applicants including joint holders, in the same order as per specimen recorded with the Company, must reach the office of the Registrar to the Issue before the Issue Closing Date (13/07/2006) and should contain the following particulars:

- Name of Issuer, being The BGL.
- Name and address of the Equity Shareholder including joint holders
- Registered Folio Number/ DP and Client ID no.
- Number of shares held as on Record Date i.e (22/05/2006).
- Certificate numbers and distinctive numbers, if held in physical form
- Number of Rights Equity Shares entitled
- Number of Rights Equity Shares applied for out of entitlement
- Number of additional Equity Shares applied for, if any
- Total number of Equity Shares applied for
- Total amount paid at the rate of Rs. 40/- per Equity Share
- Particulars of cheque/draft
- Savings/Current Account Number and name and address of the Bank where the Equity Shareholder will be depositing the refund order
- Applications for a total value of Rs, 50,000 or more, i.e. where the total number of securities applied for multiplied by the Issue price, is Rs. 50,000 or more the applicant or in the case of application in joint names, each of the applicants, should mention his/her PAN number allotted under the Income-Tax Act, 1961 and also submit a photocopy of the PAN card(s) or a communication from the Income Tax authority indicating allotment of PAN (“PAN Communication”) along with the application for the purpose of verification of the number. Applicants who do not have PAN are required to provide a declaration in Form 60/ Form 61 prescribed under the I.T. Act along with the application. Applications without this photocopy/ PAN Communication/declaration will be considered incomplete and are liable to be rejected.

- In case of Non-Resident shareholders, NRE/FCNR/NRO Account No., name and address of the bank and branch.
- Signature of Equity Shareholders to appear in the same sequence and order as they appear in the records of the Company
- Payment in such cases, should be through a demand draft, net of demand draft and postal charges, payable at Mumbai be drawn in favour of “**BGL - Rights Issue**” crossed “A/c Payee only”. Please note that those who are making the application on plain paper shall not be entitled to renounce their rights and should not utilize the original CAF for any purpose including renunciation even if it is received subsequently. If the applicant violates any of these requirements, he/she shall face the risk of rejection of both the applications as well as forfeiture of amounts remitted along with the applications. The Company shall refund such application amount to the applicant without any interest thereon.

Quoting of PAN/GIR no. in the application forms

Where an application is for allotment of securities in response to a rights issue, for a total value of Rs. 50,000/- or more i.e. the total number of securities applied for multiplied by the issue price, is Rs. 50,000/- or more the applicant or in the case of applications in joint names, each of the applicants, should mention his/her permanent account number (PAN) allotted under the Income-Tax Act, 1961 or where the same has not been allotted, the GIR number and the Income-Tax Circle/Ward/District. In case neither the permanent account number nor the GIR number has been allotted, the fact of non-allotment should be mentioned in the application forms. Application forms without this information will be considered incomplete and are liable to be rejected.

Note on cash payment (section 269 SS)

Having regard to the provisions of Section 269SS of the Income Tax Act, 1961, subscriptions against applications for securities should not be effected in cash and must be effected only by ‘Account Payee’ cheques or ‘Account Payee’ bank drafts, if the amount payable is Rs. 20,000/- or more. In case payment is effected in contravention of this provision, the application is liable to be rejected.

Last date for submission of CAF

The last date for receipt of CAF by the Bankers to the Issue together with the amount payable on application is 13/07/2006. If the relevant CAF together with amount payable thereunder is not received by the Bankers/Registrar to the Issue on or before the close of banking hours on the aforesaid last date the offer contained in this Letter of Offer shall be deemed to have been declined and the Board shall be at liberty to dispose of the equity shares hereby offered as provided under “Basis of Allotment”.

Incomplete application

CAFs which are not complete or are not accompanied with the application money amount payable are liable to be rejected.

MODE OF PAYMENT**For Resident Applicants**

Payment(s) must be made by cheque/demand draft and drawn on any bank (including a co-operative bank) which is situated at and is a member or a sub-member of the Bankers’ Clearing House located at the centre where the CAF is submitted. A separate cheque/draft must accompany each CAF. Only one mode of payment should be used. Money orders, postal orders and outstation cheques will not be accepted and applications accompanied by any such instruments will be rejected.

