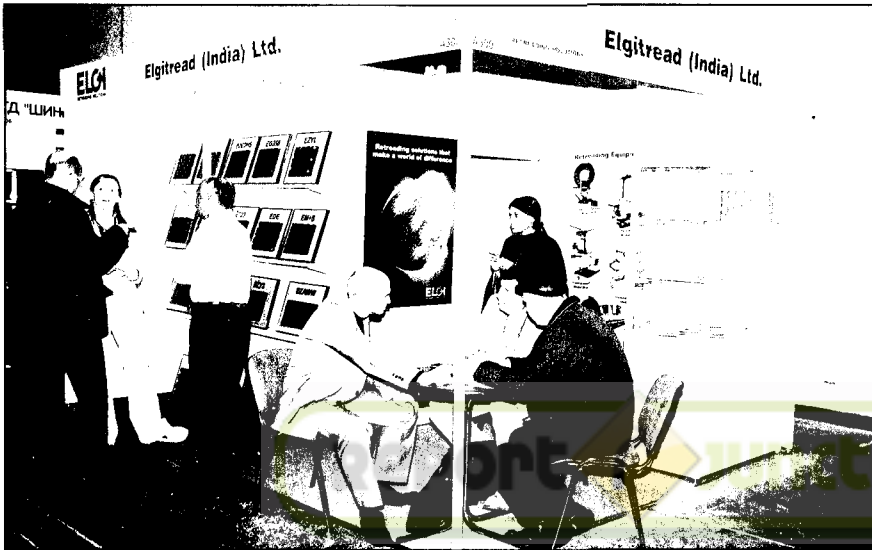


# **24th Annual Report**

## **2004-2005**



With our concept of Single source retread solutions, our products have been accepted and appreciated globally. To gain more global presence and recognition, Elgitread has participated in some of the international exhibitions held in 2004 - 2005.



Tires and Rubber Fair,  
Moscow, Russia.



China International Tyre Expo,  
Shanghai, China.

## Elgitread (India) Limited

### Annual Report 2004 - 2005

#### Directors

L.G.Varadarajulu  
(Chairman)  
Sudarsan Varadaraj  
(Managing Director)  
M.John Edward  
T.Ashok Anand  
C.Thyagarajan  
Jairam Varadaraj  
K.Jayaraman  
Suresh Jagannathan  
M.D.Selvaraj  
Vijay Raghunath  
C.N.Srivatsan

#### Key Executives

L.G.Varadarajulu  
(Chairman)  
Sudarsan Varadaraj  
(President)  
M.John Edward  
(Director - Sales & Marketing)  
T.Ashok Anand  
(Director - Manufacturing)  
V.M.Vennila  
(Company Secretary)

#### Head Office

2000, Trichy Road  
Singanallur  
Coimbatore - 641 005  
Tamilnadu

#### Bankers

State Bank of India  
Commercial Branch  
Coimbatore

#### Registered Office

2000, Trichy Road  
Singanallur  
Coimbatore - 641 005  
Tamilnadu

#### Auditors

Reddy, Goud & Janardhan  
Chartered Accountants  
Bangalore

#### Plants

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

#### External Internal Auditors

Delloitte Haskins & Sells  
Chartered Accountants  
Coimbatore

#### Registrar & Share Transfer Agent

Intime Spectrum Registry Ltd.,  
Regd. Office :  
C/13, Pannalal Silk Mills Compound  
Bhandup (West), Mumbai 400 078  
Branch Office :  
"Surya", 35, May Flower Avenue  
Behind Senthil Nagar, Sowripalayam  
Coimbatore 641 028, Tamilnadu

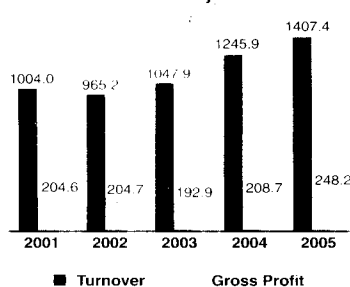
## Historical Perspective - 10 Year Performance

(Rs. in Million)

