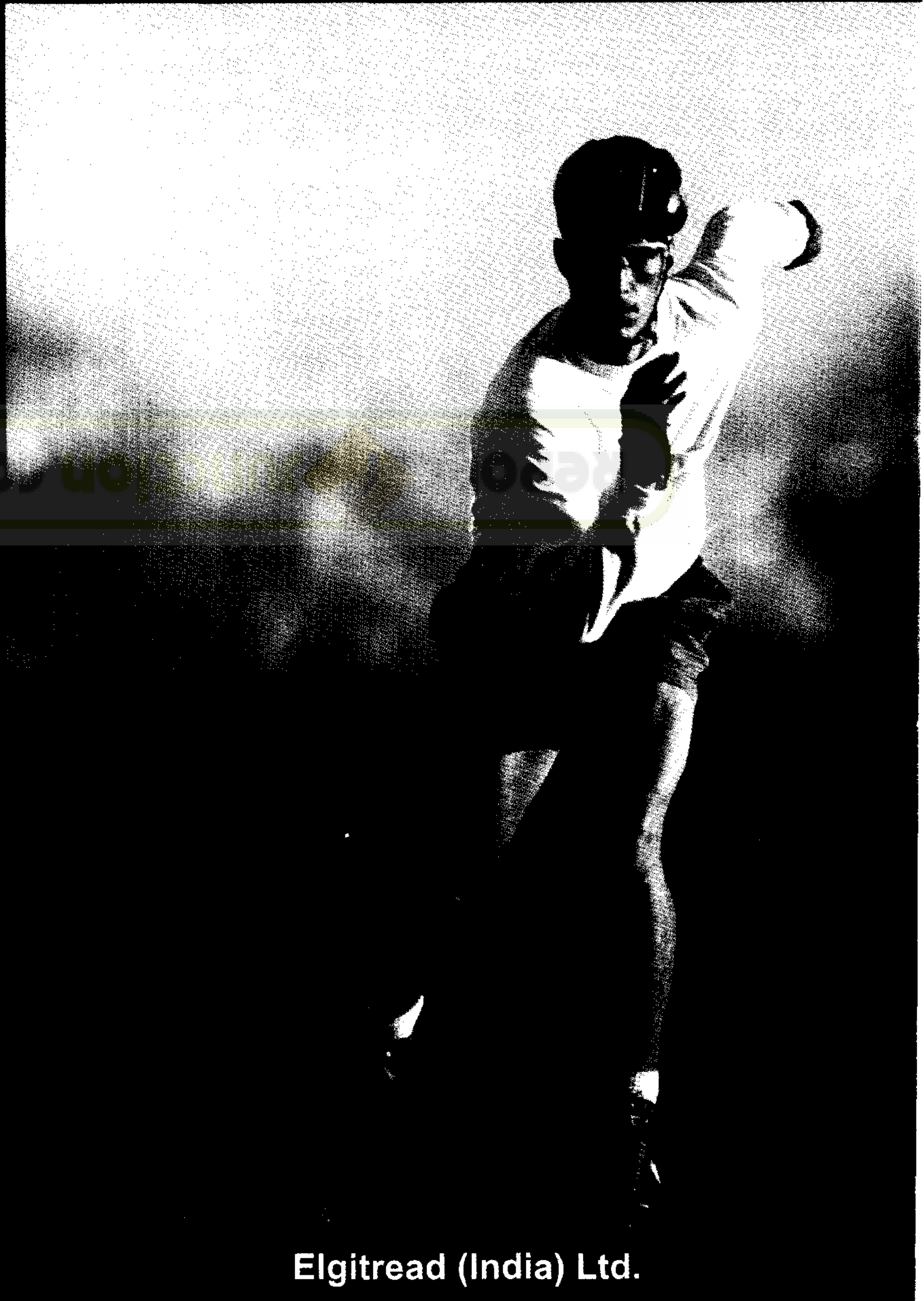
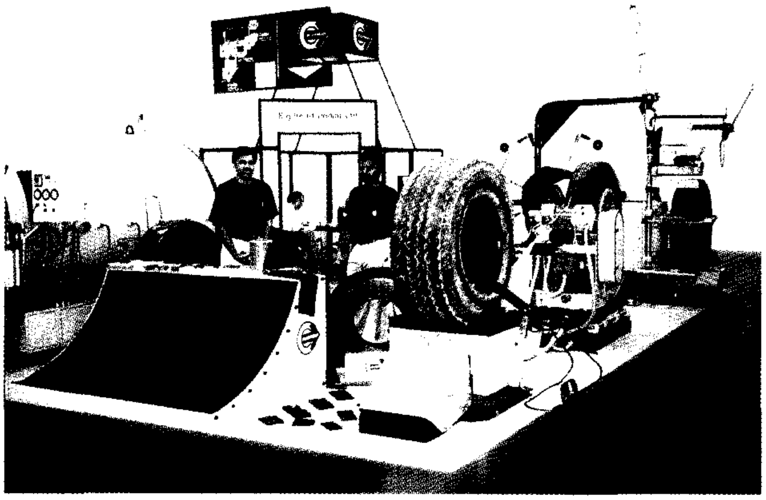
20th Annual Report 2000-2001



