

19th Annual Report 1999-2000



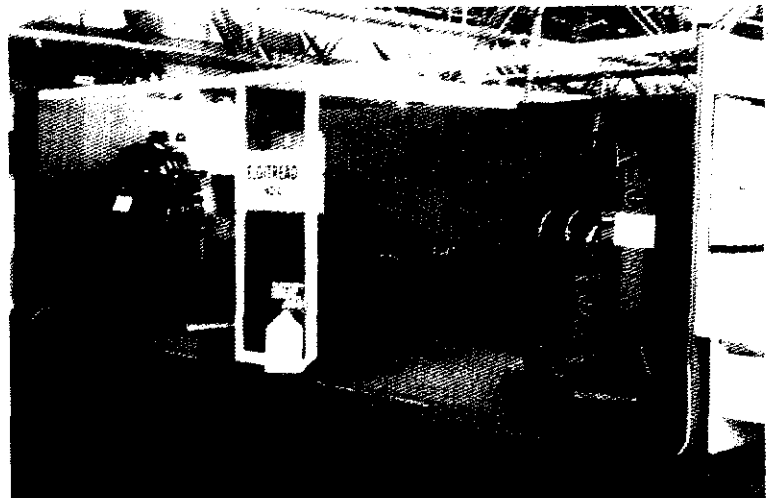
Elgitread (India) Ltd.

We have consistently followed the strategy of expanding our presence beyond Indian shores.

As a part of this strategy, we participated in several international fairs. The response has been excellent.



◀ ITRA & SSDA Expo, Nashville, Tennessee, USA, June 10-12, 1999



▶ AUTOPROMOTEC 99, Bologna, Italy, 19-23 May 1999

Elgitread (India) Ltd

Annual Report 1999 - 2000

Directors

L.G.Varadarajulu
(Chairman)
Sudarsan Varadaraj
(Managing Director)
R.Alagappan
K.Jayaraman
K.J.Janakar
C.R.Lingiah
P.V.Nathan
N.S.K.Swamy
C.Thiagarajan

Key Executives

L.G.Varadarajulu
(Chairman)
Sudarsan Varadaraj
(President)
S.A.Subramanian
(Company Secretary)
M.John Edward
(Vice President - Marketing)
T.Ashok Anand
(Vice President - Manufacturing)

Head Office

Elgi House
1789, Trichy Road
Ramanathapuram
Coimbatore - 641 045
Tamilnadu

Bankers

State Bank of India

Registered Office

Thumakunta, Kirikera
Hindupur - 515 211
Anantapur District
Andhra Pradesh

Auditors

Reddy, Goud & Janardhan
Chartered Accountants
Bangalore

Plants

Kirikera, Hindupur
Korkadu, Pondicherry
Kottayi, Palakkad
Kurichi, Coimbatore
Nairobi, Kenya
Coromandel, Mauritius
Arusha, Tanzania
Colombo, Sri Lanka

Internal Auditors

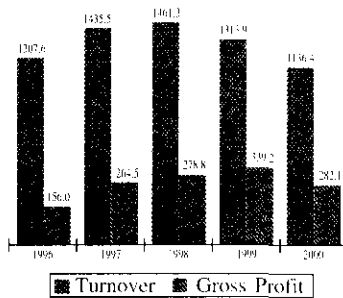
S.B.Billimoria & Co.
Chartered Accountants
Chennai

