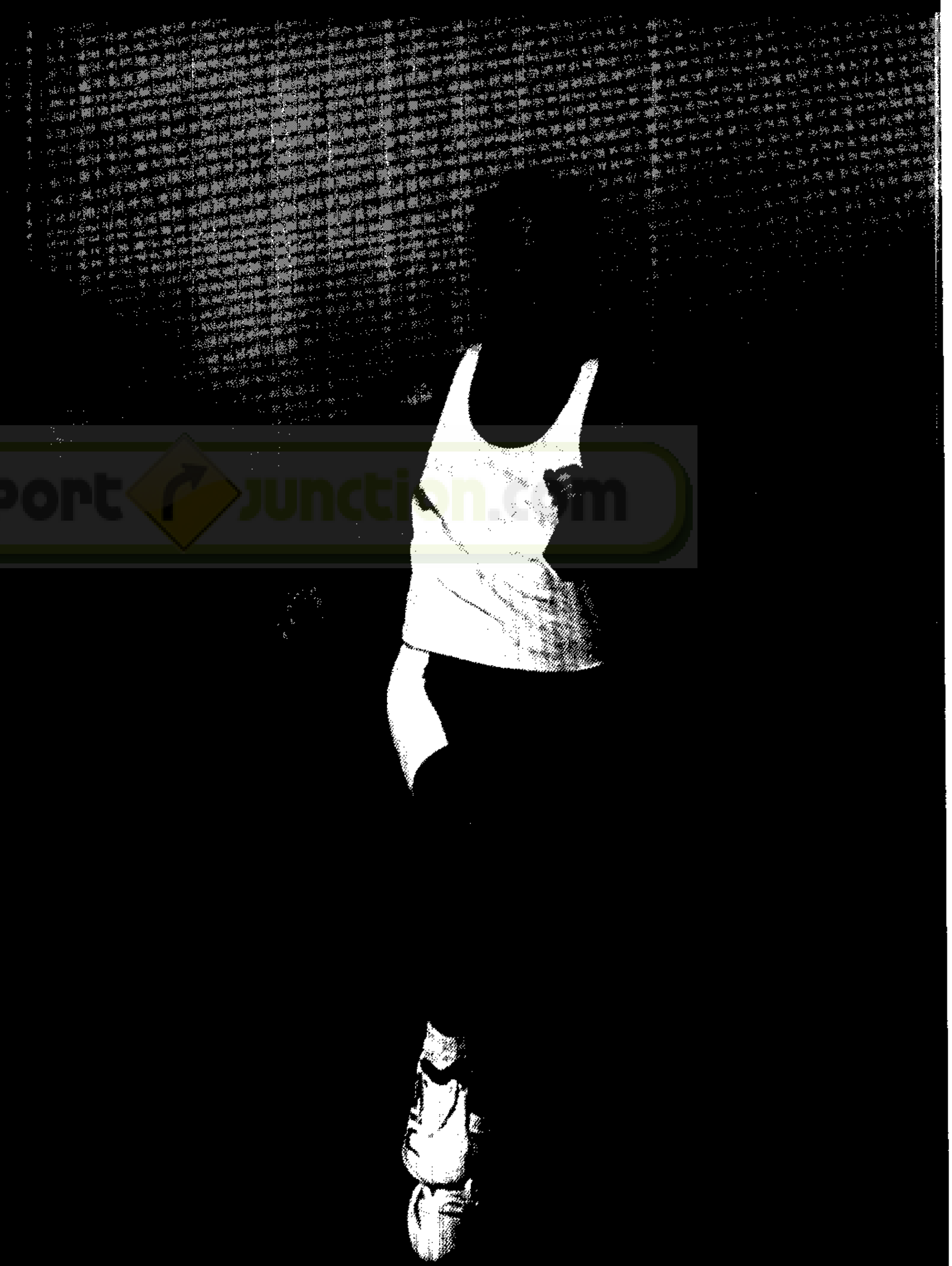
# 21st Annual Report 2001-2002

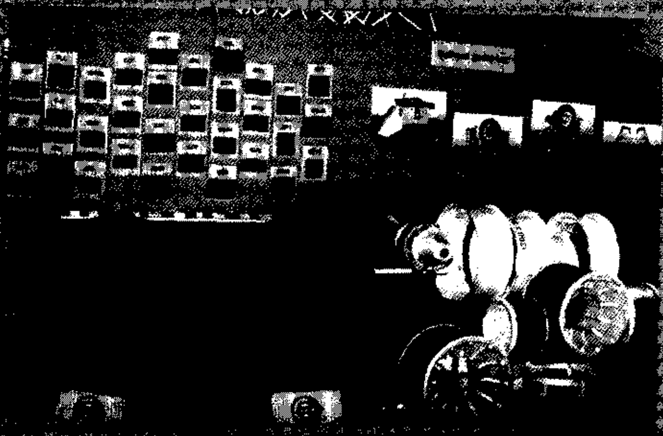




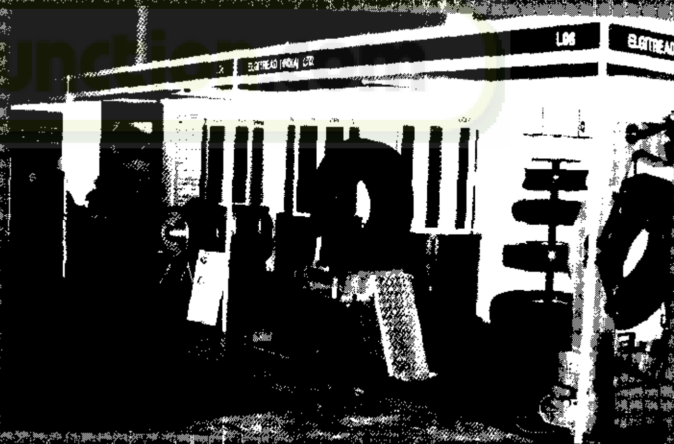
ELGITREAD

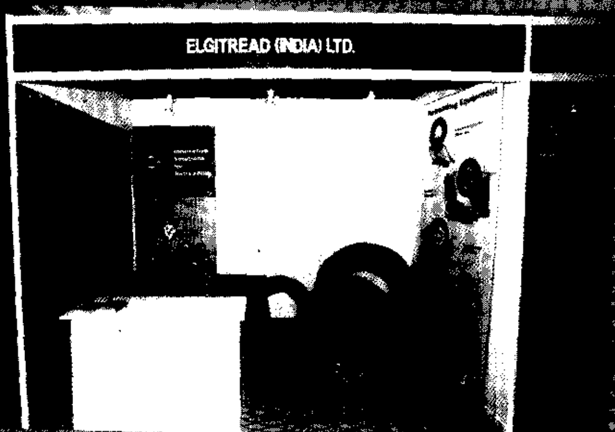
Elgitread (India) Ltd.

Elgitread offers a complete range of services in retreading. This concept has made Elgitread one of the largest suppliers of retreading materials worldwide. To further strengthen its presence in the international markets.Elgitread participated in several international tradeshows & exhibitions during 2001-2002.



Autopromotec Fair, Bologna 2001



# Elgitread (India) Ltd
## Annual Report 2001 - 2002

**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
Dr. Jairam Varadaraj

**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

**Registered Office**

2000, Trichy Road
Singanallur
Coimbatore - 641 005
Tamilnadu

**Plants**

Kirikera, Hindupur
Korkadu, Pondicherry
Kottayi, Palakkad
Kurichi, Coimbatore
Nairobi, Kenya
Coromandel, Mauritius
Arusha, Tanzania
Dankotuwa, Sri Lanka
Lorena-SP, Brasil

**Bankers**

State Bank of India

**Auditors**

Reddy, Goud & Janardhan
Chartered Accountants
Bangalore

**Internal Auditors**

S.B.Billimoria & Co.
Chartered Accountants
Chennai

## Historical Prospective - 10 Year Performance

(Rs. in Million)