Shareholders/Applicants residing at places other than those mentioned in the CAF and applicants who wish to send their applications but not having collection centres should send their application by Registered Post, ONLY to the Registrar to the Issue enclosing a demand draft drawn on a clearing Bank and payable at Mumbai ONLY net of bank charges and postal charges, before the closure of the issue.

Such cheque/drafts should be payable to “(Name of The Bank) - A/c BGL - RIGHTS ISSUE”. All cheques/ drafts must be crossed ‘A/c Payee only’. No receipt will be issued for the application money received. However, the Collection Centre receiving the application will acknowledge receipt of the application by stamping and returning the acknowledgement slip at the bottom of each CAF. The Company is not responsible for any postal delay/ loss in transit on this account.

For Non-Resident Applicants/ FIIs

Payments by Non-Resident Shareholders will be accepted by Indian Rupee Drafts purchased abroad or cheques/drafts drawn on Non-Resident External Account (NRE Account) or Foreign Currency Non-Resident Account (FCNR Account) maintained anywhere in India but payable at Mumbai or by Telegraphic Transfer in favour of the collecting Bankers by the concerned shareholders.



However, in case shares are held on a non-repatriable basis, payment may also be made by cheque /draft drawn on Non-Resident Ordinary Account (NRO A/c.) maintained anywhere in India but payable at Mumbai. Such cheques/drafts should be drawn in favour of “**BGL - RIGHTS ISSUE – NRI/FII**” payable at Mumbai, India and shall be crossed A/c. Payee Only, Banker's Certificate regarding source of payment must be submitted with the CAFs wherever necessary.

The CAF alongwith cheques/drafts should be deposited with any of the branches of the Bankers to the Issue nominated for this purpose. The certificate of inward remittance, if any, must be sent only to the Registrar to the Issue, Intime Spectrum Registry Ltd, quoting the details of folio no. and the name and address of the branch of the Bankers to the Issue where CAF has been deposited before the closure of the issue.

Applications will not be accepted by the Lead Manager or by the Company

RIGHTS ENTITLEMENT

As your name appears in the Register of Members of the Company on the Record Date, you are entitled to this Rights Offer on the basis mentioned above. The number of equity shares to which you are entitled as a Shareholder of the Company is shown in Part A of the CAF.

TERMS OF PAYMENT

The entire amount of Rs. 40/- per share is payable on application by all shareholders/applicants. Payment should be made in cash/ or by cheque/ demand draft drawn on any bank (including a co-operative bank) which is situated at and is a member or sub-member of the banker's clearing house located at the centre where application is accepted. A separate cheque/draft must accompany each application form. Outstation cheques/ drafts will not be accepted and application (s) accompanied by such cheques/drafts will be rejected.

FORFEITURE

The allotment shall be made only on receipt of full application money as mentioned in “Terms of Payment”. As such there will be no partly paid-up shares emerging from this issue & hence no requirement of any forfeiture.

APPLICATION UNDER POWER OF ATTORNEY

In case of applications under Power of Attorney or by Limited Companies or Bodies Corporates or Societies registered under the applicable laws, a certified copy of the Power of Attorney or the relevant authority, as the case may be, along with the certified copy of the Memorandum and Articles of Association or Bye-laws, as the case may be, must be lodged separately by registered post at the office of the Registrar to the Issue simultaneously with the submission of the CAF, indicating the serial number of the CAF and the name of the bank and the branch office where the application is submitted within 10 days of closure of the offer, failing which the application is liable to be rejected. In case the Power of Attorney is already registered with the Company, then the same need not be furnished again. However, the serial number of the Registration under which the Power of Attorney has been registered with the Company must be mentioned below the signature of the Applicant.

BANK DETAILS OF THE APPLICANT

The applicant must fill in the relevant column in the CAF giving particulars of Savings Bank/Current Account Number. The applicant should note that on the basis of name of the applicant, Depository Participant's name, Depository Participant identification number and beneficiary account number provided by them in the Composite Application Form, the Registrar to the Issue will obtain from the Depository the applicant's bank account details. These bank account details would be printed on the refund order, if any, to be sent to applicant. Hence, applicants are advised to immediately update their bank account details as appearing on the records of the Depository Participant. Please note that failure to do so could result in delays in credit of refunds to applicant at the Applicant's sole risk. The provision of Bank Account details has now been made mandatory and applications not containing such details are liable to be rejected.

APPLICATION NUMBER ON THE CHEQUE/DEMAND DRAFT

To avoid any misuse of instruments, the applicants are advised to write the application number and name of the first applicant on the reverse of the cheque / demand draft.