Historical Perspective - 10 Year Performance										
(Rs. in Million)										
Particulars	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-2000
Sales	665.3	846.5	946.8	978.9	994.6	1307.6	1435.5	1461.3	1313.9	1136.4
Profit before Depreciation and Tax	65.8	114.1	91.8	105.8	102.5	156.0	264.5	278.8	339.2	282.1
Profit before Tax	42.4	82.0	45.7	56.0	57.0	114.8	233.3	247.8	306.1	250.4
Profit after Tax	22.4	63.5	27.7	45.0	39.5	75.8	161.8	182.8	216.1	160.4
Dividend %	20	30	30	30	27	35	50	50	100	65*
Gross Fixed Assets	120.9	177.7	213.5	246.4	270.0	308.2	324.5	389.2	423.3	439.9
Net Fixed Assets	78.9	117.0	127.0	134.7	120.8	135.4	126.5	163.0	167.1	162.4
Investments	0.7	4.5	7.4	15.4	16.4	38.4	73.0	34.4	32.9	160.8
Net Working Capital	74.1	118.8	172.6	208.4	313.2	376.7	458.8	471.0	611.4	612.2
Total Capital Employed	153.7	240.3	307.0	358.5	450.4	550.5	658.3	668.4	811.5	939.2
Shareholders' Funds	95.0	152.8	173.2	214.5	249.3	315.2	462.7	629.9	808.7	938.3
Borrowed Funds:										
Bank Overdraft	11.7	10.5	49.9	49.5	50.5	113.1	125.8	0.0	0.0	0.0
Long Term Loans	34.0	65.6	66.8	63.9	114.2	80.0	44.7	8.4	0.0	0.0
Other borrowed funds	13.0	11.4	17.1	30.6	36.4	42.2	25.1	30.1	2.8	0.9
	58.7	87.5	133.8	144.0	201.1	235.3	195.6	38.5	2.8	0.9
* Subject to the approval in the Annual General Meeting.										

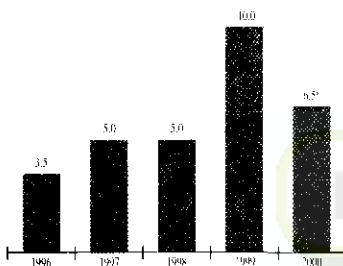
Directors' Report

We have pleasure in presenting the Nineteenth Annual Report and the Audited Accounts for the financial year ended March 31, 2000.

Turnover & Gross Profit
(Rs. in Million)

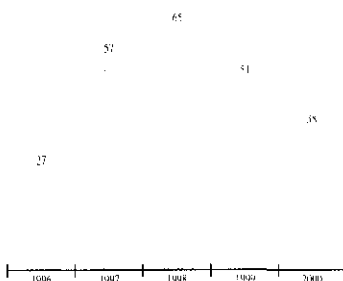


Dividend per share (Rs.)



*Subject to approval at the AGM

Earnings per Share (Rs.)



Financial Results:

	1999-2000 Rs.	1998-1999 Rs.
Profit before Depreciation	284,310,240	339,608,073
Less: Depreciation	31,719,682	33,176,719
Profit before taxation	252,590,558	306,431,354
Less : Provision for taxation	90,011,000	90,000,000
Profit after tax	162,579,558	216,431,354
Add : Balance from previous year	2,868,155	4,030,237
Less : Adjustment relating to earlier years	2,173,472	365,505
Profit available for appropriation	163,274,241	220,096,086
Appropriation		
General Reserve	125,000,000	180,000,000
First Interim Dividend 35%	14,962,500	8,403,596
Second Interim Dividend 30%	12,825,000	—
Proposed final dividend	—	25,210,788
Total Dividend for the year	27,787,500	33,614,384
Tax on Dividend	3,056,625	3,613,547
Balance carried to Balance Sheet	7,430,116	2,868,155

Two interim dividends aggregating to 65% and amounting to Rs. 30,844,125/- including the tax on dividend, was paid during the year. This represents a payout ratio of 19.23% of the profit after tax as against the company's payout policy of 20%. Considering the cost of disbursing the marginal balance we recommend carrying forward the difference to the dividend payable for the next financial year.

Review

The slow down in the economy that was witnessed in the previous years continued into this year also. The transport industry which drives the fortunes of the tyre retreading sector continued to be sluggish. There was little or no growth in this sector, with major retreaders showing a decline in sales. As a result the demand for retreading materials was also adversely affected. During the year, the tread rubber manufacturing industry witnessed severe price cuts by the manufacturers, despite considerable increases in raw material costs and the extension of extensive credit. Competitors resorted to such measures in order to maintain their share in a shrinking market.