Elgitread (India) Ltd.

Elgitread is the true "Indian multinational", with a powerful presence beyond Indian shores. In continuation of our consistent strategy for expanding our market presence, we have participated in international exhibitions where our products held their own against tough global competition.

◀ ITRA - Nashville Fair, USA, April 2001



▶ REIFEN 2000 Fair at Essen, Germany

Elgitread (India) Ltd
Annual Report 2000 - 2001

Directors

L.G.Varadarajulu
(Chairman)

Sudarsan Varadaraj
(Managing Director)

K.Jayaraman
K.J.Janakar
N.S.K.Swamy
C.Thiagarajan
S.A.Subramanian
M.John Edward
T.Ashok Anand
M.D.Selvaraj
Suresh Jagannathan

Key Executives

L.G.Varadarajulu
(Chairman)

Sudarsan Varadaraj
(President)

S.A.Subramanian
(Director - Company Secretary)

M.John Edward
(Director - Sales & Marketing)

T.Ashok Anand
(Director - 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	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-2000	2000-2001
Sales & Other Income	846.5	946.8	978.9	994.6	1307.6	1435.5	1461.3	1313.9	1136.4	1004.0
Profit before Depreciation and Tax	114.1	91.8	105.8	102.5	156.0	264.5	278.8	339.2	282.1	204.6
Profit before Tax	82.0	45.7	56.0	57.0	114.8	233.3	247.8	306.1	250.4	177.1
Profit after Tax	63.5	27.7	45.0	39.5	75.8	161.8	182.8	216.1	160.4	105.1
Dividend %	30	30	30	27	35	50	50	100	65	90*
Gross Fixed Assets	177.7	213.5	246.4	270.0	308.2	324.5	389.2	423.3	439.9	439.1
Net Fixed Assets	117.0	127.0	134.7	120.8	135.4	126.5	163.0	167.1	162.4	153.5
Investments	4.5	7.4	15.4	16.4	38.4	73.0	34.4	32.9	160.8	278.4
Net Working Capital	118.8	172.6	208.4	313.2	376.7	458.8	471.0	611.4	612.2	562.5
Total Capital Employed	240.3	307.0	358.5	450.4	550.5	658.3	668.4	811.5	939.2	1001.2
Shareholders' Funds	152.8	173.2	214.5	249.3	315.2	462.7	629.9	808.7	938.3	1001.0
Borrowed Funds:										
Bank Overdraft	10.5	49.9	49.5	50.5	113.1	125.8	0.0	0.0	0.0	0.0
Long Term Loans	65.6	66.8	63.9	114.2	80.0	44.7	8.4	0.0	0.0	0.0
Other borrowed funds	11.4	17.1	30.6	36.4	42.2	25.1	30.1	2.8	0.9	0.2
	87.5	**133.8**	**144.0**	**201.1**	**235.3**	**195.6**	**38.5**	**2.8**	**0.9**	**0.2**

* Subject to the approval in the Annual General Meeting.

Letter from the Chairman

Dear Members,

I am happy to enclose the annual report of the company.

The performance for the year has been much below our expectations and falls short of the projections that I had made in my previous letter to you. The overall revenues declined by over 11% and the Profit After Tax by over 30%.

The market conditions continued to be depressed during the year. Despite aggressive marketing campaigns conducted by our marketing team, the franchisees were unable to capitalize on them due to the poor cash flow in the transport industry. Most of the strong franchisees were forced to curtail the credit they traditionally extend to their customers on account of very high receivables. This resulted in a reduction in their sales and consequently a reduction in their off take of supplies. Further, the new and replacement franchises were unable to contribute to the anticipated extent due to sluggishness in the market. We are continuing the aggressive market campaigns and direct customer contacts to strengthen the brand. We will also be taking a very hard look at under performing franchises either working more extensively with them or replacing them.