GENERAL

- (a) All applications should be made on the printed CAF provided by the Company and should be complete in all respects. Applications which are not complete in all respects or are made otherwise than as herein provided or not accompanied by proper application money in respect thereof will be refunded without interest.
- (b) Please read the instructions in the enclosed CAF carefully.
- (c) ALL COMMUNICATIONS IN CONNECTION WITH YOUR APPLICATION FOR THE EQUITY SHARES INCLUDING ANY CHANGE IN YOUR REGISTERED ADDRESS SHOULD BE ADDRESSED TO THE REGISTRAR TO THE ISSUE.

- (d) Application Forms must be filled in ENGLISH in BLOCK LETTERS.
- (e) Signatures should be either in English or Hindi or the languages specified in the Eighth Schedule to the constitution of India. Signatures other than in the aforementioned languages or thumb impressions must be attested by a Notary Public or a Special Executive Magistrate under his/her official seal.
- (f) In case of Joint Holders, all joint holders must sign the relevant parts of the Application Form in the same order and as per the specimen signatures recorded with the Company.
- (g) In case of joint applicants, refunds and all payments will be made to the person whose name appears first on the application form and all communications will be addressed to him/her. To prevent any fraudulent encashment of refund orders by third parties, the Sole/First Applicant must indicate Saving / Current Account number and the name of the bank and its branch with whom such account is held in the space provided in the CAF for the purpose so that Refund Orders are printed with these details after the name. Applications without this information are liable to be rejected.
- (h) The Application Form should be presented to the Bank in its entirety. If any of the Part(s) A,B,C and D of the Application Form(s) is /are detached or separated, such application will forthwith be rejected.
- (i) All shareholders must submit the CAF along with remittance only to the Bankers to the Issue mentioned elsewhere in this Letter of Offer and not to the Company, the Registrar or the Lead Manager.
- (j) Any dispute or suit action or proceedings arising out of or in relation to this Letter of Offer or in respect of any matter or thing herein contained and claimed by either party against the other shall be instituted or adjudicated upon or decided solely by the appropriate Court where Registered Office of the Company is situated.
- (k) The last date for receipt of CAF alongwith the amount payable is 13/07/2006. However, the Board will have the right to extend the same for such period as it may determine from time to time, but not exceeding 60 days from the date of opening of the subscription list. If the CAF together with the amount payable thereunder is not received by the bankers to the issue on or before the closure of the banking hours on the aforesaid date, or such date as may be extended by the Board, the offer contained in this Letter of Offer shall be deemed to have been declined and the Board shall be at liberty to dispose the Rights hereby offered.

For further instructions please read CAF carefully.

DEMATERIALISATION

As per the provisions of the Depositories Act, 1996, the shares of a body corporate may be held in dematerialized form i.e. not in the form of physical certificates but be fungible and be represented by the statement issued through electronic mode. The equity shares of BGL are traded in the demat segment The Company has entered into a tripartite agreement dated 22/11/2000 with the National Securities Depository Ltd. (NSDL) and Intime Spectrum Registry Ltd for dematerialisation of the equity shares of the Company. The Company has also entered into a tripartite agreement dated 28/11/2000 with the Central Depository Services Limited (CDSL) and Intime Spectrum Registry Ltd for dematerialisation of the equity shares of the Company. The ISIN No. granted to the equity shares of the Company is INE561C01019.

An applicant has the option to seek allotment in physical or demat mode. An applicant who seeks allotment in demat mode must have atleast one Beneficiary Account with any of the Depository Participants (DP) of NSDL or CDSL registered with SEBI, prior to the application. Such applicants must necessarily fill in the details (including the Beneficiary Account Number and Depository Participant's ID Number) appearing under the head "Request for shares in electronic form" in the CAF.

Applicant must indicate in the CAF, the number of shares they wish to receive in electronic form out of the total number of equity shares applied for. In case of partial allotment, shares will first be allotted in electronic form and the balance, if any, will be allotted in physical form.

Names in the CAF should be identical to those appearing in the account details in the Depository. In case of joint holders, the name should necessarily be in the same sequence as they appear in the account details in the Depository.

No separate application for demat and physical shares is to be made. If such applications are made the application for physical shares will be treated as multiple applications and rejected accordingly. It may be noted that electronic shares can be traded only on the stock exchanges having electronic connectivity with NSDL and CDSL.