With specific reference to our Company, the reduction in sales was approximately 13% in quantitative terms. The franchisee business, which forms the bulk of the turnover, was only marginally lower than the previous year. Our sustained marketing efforts ensured that the core area of our operations was not affected. However, sales to State Transport undertaking was steeply down. This was due to small scale units and some major players who supplied at prices much below the contracted rates with the Association of State Road Transport Undertakings.

Domestic sale from the machinery division accounted for Rs.23.3 million and was mostly to new franchisees, appointed to replace ones who were not performing well.

The total export earnings amounted to Rs.62.4 million, lower than last year's figure by around Rs. 12 million. Earnings suffered because of intense price competition in the market precipitated by the devaluation of certain currencies. Export of machinery and accessories more than doubled over the last year on account of export to new markets.

The electric power generated by the company's windmills earned an income of Rs.14.6 million as against Rs.9.9 million in the previous year.

Letter from the Chairman

Dear Members,

It gives me great pleasure in addressing this annual communication to you enclosing the annual performance report of the company.

As you will recollect, last year, we made some radical changes in the way we present the company and its performance to you. It is very heartening to note that this has been well accepted, going by the number of communications that we received appreciating the level of disclosure. We will definitely strive to improve on this.

The past year has not been a good one for the industry and to some extent to the company. The sluggishness in the industry continued and it is unfortunate that a few companies suffered on account of it. It is my estimate that the last year has seen a negative growth of between 5 and 10%.

Towards the end of the last financial year there were signs of recovery in the transport industry, evidenced by the increase in the sale of vehicles and a marginal increase in the sale of new tyres. This is a positive indication for the retreading industry also. However it has been our experience that it takes between 6-8 months from the time the tyre industry picks up before we see the positive effects in our industry. Given this we can look at things picking up towards the end of this financial year.

During 1999-2000 the performance of our franchisees has been very good considering the market conditions. Increased marketing support to the franchisees and their excellent response resulted in increase in business amongst most franchisees. Further our focus on technical audit of the franchisees resulted in fewer market complaints and a better demand for our brand. Given these positive results, this sustained effort will be continued this year also. We are hopeful that this will increase the volumes from this sector by around 5%.

A number of nonperforming franchisees were identified and extra efforts were put in to bring them up. This paid off in most cases. In the case of the rest, new franchisees were appointed, who will come into the market during the current year. This will also add to the overall sales of the company.

I'm also happy to inform you that ours is the only system approved by tyre companies for the retreading of radial tyres. We are working closely with them in promoting radial tyres and conducting joint training programmes for the retreading and repair of radial tyres. Though the current market for radial tyres is very small, it is bound to grow rapidly in the coming years. Given the high cost of new radial tyres and the technology involved in retreading them, we stand to benefit from radialisation.

Our business with State Transport Undertakings continued to decline. Though it constitutes a very small part of our business and the competition is altogether on a different plane, we cannot ignore this segment. The focus for the current year is to increase this business by offering complete solutions rather than just being a material supplier. We hope to double the sales over last year without being dependent on this sector.

In the overseas markets, the sale of retreading materials continues to be sluggish. We have traditionally been exporting to markets that are driven by price. With the availability of cheap material at substantial credit terms, leading companies from all over the world have been affected in these markets. Given this we have been focussing on developed markets that are quality conscious. These efforts have more than doubled the sale of equipment and will bring in additional revenues through the sale of retreading materials in future. At the same time we working on a franchising basis in some of the existing markets that will bring in regular orders for raw material.

Our overseas ventures have done well. The combined sales of the 4 companies amounted to USD \$ 1.7 Million. We hope to achieve an increase of 20% during the current year. We are also establishing operations in Nepal and Bangladesh during the current year. In order to rationalise operating costs and to bring in better focus in these operations, we are combining all our overseas operations into a wholly owned subsidiary company during the current year.

Our extensive investment in fundamental research is already bringing in results. Research into raw materials and the process of manufacture has brought about considerable savings in raw material costs, reduced process waste and brought in improved consistency in our products. The focus for the future would be to research alternate materials and processes to reduce overall cost.

In my letter to you last year I had highlighted to you the company's involvement in extending support to Elgi Finance Ltd. To date we have taken over Rs. 75.00 million worth of assets. Out of this Rs. 25.50 million has been collected during 1999-2000.