The sales to State Transport Undertakings have further declined to a level where it forms a very insignificant part of our business. This is a segment that is extremely difficult to work in but has a sizeable volume. We are looking at an aggressive strategy that will be based on strengths that only our company has and leveraging to our benefit. During the current year, we hope to regain a small percentage of this market.

On the other hand, export of retreading materials has registered an increase of over 40%. Even though the competition overseas is as aggressive as it is here, we were able to make a breakthrough in a number of markets on account of the comprehensive range of our products and services and through strategic alliances for marketing. The focus for the years to come will be to increase our sales overseas. In line with this, a wholly owned subsidiary was established in Bangladesh in January. During the year, we hope to have operations in the North America and Europe for warehousing and sales and in South America for manufacturing.

Our overseas manufacturing has done well, registering sales of USD 1.5 million. The process of combining all our overseas operations into a single subsidiary has been delayed due to technical reasons.

The focus during the year 2000-2001 was to reduce costs and to rationalize operations. This will extend into this year also. Raw material prices have increased substantially during the past 2 years but we have been unable to pass on the cost increase due to the very competitive environment. Our thrust into the research of the raw materials used and for the development of cost effective compounds, without sacrificing performance, has helped and will continue helping in reducing costs.

As a part of our effort to rationalize operations, we had offered a Voluntary Retirement Scheme at the Hindupur factory. All the employees opted for the Scheme and the factory is currently not operating. The entire scheme, cost the company Rs. 8.45 million. The other two factories can comfortably meet the current market requirements.

As you are aware the Company had extended support to our group company, Elgi Finance Ltd., by taking over some of the leased assets. Out of the Rs. 75.00 million worth of assets that were taken over, Rs. 50.20 million have been recovered as of the end of 2000-2001.

We have been receiving requests for the buy-back of shares by the Company. I am not fully convinced that this is a measure that really enhances the shareholders' values. We are not closed to this but would like to ensure that it is best both for the shareholders as well as for the Company. We have instead, considered a higher pay out for the current year and are recommending a one time additional dividend matching the dividend as per our payout policy.

I wish to thank you for the trust and confidence that you have in our company.

L.G.Varadarajulu

Coimbatore
30.05.2001

Directors' Report

We have pleasure in presenting the Twentieth Annual Report and the Audited Accounts for the financial year ended March 31, 2001.

Financial Results

	2000-2001 Rs.	1999-2000 Rs.
Profit before Depreciation	205,085,080	284,310,240
Less : Depreciation	27,518,909	31,719,682
Profit before taxation	177,566,171	252,590,558
Less : Provision for taxation	72,006,000	90,011,000
Profit after tax	**105,560,171**	**162,579,558**
Add : Balance from previous year	7,430,116	2,868,155
Less : Adjustment relating to earlier years	461,672	2,173,472
Profit available for appropriation	**112,528,615**	**163,274,241**
Appropriation		
General Reserve	50,000,000	125,000,000
First Interim Dividend 35%	———	14,962,500
Second Interim Dividend 30%	———	12,825,000
Proposed final dividend 45% plus another 45% as one time dividend totalling 90%	38,475,000	———
Total Dividend for the year	38,475,000	27,787,500
Tax on Dividend	3,924,450	3,056,625
Balance carried to Balance Sheet	**20,129,165**	**7,430,116**

The Directors are pleased to recommend a final dividend of 45% (based on a payout of 20%) and another 45% as a one time dividend totalling a dividend of 90% for the year. The consequent outflow including the Dividend tax of Rs.3,924,450 amounts to Rs.42,399,450 (previous year Rs.30,844,125).

Review

Operationally, the year 2000-01 was a difficult one. The Company's core business suffered with lower volumes due to sluggish market conditions. As a result, the overall profitability came under pressure despite various proactive measures taken to improve efficiency and reduce costs.

The overall revenues declined by 11.9%. The main reason for this drop in sales is the almost 40% drop in the business from the State Transport Undertakings. Severe price competition from the small scale sector and also from larger companies under pressure to meet production targets resulted in un-remunerative prices and very large credit. The company felt it prudent not to follow the market given its past experience under such conditions. For the current year, the company hopes to regain a share of this market by capitalising on certain strengths in the company that the competition cannot offer.