| Particulars | 1992-1993 | 1993-1994 | 1994-1995 | 1995-1996 | 1996-1997 | 1997-1998 | 1998-1999 | 1999-2000 | 2000-2001 | 2001-2002 |
|---|---|---|---|---|---|---|---|---|---|---|
| Sales & Other Income | 946.8 | 978.9 | 994.6 | 1307.6 | 1435.5 | 1461.3 | 1313.9 | 1136.4 | 1004.0 | 965.2 |
| Profit before Depreciation and Tax | 91.8 | 105.8 | 102.5 | 156.0 | 264.5 | 278.8 | 339.2 | 282.1 | 204.6 | 204.7 |
| Profit before Tax | 45.7 | 56.0 | 57.0 | 114.8 | 233.3 | 247.8 | 306.1 | 250.4 | 177.1 | 181.5 |
| Profit after Tax | 27.7 | 45.0 | 39.5 | 75.8 | 161.8 | 182.8 | 216.1 | 160.4 | 105.1 | 125.6 |
| Dividend % | 30 | 30 | 27 | 35 | 50 | 50 | 100 | 65 | 90 | 100* |
| Gross Fixed Assets | 213.5 | 246.4 | 270.0 | 308.2 | 324.5 | 389.2 | 423.3 | 439.9 | 439.1 | 456.1 |
| Net Fixed Assets | 127.0 | 134.7 | 120.8 | 135.4 | 126.5 | 163.0 | 167.1 | 162.4 | 153.5 | 148.4 |
| Investments | 7.4 | 15.4 | 16.4 | 38.4 | 73.0 | 34.4 | 32.9 | 160.8 | 278.4 | 342.4 |
| *Net Working Capital* | 172.6 | 208.4 | 313.2 | 376.7 | 458.8 | 471.0 | 611.4 | 612.2 | 562.5 | 499.2 |
| Total Capital Employed | 307.0 | 358.5 | 450.4 | 550.5 | 658.3 | 668.4 | 811.5 | 939.2 | 1001.2 | 1088.6 |
| Shareholders' Funds | 173.2 | 214.5 | 249.3 | 315.2 | 462.7 | 629.9 | 808.7 | 938.3 | 1001.0 | 1088.4 |
| **Borrowed Funds:** | | | | | | | | | | |
| Bank Overdraft | 49.9 | 49.5 | 50.5 | 113.1 | 125.8 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Long Term Loans | 66.8 | 63.9 | 114.2 | 80.0 | 44.7 | 8.4 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other borrowed funds | 17.1 | 30.6 | 36.4 | 42.2 | 25.1 | 30.1 | 2.8 | 0.9 | 0.2 | 0.2 |
| | **133.8** | **144.0** | **201.1** | **235.3** | **195.6** | **38.5** | **2.8** | **0.9** | **0.2** | **0.2** |

* Subject to the approval in the Annual General Meeting.

## Letter from the Chairman

Dear member

It once again pleases me to address this annual communication to you.

Since my last letter, there have been a lot of changes in the way Annual Reports are to be furnished. Much of what I have to say are covered in the Report from the Directors and the Corporate Governance Report.

I would like to constrain myself in giving my personal opinion on the long term prospects for the industry. Much of what we expected to happen over the past 3-4 years have not materialized and there are no indications that this would change. Year by year, the transportation industry has shown a decline and businesses related to tyres – both new and retreading have followed the same trend. Our company has also felt the effects of this situation. There does not appear to be any indication whatsoever in the trend reversing. Sale of new tyres for trucks and buses, which is a very good indication of the retreading industry also, has decreased by over 3% in the first quarter of this calendar year compared to the same period last year. Even if this trend reverses, the retreading industries' prospects would reflect it after a lag of 6-9 months. Given this, without any other major complementary developments, it would be at least 3 years before industry reaches its peak levels. In the light of this, I'm afraid the trend that we have been seeing of drop in sales added with heavy pressures on the bottom line will continue for between 2-3 years.

Recognizing this, we have been aggressively cutting operating costs and improving operational efficiencies. Further, we have and will continue to invest heavily in overseas markets both by way of manufacturing subsidiaries and extensive marketing efforts. These efforts will give the company, a broader base to operate from and will also smoothen out trends in specific markets. This is a long term strategy and we can expect reasonable returns only after 2-3 years.

In short, the next 3 years are going to be very challenging ones for the company and it is pertinent that we conserve all resources.

The exposure of the company in terms of the assumptions of certain assets of Elgi Finance Ltd. has come down. Out of the total value of Rs.75.0 million, Rs.63.8 million has been realized, Rs.10.5 million has been written off, leaving a balance of Rs.0.7 million which is good.