Non-transferable allotment letters/ refund orders will be directly sent to the applicant by the Registrar to the Issue

The applicant is responsible for the correctness of the applicants demographic details given in the share application form vis-à-vis those with his/her DP. Equity shares allotted in demat mode will be credited directly to the respective Beneficiary Account.



DISPOSAL OF APPLICATION AND APPLICATION MONEY

No receipt will be issued for application money received. However, the Bankers to the Issue receiving the CAF(s) will acknowledge its receipt by stamping and returning the acknowledgement slip at the bottom of each CAF. In the event of shares not being allotted in full, the excess amount paid on application will be refunded to the applicant within six weeks of the date of closure of the issue. The Board reserves its full, unqualified and absolute right to accept or reject any application in whole or in part and in either case without assigning any reason. In case an application is rejected in full, the whole of the application money received will be refunded and where an application is accepted in part the excess money will be refunded after adjusting the money payable for the shares allotted. All refunds will be made within six weeks of the date of closing of the Subscription List.

BASIS OF ALLOTMENT

In the event of the issue being oversubscribed, the basis of allotment will be made only within the overall size of the Rights Issue, as stated in the Letter of Offer and the Board will proceed to allot the equity shares in consultation with the designated stock exchange in the following order of priority:

1. Full allotment to the Shareholders who have applied for their Rights entitlement, either in full or in part and also the renounee(s) who have applied for equity shares renounced in their favour either in full or in part (subject to the other provisions contained under the paragraph titled "Renunciation").
2. Allotment to the shareholders who having applied for all the shares offered to them as rights have also applied for additional shares. The allotment of such additional shares will be made as far as possible on an equitable basis with reference to the number of equity shares held as on the Record Date in consultation with the Designated Stock Exchange.
3. Allotment to the renounees who having applied for all the shares renounced in their favour applied for additional equity shares, provided there is a surplus remaining after (1) and (2) above.
4. Allotment to any other person as the Board may in their absolute discretion deem fit, provided there is a surplus after making full allotment under (1), (2), (3) above.

The unsubscribed portion of the equity shares, if any, offered to the shareholders after considering the application for Rights/ Renunciation and additional equity shares, as above, shall be disposed off at the sole discretion of the Board of Directors of the Company.

In case of oversubscription the allotment would be done in a proportionate manner in consultation with the designated Stock Exchange.

ALLOTMENTS/REFUNDS

A) For applications made by Cheques/Drafts

The Company will issue and dispatch letter of allotment/securities certificate and/or letter of regret alongwith the refund orders or credit the allotted securities to the respective beneficiaries account, if any, within a period of six weeks from the date of closure of issue. If such money is not repaid with 8 days from the day the company becomes liable to pay it, the company shall pay that money with interest as stipulated under Section 73 of the Companies Act, 1956. Refunds, if any, will be made alongwith Allotment Letters and /or Regret Letters by refund order / pay order drawn on the Bankers to the Company and will be despatched within 6 weeks from the date of closure of Issue, by Registered Post if the amount of such refund exceeds Rs.1500/-. Such cheque refund order / pay order will be payable at par during their validity period at all centres where the applications are received. In case of joint applications, Refund Orders, if any, will be made out in the First applicant's name and all communication will be addressed to the person whose name appears on the CAF.

B) For application by Non-Resident Indians / Foreign Institutional Investors (FIIs)

In case of Non-Resident Indians/FIIs who remit their application money from funds held in NRE/FCNR/NRO Accounts, refund/payment of interest and other disbursements, if any, shall be credited to such account, details of which should be furnished in the column provided for that purpose in the CAF. In case of non-residents who remit their application money through Indian Rupee drafts purchased from abroad, refunds/payments of interest and other disbursements, if any, will be made in US dollars at the exchange rate prevailing at such time, subject to the permission of the RBI. The Company will not be responsible for any loss on account of exchange fluctuations for converting the Indian Rupees amount into US Dollars.