The company's core franchise business saw a decline of around 6%. This was mainly on account of the continuing sluggishness in the tyre and transport industries. Further, in order to strengthen the network, a number of franchisees were replaced and the new appointees could not contribute much during the year. Even the traditionally strong franchisees were affected by the mounting outstanding in the market which hampered their liquidity. Consequently, they curtailed their business, restricting to a cash and carry basis. This also resulted in lower off take. The company was able to mitigate the effect of these circumstances by aggressive market campaigns.

During the year, an effective price reduction of about 2.5% was carried out for the major products despite the fact that cost of inputs were showing an increasing trend. This further affected the overall sales of the company.

Domestic sales from the machinery division accounted for Rs.26.0 million registering a marginal increase. During the year, the company appointed 7 new franchisees in addition to the replacement of 9 franchisees who had either closed on account of difficult market conditions or had been replaced because of their poor performance.

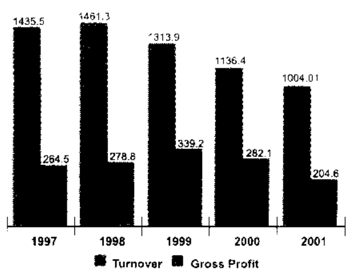
The overall export earnings amounted to Rs.61.2 million compared to Rs.62.40 million of the previous year, a marginal decrease of 2%. The decrease was mainly on account of the reduction in the sale of machinery. However, in the main product segment there was an increase of over 40%.

The electric power generated by the company's windmills earned an income of Rs.14.3 million as against Rs.14.6 million in the previous year due to lower generation of power.

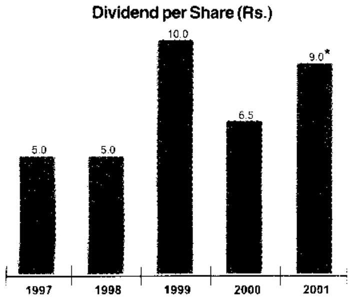
As part of reducing operating costs the Company had offered a Voluntary Retirement Scheme to the employees at the Hindupur factory. Consequent to the acceptance by all the employees, for the time being, there is no production activity at the Hindupur factory.

The overall financial position of the company remains strong. The Company still enjoys a debt free position and has no public deposits as on date, other than the unclaimed deposits amounting to Rs.0.22 million. Necessary efforts are being taken to liquidate them as early as possible.

Turnover & Gross Profit (Rs. In Million)

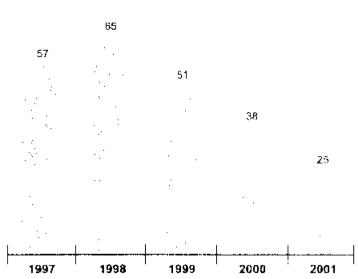


Dividend per Share (Rs.)

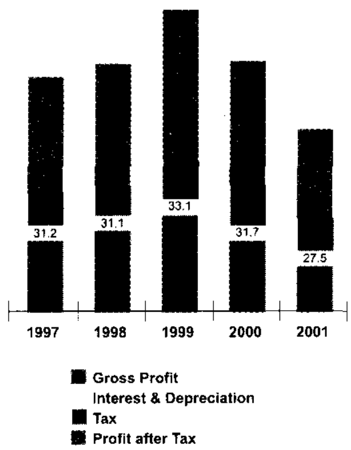


* Subject to the approval in the AGM

Earnings per Share (Rs.)



Profit Allocation
(Rs. In Million)



During the year, the company had invested in 10% Redeemable Debentures of Elgi Ultra Industries Ltd., to the tune of Rs.100.00 million and another Rs.10.00 million each in debt instruments of ICICI and IDBI which provide an average return of 11.7% p.a., 250,000-12.5% Non-convertible Redeemable Preference Shares in Terra Agro Technologies Ltd., of Rs.10 each were sold at par, amounting to Rs.2,500,000 and 94,980 Equity shares of Rs. 10 each in Festo Controls Ltd., were surrendered at a premium of Rs. 5 per share for an aggregate value of Rs. 1,424,700, on buy back option exercised by the Company.

Dematerialisation

The Company's shares are being traded only in dematerialised form. Consequent to this about 40% of the outstanding shares have been dematerialised.