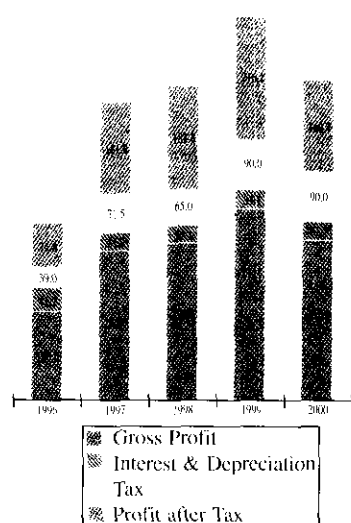
Thank you for being with us.

L.G. Varadarajulu

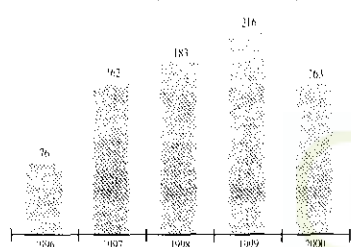
Coimbatore

05.06.2000

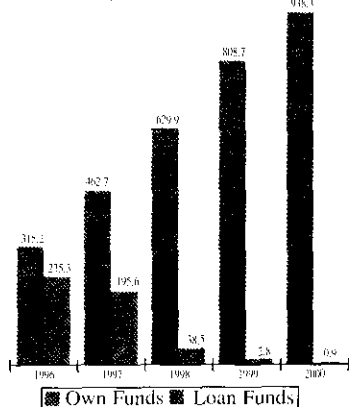
Profit Allocation
(Rs. in Million)



Net Profit (Rs. in Million)



Own Funds & Loan Funds
(Rs. in Million)



The company incurred a capital expenditure of Rs.27.5 million during the year 1999-2000. Out of this an amount of Rs.11.8 million was invested in laboratory equipment. This takes the total investment in equipment for Research and Development to about Rs.61.9 million, which is substantial for a company of this size. This investment and the resultant technical benefits in the products and process will give the company a definitive edge over the competition.

The company had invested an aggregate sum of Rs.77.1 million in various schemes of mutual funds during the year. Further, a sum of Rs.78.5 million had been invested in a partnership firm as a prelude to acquiring some real estate.

Steps for the sale of the machinery division and the wind farm are yet to be taken up whereas the tube division has already been hived off. As regards overseas operations, divestment into a wholly owned subsidiary is pending governmental approval.

The company continued to have a near Zero-Debt position. Public deposit which was at Rs.2.8 million in the previous year had been reduced to under Rs.1.0 million. The remaining amount mostly relates to unclaimed deposits. Efforts are being made to pay the above deposits to the respective holders.

The company recorded a turnover of Rs.1063.00 million during the period 1999-2000 against the Rs.1262.6 million achieved in the previous year. Cash profits before tax was Rs. 282.1 compared to Rs.339.2 million in the previous year.

Despite lower sales, the company had been able to maintain a rate of return of about 17.1% after tax on capital employed on account of im-proved current asset management and introduction of technological and managerial practices in the company. Investments in and upgradation of utilities and services have begun to help the company deliver its products at the most competitive prices.

Dematerialisation

The company has signed agreements with National Securities Depository Ltd., and Central Depository Services (India) Ltd., for the dematerialisation of shares in accordance with the provisions of the Depository Act and completed other formalities in this regard. With effect from April 07,2000 the company's shares are eligible securities for dematerialisation.

Y2k

The company had transited smoothly into the year 2000 and did not face any problems related to the Y2K problem.

Subsidiaries

In compliance with the provision of Section 212 of the Company's Act 1956, the Audited statement of accounts for the respective year ends of the subsidiary companies and also the statement under the said section are attached along with the Balance Sheet of the company.

Directors

Jairam Varadaraj had resigned from the Directorship of the company in view of his preoccupation with other companies under his management. We wish to place on record the valuable services rendered by him for the growth of the company.

In accordance with the provisions of the Articles of Association, R. Alagappan and K. Jayaraman retire by rotation.