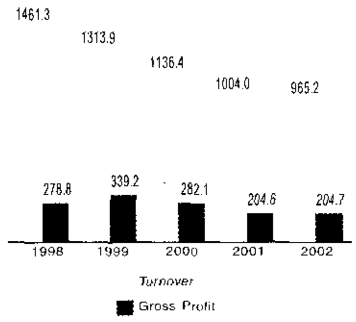
Thank you for the confidence that you have shown in our company and look forward to your continued support in the coming years.

**L.G.Varadarajulu**

Coimbatore
07.06.2002

## Directors' Report

Turnover & Gross Profit
(Rs. In Million)

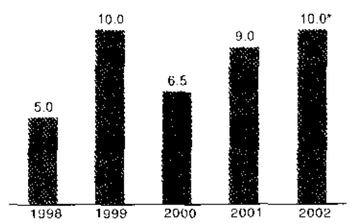



We are pleased to present the 21st Annual Report and the Audited Annual Accounts for the financial year ended 31st March, 2002. We have included, as a part of this report the Management Discussion and Analysis.

**Financial Results**

| | 2001-2002<br>Rs. | 2000-2001<br>Rs. |
|---|---|---|
| **Profit before Depreciation** | 203,577,548 | 205,085,080 |
| Less: Depreciation | 23,183,367 | 27,518,909 |
| Profit before Taxation | 180,394,181 | 177,566,171 |
| Less: Provision for Taxation | 70,027,000 | 72,006,000 |
| Add: Provision for Deferred Tax | 14,174,000 | — |
| Profit after Tax | **124,541,181** | **105,560,171** |
| Add: Balance from previous year | 20,129,165 | 7,430,116 |
| Add: Adjustment relating to earlier years | 1,105,883 | (461,672) |
| Profit available for appropriation | **145,776,229** | **112,528,615** |
| **Appropriation** | | |
| General Reserve | 71,312,000 | 50,000,000 |
| Proposed Dividend | 42,750,000 | 38,475,000 |
| Tax on Dividend | — | 3,924,450 |
| Balance carried to Balance Sheet | **31,714,229** | **20,129,165** |

Dividend per Share (Rs.)




* Subject to the approval in the AGM

**Dividend**

We are pleased to recommend a dividend of Rs.10 per share for the year. This translates to a payout of 34% of the profit after tax. Dividend, if approved by the members will be paid to all the members whose names appear in the Register of Members as on the book closure date. In respect of the shares maintained electronically, dividend will be paid to the beneficial owners based on the list provided by the Depositories.

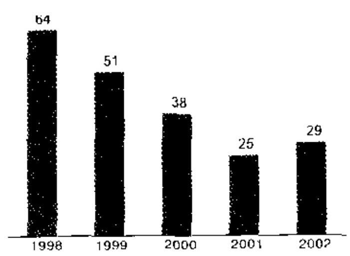
**Overview of the company**

The company is one among only 3 or 4 companies worldwide and the only one in India, who is a single source supplier of all the needs of a retreader. We offer a wide range of solutions ranging from stand-alone machines for tyre retreading to complete systems comprising supply of equipment and materials, training of personnel and technical support and audit. In India and some countries overseas, we operate on a franchise system with a strong presence in India with over 350 franchisees distributed evenly over the entire country. Over 75 complete retreading plants have been sold to State Transport Undertakings in India and over 200 plants in other parts of the world.

**Structure of the Industry**

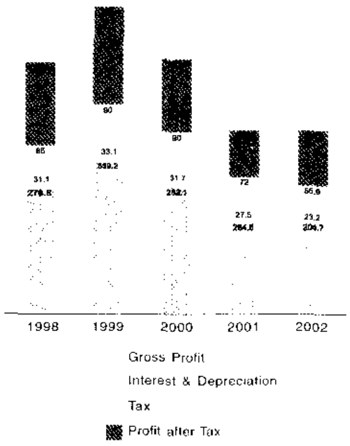
The retreading industry is a two tiered structure. The first tier consists of retreaders and the second the manufacturers of raw material, accessories and equipment. The retreaders are generally very small, single plant operators with an average production of around 300 tyres per month. There are a few large companies with multiple facilities in the southern states.

Earnings per Share (Rs.)