Subsidiaries

In compliance with the provisions of Sec. 212 of the Companies Act, 1956, the Audited statement of accounts for the respective year end of the subsidiary companies and also the statement under the said section are attached along with the Annual Report of the company. The performance of the subsidiaries are satisfactory. Excepting the joint venture in Tanzania, the rest had reported satisfactory profits.

Directors

During the year, the directors, R.Alagappan, C.R.Lingiah and P.V.Nathan had resigned from the Board. We wish to place on record the valuable services rendered by them for the growth of the company. In their place, the Board has appointed M.D.Selvaraj and Suresh Jagannathan as Directors.

During the year, three senior executives of the company have been inducted into the Board as Directors with specific responsibility assigned to them.

T.Ashok Anand	-	Director - Manufacturing
M.John Edward	-	Director - Sales & Marketing
S.A.Subramanian	-	Director - Company Secretary

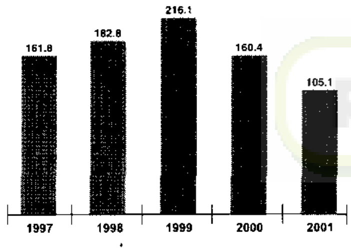
In accordance with the provisions of the Articles of Association, K.J. Janakar retires by rotation.

Auditors

Reddy, Goud & Janardhan, Auditors of the Company retire in the ensuing Annual General Meeting.

The Board regrets to convey to the members that one of the senior partners of our audit firm Sri.S.Janardhan, Chartered Accountant, passed away on 16.04.2001.

Net Profit
(Rs. In Million)



Audit Committee

In terms of clause 49 A of the Listing Agreement, the Board of Directors have, at their meeting held on 30th Jan. 2001, has constituted an Audit Committee. M.D.Selvaraj is the Chairman of the Committee and C.Thiagarajan and Suresh Jagannathan are the other members.

The role of the Audit Committee is to review periodically, the financial reports, review the internal audit and control systems with the statutory auditors and the internal auditors, and review the accounts of the Company for the year prior to their submission to the Board.

Directors' Responsibility Statement

In preparing these accounts, the Directors confirm that:

applicable accounting standards have been followed without any material departures;

suitable accounting policies have been selected and applied consistently;

judgement and estimates made are reasonable and prudent and that the accounts give a true and fair view of the state of affairs of the company at the end of the year and of the profit of the company for the year;

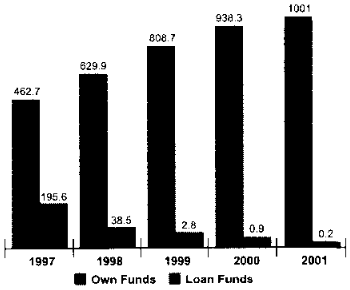
proper and sufficient care has been taken for maintenance of adequate accounting records in accordance with the provisions of the act for safeguarding the assets of the Company and for preventing and detecting fraud and irregularities, and

Company has adopted the "going concern" basis in preparing the accounts.

Particulars in respect of Conservation of Energy, Technology Absorption and Foreign Exchange Earnings and 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 Board of Directors) Rules, 1998 is given as Annexure - 1 to this report.

Own Funds & Loan Funds
(Rs. In Million)



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, a statement giving the required information relating to employees covered by the said section is given as Annexure - 2 to this report.

Acknowledgment

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

Annexure - 1

A. Conservation of Energy -

(a) Energy Conservation measures taken:

i. Internal mixers converted to lower speed, to reduce power consumption and to improve quality.

ii. New tread buffing machine developed to reduce power consumption and reduce waste.

iii. Fully automatic high pressure steam boiler is being installed in Pondicherry to reduce energy usage and to improve consistency in product.

(b) Additional Investments and proposals, if any, being implemented for reduction of consumption of energy:

i. New kneader being installed at Palakkad, for mixing soft compounds with lesser energy.

ii. Energy audit is being conducted to reduce power consumption wherever necessary.

(c) Impact of the measures at (a) and (b) above for reduction of energy consumption and consequent impact on the cost of production of goods:

i. Considerable savings in power consumption observed.

(d) Total energy consumption and energy consumption per unit of production as per Form A of the Annexure* in respect of industries specified in the schedule thereto: Not Applicable

B. Technology absorption -

(e) Efforts made in technology absorption as per Form B of the Annexure*:
Research & Development (R & D):

1. Specific areas in which R & D is carried out by the company

i. New retreading machines being developed for overseas market.

ii. New tread patterns developed for overseas market.

iii. Improvements made in the existing products like rasps, tools, etc., for improving performance and finish.

iv. Improvements made in repair patches, for better performance and finish.