Particulars	1995-1996	1996-1997	1997-1998	1998-1999	1999-2000	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005
Sales & Other Income	1307.6	1435.5	1461.3	1313.9	1136.4	1004.0	965.2	1047.9	1245.9	1407.4
Profit before Depreciation and Tax	156.0	264.5	278.8	339.2	282.1	204.6	204.7	191.8	218.4	247.2
Profit before Tax	114.8	233.3	247.8	306.1	250.4	177.1	181.5	161.3	184.5	206.3
Profit after Tax	75.8	161.8	182.8	216.1	160.4	105.1	125.6	105.2	128.3	134.1
Dividend %	35	50	50	100	65	90	100	110	100	60*
Gross Fixed Assets	308.2	324.5	389.2	423.3	439.9	439.1	456.1	573.1	571.7	694.4
Net Fixed Assets	135.4	126.5	163.0	167.1	162.4	153.5	148.4	238.6	223.1	310.3
Investments	38.4	73.0	34.4	32.9	160.8	278.4	342.4	454.1	355.5	403.9
Net Working Capital	376.7	458.8	471.0	611.4	612.2	562.5	499.2	414.5	611.5	644.2
Total Capital Employed	550.5	658.3	668.4	811.5	939.2	1001.2	1088.7	1140.6	1272.5	1380.1
Shareholders' Funds	315.2	462.7	629.9	808.7	938.3	1001.0	1088.4	1140.6	1245.5	1350.4
<b>Borrowed Funds</b>										
Bank Overdraft	113.1	125.8	—	—	—	—	—	—	—	—
Long Term Loans	80.0	44.7	8.4	—	—	—	—	—	—	—
Other borrowed funds	42.2	25.1	30.1	2.8	0.9	0.2	0.2	—	—	—
<b>Total Funds</b>	235.3	195.6	38.5	2.8	0.9	0.2	0.2	—	—	—

\* Subject to the approval in the Annual General Meeting.

Profitability



## Directors' Report

The Board of Directors have pleasure in presenting the 24<sup>th</sup> Annual Report and Audited Accounts for the year ended 31<sup>st</sup> March 2005.

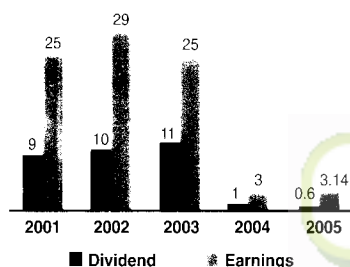
## Management Discussion and Analysis Report

The Management Discussion and Analysis Report is included at the appropriate places in this report to avoid duplication.

## Financial Results

	2004 - 2005	2003 - 2004
	(Rs. in million)	
<b>Profit Before Depreciation</b>	248.23	208.70
Less: Depreciation	40.89	33.88
Profit Before Taxation	207.34	174.82
Less: Provision for Taxation	46.72	51.02
Less: Provision for Deferred Tax	25.47	5.20
Profit After Tax	135.15	118.60
Add: Balance from previous year	53.34	73.24
Add: Adjustment relating to earlier years	(1.02)	9.73
Profit available for appropriation	187.47	201.57
<b>Appropriation</b>		
General Reserve	13.50	100.00
Interim Dividend @ 40%	—	17.10
Proposed Final Dividend @ 60%	25.65	25.65
Total Dividend for the year	<b>25.65</b>	<b>42.75</b>
Dividend Distribution Tax	3.60	5.48
Balance Carried to Balance Sheet	144.72	53.34

Dividend / Earnings per Share



## Dividend

Your directors recommend a dividend of 60% on the equity shares, and this along with the Dividend Distribution tax translates to a payout of 21.8% of the profit after tax. The dividend would be paid upon approval by the members in the ensuing Annual General Meeting to the registered members as on the book closure date. In respect of the dematerialised shares, dividend will be paid to the beneficial owners based on the list provided by the Depositories.

## Industry Structure and Development

Very little has changed in the tyre retreading raw material industry since the time precured tyre retreading was introduced in India in the mid-80s. Fiscal concessions to small scale companies continue to keep the industry fragmented and discourage the growth of medium and large industries as is seen in other parts of the world. Coupled with high tax levels, even in comparison to new tyres, is encouraging avoidance in a very systematic way. The end result is that the structure of the industry is one that is unique only to India - low cost, low quality image in the eyes of the end user and a fragmented unorganized structure.