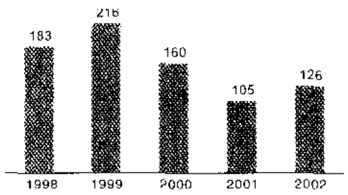



On the other hand, the manufacturers fall into two categories, the organized medium/large companies accounting for between 25-30% and the rest comprising of thousands of small unorganized manufacturers. It is estimated that the total annual volume of retreading materials in India is close to 140,000 MT, making India either the third or fourth largest single market in the world. While the big markets have no more than 8 or 10 manufacturers, India has over a thousand with no more than 2 or 3 major manufacturers. The manufacture of retreading materials is a capital and research intensive process, almost similar to the manufacture of automotive tyres. Unfortunately, due to various incentives offered by the government coupled with massive evasion of taxes, the industry is tending to shift from the organized to the unorganized sector. As result, there is a considerable decrease in the quality and performance of the retreads.

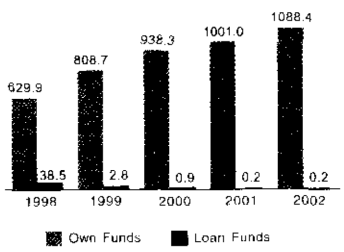
**Profit Allocation**
**(Rs. In Million)**




**Net Profit**
**(Rs. In Million)**




**Own Funds & Loan Funds**
**(Rs. In Million)**




### Opportunities and Threats

India has ambitious plans for investments in the National Highways programme - the Golden Quadrilateral. The international standards of these highways will make large and modern trucks and buses more viable to operate and hopefully with strict enforcement on the quality and standards for tyres – the market for better quality retreads will increase. This will be a good opportunity for good quality retreaders and raw material manufacturers to gain a better market share.

With better roads and better maintained vehicles operating on them, radial tyres will become very cost effective to use for the transporters. Given the higher cost of these tyres and also the better technology/raw material needed to retread them, the market will begin to consolidate rapidly in favour of the better quality manufacturers.

If the current economic conditions continue and the transport industry continues to look for cheaper alternatives – even though they perform poorly – the organized manufacturers are going to be under tremendous pressure. This is particularly so for our company, which unlike the competitors, does not have any other business to fall back on.

### Performance

The company achieved a turnover of Rs.903.3 million (Rs.936.8 million) - a drop of 4% in aggregate value. However, in terms of quantity of retreading raw materials there was a marginal growth of about 1%. Cash profits amounted to Rs.134.6 million as compared to Rs.132.6 million in the previous year.

Franchise sales declined by 7.3%. This was on account of sluggish off-take by the transport sector. In addition a number of franchisees had to cut back their operations and operate on a cash and carry basis due to high receivables and its poor quality. Coupled with this, they had to cope with severe competition from the small scale units with cheaper products and no assurance for quality.

Until recently, the company was not keen on business with the road transport corporations due to un-remunerative prices and extensive credit. Given that this sector accounts for a considerable volume, the company has re-entered this sector selectively with aggressive pricing. This has increased sales from this sector by over 8%.

Domestic sales from the machinery division accounted for Rs.21.7 million recording a marginal decrease. The sales were mostly to new franchisees appointed in the place of those whose performance was not satisfactory.

The total export earnings amounted to Rs.87.5 million, which is about 64% more than the previous year (Rs.53.4 million) in value terms. Aggressive marketing efforts and attractive pricing of the products in the export markets has yielded good results. Given this favorable trend and the need to have world class manufacturing facilities to cater to the overseas markets, a new state of the art facility is being set up in Kurichi, a suburb of Coimbatore. This facility, estimated to eventually cost over Rs.250 million will be partly operational during the second half of the year.

During the year, wholly owned subsidiaries were formed in the Bangladesh, Brazil and U.S.A., with an investment of Rs.47.0 million. An additional investment of Rs.3.3 million was made in Mauritius to convert it into a wholly owned subsidiary.

The electric power generated by the company's wind mills earned an income of Rs.15.3 million showing an increase of about 7% over the previous year.

### Outlook

The outlook for the next 3-4 years does not look very promising. Maintaining past performance, by itself is going to be challenging. The market conditions have been very flat for the past 3-4 years and it appears that there is very little scope for expansion in India under the present conditions. This could change only if the regulations for using good quality retreads are strictly implemented, the fiscal concessions to the small scale sector are rationalized and properly enforced and radialisation of truck tyres comes about in a big way. Though the markets in the Americas and Europe can easily accommodate another player with cost effective products of very high quality, it will take at least 2-3 years to establish a stable business in these markets.