2. Benefits derived as a result of above R & D

i. Orders being received for retreading machines from abroad.

ii Good improvement in the sale of repair patches and tools.

3. Future plan of action

i. To develop new compounds for better performance and new designs for overseas markets.

ii. To instal additional mould making facilities.

4. Expenditure on R & D

			Rs.
i.	Capital	:	5,036,831/-
ii.	Recurring	:	8,422,929/-
iii.	Total	:	13,459,760/-
iv.	Total R & D expenditure as a percentage of total turnover	:	1.44%

Technology absorption, adaptation and innovation

1. Efforts in brief, made towards technology absorption, adaptation and innovation: Not Applicable

2. Benefits derived as a result of the above efforts, e.g., product improvement, cost reduction, product development, import substitution, etc.: Not Applicable

3. In case of imported technology (imported during the last five years reckoned from the beginning of the financial year) following information may be furnished: Not Applicable

C. Foreign Exchange Earnings and Outgo -

(f) Activities relating to exports; initiatives taken to increase exports; development of new export markets for products and services and export plans:

The company's exports declined marginally (valuewise) due to sluggish off take in most markets.

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

(g) Total Foreign Exchange used and earned:

Foreign Exchange Earned : Rs.55,923,058/-
Foreign Exchange Spent : Rs.22,757,145/-

* vide The Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988.

Annexure - 2

Information pursuant to Sec.217(2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975 and forming part of the Directors' Report for the year ended 31st March, 2001:

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	72 years Diploma in Automobile Engg. 49 years	3,899,519	13.05.1981	L.G.Balakrishnan & Bros. Ltd., Coimbatore
2.	Sudarsan Varadaraj	Managing Director	43 years B.E.(Hons) M.S.(M.E.) 19 years	15,598,077	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.

For the Board of Directors
L.G.Varadarajulu
Chairman

Coimbatore
30.05.2001

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	:	01.08.2001 to 20.08.2001	
AGM - Date & Venue	:	20.08.2001	Elgitread (India) Ltd., Recreation Hall, Thumakunta Kirikera, Hindupur Andhra Pradesh 515 211

Stock Market Data:

Listing on Stock Exchanges	:	Regional Stock Exchange Hyderabad National Stock Exchange, Mumbai Stock Exchanges at Mumbai, Chennai and Coimbatore Annual Listing fees to all the Stock Exchanges mentioned above were paid upto date.
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	:	B 1

Share Transfers:

No. of Shares received for transfer	:	49,000 per month on an average
Average turn around time	:	20 days
Bad deliveries received	:	
Due to: Signature difference	:	Nil
Execution date not mentioned	:	Nil
Special efforts to improve service	:	Investors' Relation 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	:	There were 8 cases involving temporary Court Injunction for
against the Company	:	fraudulent transfer of shares and misplacement of share certificates.
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 1st Bonus Issue - 01.11.1994 2nd Bonus Issue - 21.11.1998 No Debenture issue made by the Company.
Reuters Code	:	ELGT.BO ELGT.NS
Web Site	:	www.elgitread.co.in
Shareholder / Analyst contact address	:	Director - Company Secretary Elgitread (India) Limited "Elgi House" 1789, Trichy Road Ramanathapuram Coimbatore Tamil Nadu 641 045
Phone	:	(0422) - 319901
Fax	:	(0422) - 574178
email	:	info@elgitread.co.in

Annexure I:

Equity Shareholding Pattern - March 31, 2001.

Classification	No. of Shares	%
Directors and their relatives	864,485	20.22
Domestic Companies	1,288,566	30.14
Non Domestic Companies	215,975	5.05
Mutual Funds	90,270	2.11
Commercial Banks	28,206	0.66
Non Resident Indians	7,647	0.18
Public Financial Institutions	60,670	1.42
Resident Individuals	1,719,181	40.22
Total	**4,275,000**	**100.00**

Annexure II:

Distribution of Shareholdings - March 31, 2001

Slab	No. of Shares	%
1 to 500	772,299	18.07
501 to 1000	229,439	5.37
1001 to 2000	175,014	4.09
2001 to 3000	112,367	2.63
3001 to 4000	46,845	1.09
4001 to 5000	68,241	1.59
5001 to 10000	171,726	4.02
More than 10000	2,699,069	63.14
Total	**4,275,000**	**100.00**