ALLOTMENT / DESPATCH OF REFUND ORDERS

The subscription received in respect of the issue will be kept in Separate Bank Account(s). The Company would not have access to such funds unless it has received the minimum subscription of 90% of the issue and the permission of the Designated Stock Exchange to use the amount of subscription. The dispatch of refund order would be as follows:

In case of applicants residing in following fifteen centers, viz, Ahmedabad, Bangalore, Bhubaneswar, Kolkata, Chandigarh, Chennai, Guwahati, Hyderabad, Jaipur, Kanpur, Mumbai, Nagpur, New Delhi, Patna and Thiruvananthapuram, where clearing houses (for ECS) are managed by the RBI will get refunds mandatorily through ECS (Electronic Clearing Service) only. For this purpose, the details of bank accounts of applicants would be taken directly from the depositories' database. The registrar will send the electronic files with the refund data to the bankers to the issue and the bankers to the issue shall send the refund files to the RBI system within 30 days from the Issue Closing date. A suitable communication shall be sent to the applicant receiving refund through this mode within 30 days of Issue Closing Date, giving details of the bank where refunds shall be credited alongwith amount and expected date of electronic credit of refund.

In addition to above, the applicants who are disclosed to be eligible for direct credit or for RTGS (Real Time Gross Settlement) or NEFT (National Electronic Funds Transfer) will get refunds through the said routes.

In case of other applicants, we shall dispatch refund orders, if any, of value up to Rs.1500, 'Under Certificate of Posting', and shall dispatch refund orders above Rs.1,500, if any, by registered post or speed post at the sole or First Applicant's sole risk, or if, in a case where the refund or portion thereof is made in electronic manner, the refund instructions would be given to the clearing system and adequate funds for this purpose shall be made available to the Registrar for this purpose.

The Company agrees that as far as possible allotment of securities offered to the existing shareholders on Rights basis shall be made within 30 days of the closure of the issue.

INTEREST IN CASE OF DELAY IN ALLOTMENT / DESPATCH

The Company agrees that as far as possible allotment of securities offered to the public shall be made within 30 days of the closure of rights issue. The company further agrees that it shall pay interest at the rate of 15% per annum if the allotment letters/refund orders have not been despatched to the applicants, or if, in a case where the refund or portion thereof is made in electronic manner, the refund instructions have not been given to the clearing system in the disclosed manner within 30 days from the date of the closure of issue.

UNDERTAKING

The Board of Directors of BGL state that: -

- i) All the complaints in respect of the Rights Issue shall be attended to by the company expeditiously and satisfactorily.
- ii) That the company shall take necessary steps for completion of the necessary formalities for listing and commencement of trading on BSE and NSE within 7 working days of finalisation of basis of allotment.
- iii) That the funds required for making refunds to unsuccessful applicants as per the modes disclosed shall be made available to the Registrar to the Issue by the company.
- iv) That where refunds are made through electronic transfer of funds, a suitable communication shall be sent to the applicant within 30 days of closure of the issue, giving details of the bank where refund shall be credited alongwith amount and expected dated of electronic credit of refund.
- v) That the certificates of the securities/ refund orders to the non-resident Indians shall be despatched within specified time.
- vi) That no further issue of securities shall be made till the securities offered through this Letter of Offer are listed or till the application money is refunded on account of non-listing, undersubscription etc.

UTILISATION OF ISSUE PROCEEDS

The Board of Directors declares that:

- i. The funds received against this Issue will be transferred to a separate Bank Account other than the Bank Account referred to sub-section (3) of Section 73 of the Act.
- ii. Details of all moneys utilised out of the Issue shall be disclosed under an appropriate separate head in the Balance Sheet of the Company indicating the purpose for which such moneys has been utilised.
- iii. Details of all such unutilised moneys out of the Issue, if any, shall be disclosed under an appropriate separate head in the Balance Sheet of the Company indicating the form in which such unutilised moneys have been invested.

The funds received against this Issue will be kept in a separate Bank Account and the Company will not have any access to such funds unless it satisfies the Designated Stock Exchange with suitable documentary evidence that the minimum subscription of 90% of the Issue has been received by the Company.



SECTION VIII : OTHER INFORMATION

MATERIAL CONTRACTS AND DOCUMENTS

The Contracts referred to in para (A) below (not being contracts entered into in the ordinary course of the business carried on by the Company or entered into more than two years before the date of this Letter of Offer) which are or may be deemed material, have been entered into by the Company.

The contracts together with the documents referred to in paragraph (B) below, copies of all of which have been attached to the copy of this Letter of Offer may be inspected at the Registered Office of the Company between 11.00 a.m. - 4.00 p.m. on any working day from the date of this Letter of Offer until the closing of the subscription list.