The company has no plans to diversify into other business but would like to stick to its core competency area.

**Risks and Concerns**

The company derives over 80% of its revenue from the Indian market from a single product group and is potentially exposed to any risk of a significant nature to the Indian economy. The continuing trend in the transport industry is a cause for concern.

The focus on overseas markets has its own set of risks. Most important is the issue of liability in the focus markets. Another area would be the collection of receivables – this would be considerably reduced by having more of our personnel in these markets and aggressively monitoring the receivables.

**Internal Controls**

The company has proper and adequate systems of internal controls in order to ensure that all its assets are safeguarded against loss from unauthorised use or disposition and that all transactions are authorised, recorded and reported correctly. Regular internal audits and checks are carried out to ensure that the responsibilities are executed effectively and that adequate systems are in place.

The management continuously reviews the internal control systems and procedures to ensure orderly and efficient conduct of business. The review included adherence to the management policies, safeguarding the assets of the company and ensuring preparation of timely and accurate financial information.

The emphasis of internal controls prevails across functions and locations covering the entire gamut of the company's activities. A strong internal audit service from outside the company and an effective Audit Committee of the Board has strengthened the internal control within the organisation.

**Financials**

The company has had stable earnings despite unfavorable market conditions. The cash flows from the operations continue to fund the working capital requirements, capital expenditure including foreign investments and the dividend pay out. The company continues to be debt free.

Lower finance charges, implementation of several cost control and productivity improvement measures and a concerted effort in process waste reduction, enabled the company to show better operating result in the midst of adverse market conditions.

During the year 500,000 - 12 1/2% Non-Convertible Redeemable Preference shares of Rs.10/- each in Terra Agro Technologies Ltd., were sold at face value. Bonds worth Rs.10.00 million in each of the institutions - ICICI & IDBI and units worth Rs.30.00 million in various mutual funds were redeemed during the year.

The capital expenditure for the year has been Rs.18.7 million, out of which majority of expenditure was incurred for improving the production facilities. All the capital expenditure was funded out of internal accruals.

The Reserves & Surplus stand at Rs.1,046 million against Rs.958 million in the last year. The book value per share is Rs.255/- compared to the current market price range of around Rs.200/-.

**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.

**Human Resource Development**

The company's human resources are the foundation of its dominance. The company has striven to build a culture of commitment and cooperation among its employees by orienting them towards total quality and upgradation of capabilities. The relation between employees and management has always been and continues to be cordial.

A five year agreement was signed with the employees of Pondicherry factory and negotiations with the Palakkad factory employees are going on. The company introduced a voluntary separation scheme across the company in November 2001 and 110 employees including executives opted for this. The present strength of employees in the company is 461 including all categories at all locations.

**Dematerialisation**

The company's shares are compulsorily traded in the dematerialised form and are available for trading under both the Depository Systems in the country - National Securities Depository Ltd (NSDL) and Central Depository Services (India) Ltd (CDSL). As on March 31, 2002, a total of 1,888,416 equity shares which forms 44.2% of the share capital stands dematerialised. Intime Spectrum Registry Pvt Ltd, Mumbai, have been retained as the Registrar and Transfer Agent for dematerialisation for both NSDL and CDSL services.

**Corporate Governance**

Pursuant to clause 49 of the Listing Agreement with the Stock Exchanges, a Management Discussion and Analysis Report (the required points of discussion have been addressed in this report ) and a Corporate Governance Report are made as part of this Annual Report.

The company has an Audit Committee in terms of Clause 49 of the Listing Agreement, with Sri.M.D.Selvaraj, Sri.Suresh Jagannathan and Sri.C.Thiagarajan as its members. The company has also constituted a Investors' Relation Committee to deal with complaints and grievances of the investors and a Remuneration Committee to determine the remuneration payable to the Executive and Non-Executive Directors.

A certificate from the auditors of the company regarding compliance of the conditions of corporate governance as stipulated by clause 49 of the Listing Agreement is attached to this report.

**Additional Disclosures**

In line with the requirements of the Listing Agreements and the various Accounting Standards of the Institute of Chartered Accountants of India, the company has made additional disclosures in respect of consolidated Financial Statements, Related Party Transactions and Segmental Reporting.