The Golden quadrilateral roadways which are getting completed soon will contribute to the upsurge in demand for retreading and in turn will give a fillip to the industry.

## Opportunities

The introduction of new taxes like VAT and Service Tax would indirectly be advantageous to the company since the unorganized sector may be forced into compliance.

Amendments in the legislation with regard to taxes on the purchase of natural rubber from purchase point tax to sale point tax would be an added advantage – bringing better accountability in the industry.

The popularity of radial tyre will offer better opportunities to companies in the organized sector.

## Threats

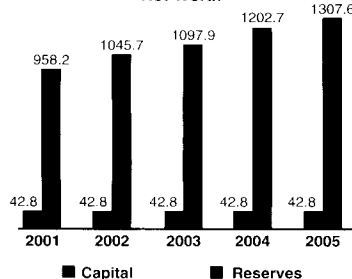
The new Government policy of increasing the exemption limit on the assessable value for the small scale sector is a factor that could bring in more competition from the unorganized sector.

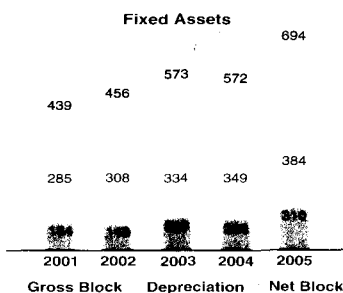
Natural and synthetic rubbers, which account for nearly 50% of the total raw material cost have witnessed unexpected and unprecedented increase and the trend is likely to continue.

## Outlook

The market conditions continue to be very flat with a small negative growth in the industry. This would continue for the next 2-3 years. However increase in population of radial tyres for buses and trucks and the speedy completion of the nationwide highway system could bring in an increased demand for the retreaders in the organized sector. The overseas demand for high quality retreading supplies and acceptable price levels is a good opportunity for established and quality conscious manufacturers. This would be an area of growth.

Net Worth





### Review of operations

Sales during the year registered a growth of 11.5% over the previous year to Rs.1,297 million. Other income amounted to Rs.109.68 million, compared to Rs.81.97 million last year. The other income increase is mainly on account of write back of liabilities no longer required. Cash profit was Rs.248 million as against Rs.209 million an increase of 18.77%.

Segment wise, the franchisee segment registered a decrease of 9.0% during the year over the previous year. Sales to State Transport Undertakings increased by 32.0% mainly because of aggressive pricing albeit lower margins. Exports increased by 58.6%.

The electric power generated by the Company's wind mills was 4.70 million units compared to 5.56 million units in 2003-04 and it recorded an income of Rs.13.64 million.

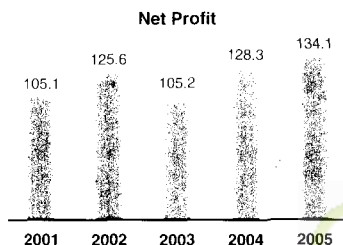
The Company has continued to demonstrate its stable financial position despite unfavourable market conditions. The Cash flow generated from the operations have enabled the company to fund the working capital requirements, capital expenditure including foreign investments and the dividend payment.

### Risks and Concerns

The company is facing all external risks pertaining to this business especially market risk. The company has taken all possible steps to overcome such risks.

The outlook for the industry is uncertain. Input costs have gone up and are expected to remain high. The passing on of raw material cost increases are difficult since retreading industry is unable to accept such increases on account of soft new tyre prices.

As a part of overall risk management strategy, the company has taken proper steps to insure all its assets. Due to proper hedging it also avoids foreign exchange fluctuation risks.



### Internal Control Systems and their adequacy

An ORACLE ERP system has been implemented. This would provide an integrated system ensuring tight internal controls and protection of assets against unauthorized use. Apart from statutory Audit, Internal Audit is being done every quarter by an independent firm of Chartered Accountants and observations are reported to management. Immediate steps are taken to rectify any discrepancies. All significant audit observations were discussed in the audit committee meetings.

### Tsunami

The tsunami disaster of December '04 has caused unprecedented havoc to the lives and property of many people in Tamilnadu and Pondicherry.