Auditors

Reddy, Goud & Janardhan, Auditors of the company, retire at the ensuing Annual General Meeting.

Conservation of Energy, Technology Absorption and Foreign Exchange Earnings/Outgo:

The information required under Sec.217 (1)(e) of the Companies Act, 1956 read with the Companies (Disclosure of particulars in the report of the Boards of Directors)Rules, 1998 is given as Annexure-1 to this report.

Particulars of Employees:

In accordance with the requirements of Sec.217(2A) of the Companies Act, 1956 read with the Companies (particulars of employees)Rules, 1975 as amended by the Companies (particulars of employees) (amendments) Rules, 1998, a statement giving the required information relating to employees covered by the said section is given as Annexure-2 to this report.

Acknowledgement

We are pleased to place on record our appreciation of the continued cooperation and support of franchisees, customers, suppliers, employees and bankers.

Annexure I**A-1 Energy Conservation Measures taken:**

- i. Tread Extrusion Dies and Systems modified to reduce reworking. This has saved considerable amount of power by reducing reprocessing.
- ii. Soft starters installed in all the mixing mills at Palakkad factory.
- iii. Temperature control units installed for cooling circuit of internal mixers to reduce power consumption.
- iv. New buffing line installed in Hindupur has reduced power consumption considerably due to better efficiency of sanding.

A-2 Additional Investments & Proposals being implemented for reduction of consumption of Energy:

- i. Temperature control units being arranged for all the internal mixers at Palakkad and Pondicherry based on the success of the first one.
- ii. New buffing lines being considered for Palakkad and Pondicherry.
- iii. Hydraulic and Thermic systems are being streamlined to increase heat transfer and to reduce power consumed while moulding.
- iv. Compressors being relocated and new compressed air lines are being installed at Palakkad to save energy.

A-3 Impact of the measures taken and consequent impact on the cost of production of goods:

- i. Considerable benefit achieved in the form of savings in energy and also reduction in man power and overall cost of production in the factories.

B. Technology Absorption**B-1 Specific areas in which R & D is carried out by the Company:**

- i. New tread patterns being designed for getting better mileage for a given weight of tread.
- ii. Precured Retreading Systems being developed.
- iii. New retreading machines like buffer, builder, envelope expander being developed for overseas market.

B-2 Benefits arrived as a result of the above R & D activity:

- i. New retreading machines were exhibited in the USA and these machines have generated a lot of enquiries in the overseas market.

B-3 Expenditure on R & D

	Rs.
i. Capital	: 11,859,693
ii. Recurring	: 8,961,131
iii. Total	: 20,820,824
iv. Total R & D expenditure as a percentage of total turnover	: 1.96%

C Technology Absorption, Adaptation and Innovation:**C-1 Efforts in brief, made towards Technology absorption, adaptation and innovation:**

NOT APPLICABLE

C-2 In case of imported technology (imported during the last five years reckoned from the beginning of the financial year) the following information may be furnished.

NOT APPLICABLE

D. Activities relating to exports, initiatives taken to increase exports, development of new export markets for products and services and export plans:**D-1 The company's exports were down by almost 16% (valuewise) due to severe competition in the overseas market.**

Participation in overseas trade fairs in all the important countries to introduce the company's products, where potential for products of high and consistent quality exists.

D-2 Total Foreign Exchange used and earned

Foreign Exchange Earned	:	Rs.52,254,694
Foreign Exchange spent	:	Rs.28,890,798

Annexure-2

Information pursuant to Sec.217(2A) of the Companies Act, 1956 and the Companies (particulars of employees) Rules, 1975 for the year ended 31st March, 2000, is furnished herewith:

Sl. No.	Name	Designation/ Nature of Duties	Age/ Qualification & Experience	Total Remuneration (Rs.)	Date of Commencement of Employment	Previous Employer
1.	L.G.Varadarajulu	Chairman	71 years Diploma in Automobile Engg. 48 years	7,015,630	13.05.1981	L.G.Balakrishnan & Bros. Ltd., Coimbatore
2.	Sudarsan Varadaraj	Managing Director	42 years B.E.(Hons) M.S.(M.E.) 18 years	21,046,890	12.03.1988	LSA Engineers Inc., Houston U.S.A

Note :

1. The Chairman and Managing Director were appointed for a period of five years.
2. Remuneration includes salary, Company's contribution to Provident Fund, commission and reimbursement of medical expenses and other perquisites as applicable.
3. L.G.Varadarajulu, Chairman, is related to Sudarsan Varadaraj, Managing Director of the Company.
4. Sudarsan Varadaraj, Managing Director, is related to L.G.Varadarajulu, Chairman of the Company.