**Directors**

In accordance with the provisions of Articles of Association - Sri.N.S.K.Swamy and Sri.C.Thiagarajan retire by rotation.

Dr. Jairam Varadaraj was appointed as an Additional Director with effect from June 7, 2002.

The Board regrets to convey to the members that Sri.R.Alagappan, a Director associated with the company since its inception passed away on November 19, 2001.

**Auditors**

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

**Directors' Responsibility Statement**

In terms of Section 217 (2AA) of the Companies Act, 1956, the Directors have:

a. followed in the preparation of the Annual Accounts, the applicable accounting standards with proper explanations relating to material departures;

b. selected suitable accounting policies and applied them consistently and made judgements and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the company at the end of the financial year and of the profit of the company for that period;

c. taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities; and

d. prepared the Annual Accounts on a going concern basis.

**Other Information**

Particulars as required by Section 217 (1)(e) of the Companies Act, 1956, relating to Conservation of Energy, Technology Absorption and Foreign Exchange Earnings and Outgo are also provided in the annexure to this report together with the particulars of employees as required under section 217 (2A) of the Companies Act, 1956.

**Cautionary Statement**

*Statements in this report, describing the company's objectives, expectations and/or predictions may be forward looking within the meaning of applicable securities law and regulations.*

Actual results may differ materially from those stated in the statement. Important factors that could influence the company's operations include global and domestic supply and demand conditions affecting selling prices of finished goods, availability of inputs and their prices, changes in the Government regulations, tax laws, economic developments within the country and outside and other factors such as litigation and industrial relations.

*The company assumes no responsibility in respect of the forward looking statements which may undergo changes in future on the basis of subsequent developments, information or events.*

**Acknowledgement**

We are pleased to place on record 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. High pressure automatic steam boiler has been installed in the Pondicherry factory to reduce fuel consumption in the vulcanising areas.
ii. A similar boiler is being installed in the Palakkad factory.
iii. Temperature control units have been installed in the mixers to reduce mixing energy.
iv. Stock blenders have been installed in the mills at Palakkad, to reduce mixing time and energy.

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

i. Stock blenders to be installed in Pondicherry factory also.

**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. Reduction in fuel consumption at Pondicherry
ii. Reasonable savings in power at Palakkad.

**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 Buffers, Builders and Chambers developed for export.
ii. New Tread patterns developed for buses, multi utility vehicles and for export markets.
iii. Moulds and dies being developed using new CNC machines.
iv. Extensive process automation systems is being developed.

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

i. New orders received from overseas customers for machines and treads.

**3. Future plan of action**

i. To develop new techniques for developing moulds.
ii. New type of tyre repair patches are being developed.

**4. Expenditure on R & D**

| | | | Rs. |
|---|---|---|---|
| i. | Capital | : | 351,828 |
| ii. | Recurring | : | 1,917,438 |
| iii. | Total | : | 2,269,266 |
| iv. | Total R & D expenditure as a percentage of total turnover | : | 0.25% |

**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 has adopted an aggressive pricing policy for its products in the export markets.
The company has developed products specifically to suit the specific markets.
In addition, participation in international trade fairs and exhibitions and advertisement campaigns has given a good exposure of the company's brand.

**(g) Total Foreign Exchange earned and used**

Foreign Exchange Earned : Rs.89.80 Million
Foreign Exchange Used : Rs.76.92 Million

* 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 as amended and forming part of the Directors' Report for the year ended 31st March 2002.

| Sl. No. | Name | Designation / Nature of Duties | Age/Qualification & Experience | Total Remuneration (Rs.) | Date of Commencement of Employment | Previous Employer |
|---|---|---|---|---|---|---|
| 1 | Sudarsan Varadaraj | Managing Director | 44 years<br>B.E.(Hons) M.S.(M.E.)<br>20 years | 16,787,345 | 12.03.1988 | LSA Engineers Inc., Houston, U.S.A. |

**Note**

1. The Managing Director was 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. Sudarsan Varadaraj, Managing Director, is related to L.G. Varadarajulu, Chairman of the company.

For the Board of Directors
**L.G. Varadarajulu**
Chairman

Coimbatore
07.06.2002