The company worked with KARAM, a charitable NGO, to provide support to victims. A cash contribution of Rs.1.15 million, including voluntary contribution from employees was made through the NGO.

### Human Resources and Industrial Relations

The company continues to have cordial and harmonious relationship with its employees. As at 31<sup>st</sup> March 2005, it employs 475 people.

### Subsidiaries

Your company has made an investment of Rs.33.12 Million in the subsidiary Elgitread Do Brasil Industria E Comercio De Artefatos De Borracha Ltda towards their capital for expansion of operations.

### Dematerialisation

The shares of the company are in the compulsory demat segment and are available for trading in the depository systems of both National Security Depository Ltd., and the Central Depository Services (India) Ltd. As on March 31, 2005 - 23,642,030 Equity shares forming 55.30% of the Equity Share Capital of the company stand dematerialised.

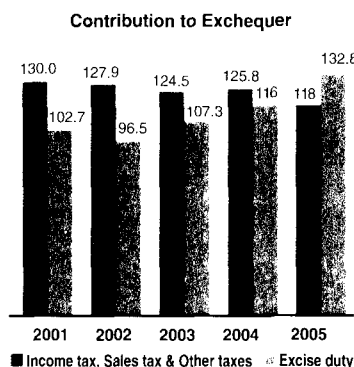
### Listing

The Equity Shares of the company are presently listed on the Coimbatore Stock Exchange and the National Stock Exchange.

### Directors

In accordance with the provisions of the Articles of Association, Sri.K.Jayaraman, Sri.M.D.Selvaraj and Sri.Suresh Jagannathan retire by rotation and being eligible offer themselves for re-appointment.

Sri.S.A.Subramanian had resigned from the directorship of the company with effect from 15<sup>th</sup> June 2004 and Sri.K.J.Janakar from 21<sup>st</sup> May 2004. The Board of Directors wishes to place on record the valuable advice and guidance received from these Directors during their tenure of office as directors.



**Auditors**

Reddy, Goud and Janardhan retire in the ensuing Annual General Meeting and are eligible for reappointment.

**Directors' Responsibility Statement**

In terms of Section 217 (2AA) of the Companies Act, 1956, the Directors confirm that they 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 judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the company 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 provided as an annexure to this report along with the Particulars of Employees as required under section 217 (2A) of the Companies Act, 1956.

**Corporate Governance**

A separate report on the compliance with clause 49 of the Listing Agreement with the Stock Exchanges and the Auditors' certificate on its compliance form part of this Report.

**Cautionary Statement**

Statements in this report, especially those relating to MD & A giving details of company's objectives, projections, estimates and expectations may be construed as "forward looking statements" within the realm of applicable laws and regulations. Actual results might be liable to differ materially from those either expressed or implied.

**Acknowledgment**

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

**Annexure - 1****A. Conservation of Energy -****a) Energy conservation measures taken:**

- i. Demineralised water being used for boiler feed in our Pondicherry factory.
- ii. Efficient condensate recovery system with modern steam traps installed in Pondicherry factory.
- iii. Tread loading system installed in Coimbatore factory to reduce tread curing cycle time.
- iv. Turbo ventilators fixed on the roof of Coimbatore factory.

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

- i. Condensate recovery system being proposed for Coimbatore factory.
- ii. Traditional exhaust fans to be replaced by Turbo ventilators at Pondicherry factory.

**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. Substantial saving in fuel and boiler feed water at Pondicherry.
- ii. Significant reduction in curing cycle time, saving fuel and increasing productivity at Coimbatore.
- iii. Substantial saving in energy as the turbo ventilators are driven by natural draft of air.

**d) Total energy consumption per unit of production. Not applicable.****B. Technology absorption -****e) Efforts made in technology absorption  
Research and Development (R&D)****1. Specific areas in which R & D is carried out by the Company**

- i. New tread sanding line installed in Pondicherry factory.
- ii. New system developed for gravity die casting of aluminium matrices to minimize machining and finishing work on the moulds.
- iii. New tread patterns and moulds developed for European and Russian tyre markets.

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

- i. Improvement in quality and productivity.
- ii. Substantial saving in materials and manpower.
- iii. Good orders received from new markets in Europe and Russia.