Coimbatore
05.06.2000

For the Board of Directors
L.G. Varadarajulu
Chairman

Shareholders' Information

Registered & Corporate Office	:	Regd. Office:	Thumakunta, Kirikera, Hindupur Andhra Pradesh 515 211.
		Corp. Office:	'Elgi House', 1789, Trichy Road, Ramanathapuram Coimbatore, Tamil Nadu 641 045
Date of Book Closure	:		05.08.2000 to 12.08.2000
AGM - Date & Venue	:	14.08.2000	Elgitread (India) Ltd., Recreation Hall, Thumakunta, Kirikera, Hindupur 515 211.

Stock Market Data:

Listing on Stock Exchanges	:	Regional Stock Exchange at Hyderabad National Stock Exchange, Mumbai Stock Exchanges at Mumbai, Chennai and Coimbatore
Shares Dematerialised with	:	National Securities Depository Ltd., Mumbai. Central Depository Services (India) Ltd., Mumbai.
Share Registrar for Electronic Shares	:	Intime Spectrum Registry Private Ltd., Mumbai.
Trading Group in Stock Exchange	:	B1

Share Transfers:

No. of Shares received for transfer	:	114,000 per month on an average
Average turn around time	:	20 days
Bad deliveries received	:	7
Due to : Signature difference	:	5
Execution date not mentioned	:	2
		7
Special efforts to improve service	:	Share Transfer Committee Meeting is held every fortnight and the share certificates are despatched within 3 days of transfer.
Complaints received and attended	:	During the year, no complaint was received from any of the shareholders of the Company.
Legal proceedings/disputes on Share Transfer against the Company	:	Temporary Court Injunction received for fraudulent transfer of shares, misplacement of share certificates. Total number of cases - 10.
Equity Holding Pattern	:	Annexure I
Shares under lock - in	:	Nil
Distribution of Shareholding in various quantity slabs	:	Annexure II
Dematerialisation of shares	:	Commenced with effect from 07.04.2000

Details of past Share / Debenture Issues	:	Original Issue	25.08.1983
	:	Rights Issue	01.04.1987
	:	1 st Bonus Issue	01.11.1994
	:	2 nd Bonus Issue	21.11.1998
Reuters Code	:	ELGT.BO	
	:	ELGT.NS	
Web Site	:	www.elgitread.co.in	
Shareholder / Analyst contact address	:	The Company Secretary	
	:	Elgitread (India) Limited	
	:	'Elgi House'	
	:	1789, Trichy Road	
	:	Ramanathapuram	
	:	Coimbatore 641 045	
	:	Tamil Nadu.	
Phone	:	(0422) - 319901	
Fax	:	(0422) - 574178	
email	:	info@elgitread.co.in	

Annexure I:

Equity Shareholding Pattern - May 2000

	No. of Shares	%
Directors and their relatives	779,030	18.22
Domestic Companies	1,222,867	28.61
Non Domestic Companies	156,400	3.66
Mutual Funds	310,500	7.26
Commercial Banks	34,275	0.80
Non Resident Indians	19,223	0.45
Public Financial Institutions	32,600	0.76
Resident Individuals	1,720,105	40.24
	4,275,000	100.00

Annexure II:

Distribution of Shareholdings - May 2000

	No. of Shares	%
1 to 500	804,823	18.84
501 to 1000	252,370	5.90
1001 to 2000	186,501	4.36
2001 to 3000	116,622	2.73
3001 to 4000	46,670	1.09
4001 to 5000	68,474	1.60
5001 to 10000	172,046	4.02
More than 10000	2,627,494	61.46
	4,275,000	100.00