A. MATERIAL CONTRACTS

1. Copy of Memorandum of Understanding dated 18/11/2005 between the Company and Keynote Corporate Services Limited, Lead Manager to the Issue.
2. Copy of Memorandum of Understanding dated 23/01/2006 between the Company and Intime Spectrum Registry Ltd, Registrar to the Issue.
3. Copy of tripartite agreement dated 22/11/2000 between the Company, National Securities Depository Limited (NSDL) and Intime Spectrum Registry Ltd.
4. Copy of tripartite agreement dated 28/11/2000 between the Company, Central Depository Services (India) Limited (CDSL) and Intime Spectrum Registry Ltd.
5. Copy of license agreement dated March 25, 1985/April 19, 1985 between ZF Friedrichshafen AG and Bharat Gears Limited and the supplementary agreements dated September 06, 1985 and June 30, 1994.

B. DOCUMENTS FOR INSPECTION

1. Copy of Memorandum of Articles and Articles of Association of BGL.
2. Copies of Annual report of BGL for the year ended, 31/03/2002, 31/03/2003, 31/03/2004, 31/03/2005 and 31/03/2006.
3. Copies of Annual report and Memorandum and Articles of Association for the year ended, 31/03/2003, 31/03/2004 and 31/03/2005 of the following Group companies:
 - o Raunaq International Limited
 - o Raunaq ABM India Ltd.
 - o Ultra Consultants Pvt. Ltd.
 - o Vibrant Finance & Investment Pvt. Ltd.
 - o Clip Lok Simpak (India) Pvt. Ltd.
 - o Future Consultants Private Ltd.
4. Copies of Annual report and Memorandum and Articles of Association for the year ended 31/03/2005 of Samreet Investment & Management Consultancy Pvt. Ltd.
5. Copy of the Board resolution dated 27/10/2005 recommending the rights issue of the company.
6. Copy of Special Resolution under section 81, 81(1A) and other relevant provisions of Companies Act, 1956 dated 14/12/2005 passed at the Extra Ordinary General Meeting of the company authorizing present issue of equity shares.
7. Copy of certificate dated 23/05/2006 issued by A.F.Ferguson & Co. Chartered Accountants & Statutory Auditors of the Company reporting financials of the company in terms of part II schedule II of the Companies Act, 1956 and including capitalization statement, taxation statement, accounting ratios.

8. Copy of Sources and Deployment of funds certificate dated 20/05/2006 received from M/s. Milind M. Dnyate, Chartered Accountants.
9. Copy of letter dated 14/12/2005 received from A. F. Ferguson & Co., Chartered Accountant, regarding tax benefits accruing to the company and its shareholders.
10. Copy of prospectus dated 29/11/1972 in respect of Public Issue made by BGL
11. Copy of Letter of Offer dated 15/11/1986 in respect of the Rights Issue of convertible debentures made by BGL
12. Copy of prospectus dated 25/09/1976 in respect of Public Issue made by Raunaq International Limited.
13. Copies of undertakings from BGL.
14. Copies of in-principle approval received from BSE vide letter no. DCS/SMG/SDM/RK/NS/06 dated March 01, 2006 and NSE vide letter no NSE/LIST/20792-L dated March 07, 2006
15. Copies of Consents from the Directors of the Company, Auditors of the Company, Registrar to the Issue, Lead Mangers to the Issue, Banker to the Company and Banker to the Issue
16. Copy of SEBI Observation letter 5/1418/06-NRO/2006/26250 dated April 26, 2006.



PART III

DECLARATION

No statement made in this Letter of Offer shall contravene any of the provisions of the Companies Act, 1956 and the rules made there under. All the legal requirements connected with the said issue as also the guidelines, instructions etc. issued by SEBI, Government and any other competent authority in this behalf have been duly complied with. We further certify that all the disclosures made in the Letter of Offer are true and correct.

Yours Faithfully
By the order of Board of Directors
Bharat Gears Limited
Sd/-

Mr. Surinder Kanwar
Chairman and Managing Director

Mr. Sameer Kanwar
Executive Director

Mr. W.R. Schilha
Director

Mr. A.F. Hartmann
Director

Dr. Ram S. Tarneja
Director

Mr. N.J. Kamath
Director

Mr. V.K. Pargal
Director

Mr. J.S. Bhandari
Director

Place: Mumbai
Date : 23/05/2006