**3. Future plan of action**

- i. Quick mould changing system being developed to save time and manpower and also improve productivity.
- ii. More tread patterns and moulds being developed for overseas markets.

**4. Expenditure on R & D**

Rs. in million

- |   |   |       |
|---|---|-------|
| i. Capital  | : | 13.59 |
| ii. Recurring   | : | 7.24  |
| iii. Total  | : | 20.83 |
| iv. Total R & D expenditure as a percentage of total turnover | : | 1.60  |

**Technology absorption, adaptation and innovation**

- |   |                       |
|---|-----------------------|
| <b>1. Efforts in brief, made towards technology absorption, adaptation and innovation.</b>  | <b>Not applicable</b> |
| <b>2. Benefits derived as a result of the above efforts, e.g., product improvement, cost reduction, product development, import substitution etc.</b>                   | <b>Not applicable</b> |
| <b>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</b> | <b>Not applicable</b> |

**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 a strategic market plan to export its products by establishing marketing offices and warehousing the material in different regions. In addition to this, the company will participate in more international trade fairs and exhibitions. It has also developed newer products for meeting the market demands. It also has plans of entering new markets that are untapped for increasing the Company's share in the international market.

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

Foreign Exchange Earned	Rs.232.07 million
-------------------------	-------------------

Foreign Exchange Used	Rs. 53.25 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 2005.

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	47 years B.E.(Hons), M.S.(M.E) 23 years	18,345,738	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 Sri.L.G.Varadarajulu, Chairman and Dr.Jairam Varadaraj, Director of the Company.

For the Board of Directors

Coimbatore  
24.05.2005

**L.G.Varadarajulu**  
**Chairman**



**Report on Corporate Governance****(In compliance with Clause 49 of the Listing Agreement)****I. Company's Philosophy on Corporate Governance**

The Company's philosophy on corporate governance is to ensure that its obligations are discharged in a fair and transparent manner and to enhance the value to all its stakeholders through sound and professional governance.

**II. Board of Directors**

The Board comprises of an Executive Chairman, a Managing Director, Two Wholtime Directors and Seven Non - Executive Directors of the Company. The composition of the directors and their attendance at the board meetings during the year and at the last Annual General Meeting, and also the number of the other directorships are as follows:

Name of the Director	Category of Directorship	No. of Board Meetings attended	Attendance at the last AGM	No. of other Directorship held in Public Companies	No. of membership in other Committees Member/Chairman
L.G.Varadarajulu	Executive Chairman - Promoter	4	Yes	7	2 / -
Sudarsan Varadaraj	Managing Director - Promoter	4	Yes	11	1 / -
Jairam Varadaraj	Non - Executive - Promoter	-	No	8	3 / -
T.Ashok Anand	Director - Manufacturing	4	Yes	2	-
M.John Edward	Director - Sales & Marketing	4	Yes	1	-
M.D.Selvaraj	Non - Executive Independent	4	Yes	2	4 / 1
Suresh Jagannathan	Non - Executive Independent	4	No	3	2 / -
K.Jayaraman	Non - Executive Independent	3	No	-	-
C.Thyagarajan	Non - Executive Independent	4	Yes	-	2 / 1
P.Vijay Raghunath	Non - Executive Independent	4	No	3	1 / -
C.N.Srivatsan	Non - Executive Independent	2	No	3	5 / -
*S.A.Subramanian	Director - Company Secretary	1	Yes	4	-

\* Due to other preoccupations, Sri.S.A.Subramanian resigned from the Board with effect from 15.6.2004 and Sri.K.J.Janakar on 21.5.2004.

Four Board Meetings were held during the year ending 31.03.2005. The dates on which the meetings were held are as follows:

Date of Meeting	No. of Directors present
May 21, 2004	10
July 31, 2004	9
October 25, 2004	9
January 29, 2005	10

**III. Audit Committee**

This Committee comprises of three non - executive directors with the majority being independent directors. The terms of reference of this Committee are as required by SEBI under clause 49 of the Listing Agreement. Besides having access to all the required information from within the Company, the Committee can obtain external professional advice whenever required. The Committee acts as a link between the Statutory and Internal Auditors and the Board of Directors of the Company. It is authorised to select and establish accounting policies, review reports of the Statutory and the Internal Auditors and meet with them to discuss their findings, suggestions, and other related matters. The Committee is empowered to recommend the appointment and remuneration payable to the Statutory Auditors.

The Committee met four times during the year. The composition of the Audit Committee and details of their attendance at the meetings are as follows:

Name of the Member	Category	No. of meetings attended
M.D.Selvaraj (Chairman)	Non - Executive Director - Independent	4
Suresh Jagannathan (Member)	Non - Executive Director - Independent	4
C.Thyagarajan (Member)	Non - Executive Director - Independent	4

The Company Secretary is the Convener. The representatives of Statutory and the Internal Auditors of the Company had also attended the meeting. The minutes of the Audit Committee meetings were circulated to the Board, where it was discussed and taken note of. The Audit Committee considered and reviewed the accounts for the year 2004 - 2005, before it was placed in the Board.

**IV. Remuneration Committee**

The Company has reconstituted the Remuneration Committee at the Board of Directors meeting held on July, 31, 2004 due to the resignation of Sri.K.J.Janakar. The Remuneration Committee consists of the following Non - Executive Directors.

Sri.Suresh Jagannathan  
Sri.M.D.Selvaraj  
Sri.C.N.Srivatsan

The Committee is responsible for the appointment of and determining the compensation payable to the Executive and Non - Executive Directors. The Committee had no need to meet during the year.

Details of remuneration paid to the directors for the year ended March 31, 2005 are as follows:

(i) **Executive Directors**

Name	Position	Total Remuneration (Rs.)
Sri.L.G.Varadarajulu	Executive Chairman	83,826
Sri.Sudarsan Varadaraj	Managing Director	18,345,738
Sri.S.A.Subramanian	Director - Company Secretary	400,500
Sri.T.Ashok Anand	Director - Manufacturing	528,960
Sri.M.John Edward	Director - Sales & Marketing	528,960

1. Remuneration includes salary, Company's contribution to Provident Fund, commission, reimbursement of medical expenses and other perquisites.
2. No sitting fees are paid.

(ii) **Non - Executive Directors**

Sitting fees for attending Board / Committee Meetings paid to Non - Executive Directors are as given below:

Name of Directors	Sitting fees Paid (Rs.)
Dr.Jairam Varadaraj	—
Sri.C.Thyagarajan	70,000
Sri.M.D.Selvaraj	70,000
Sri.Suresh Jagannathan	70,000
Sri.K.Jayaraman	25,000
Sri.P.Vijay. Raghunath	35,000
Sri.C.N.Srivatsan	20,000

**V. Investors' Relation Committee**

The Committee had met twenty three times during the year 2004 - 05.

The functions of the Investors' Relation Committee are to review and redress Shareholder's / Investor's query / grievance / complaint on matters relating to transfer of shares, non-receipt of dividend warrants, etc., and to approve transfers, transmissions, consolidation and splitting of share certificates and to authorise officials to make necessary endorsements on the share certificates.

The Company has reconstituted the Remuneration Committee at the Board of Directors meeting held on July, 31, 2004 due to the resignation of Sri.S.A. Subramanian and inducted Sri.M.John Edward as member. The composition of Investors' Relation Committee and the attendance of the members in the meeting are given below:

Name of the Member	Status	No.of meetings attended
Sri.C.Thyagarajan (Chairman)	Non - Executive Director	23
Sri.Sudarsan Varadaraj	Managing Director	4
Sri.M.D.Selvaraj	Non - Executive Director	23
Sri.S.A.Subramanian	Director - Company Secretary	6
Sri.M.John Edward	Director - Sales & Marketing	14

Smt.V.M.Vennila, Company Secretary is designated as Compliance Officer. The Minutes of Investors' Relation Committee were placed at the Board Meeting.

Investors' complaints : The Company has attended to most of the investors' grievances and correspondence within a period of 5 days from the date of receipt of the same during the year 2004 - 2005.

No.of Shares transferred during 2004 - 05 : Physical - 116,980, Demat - 14,207,039

No. of pending share transfers as on 31.03.2005 : Nil

Average turn around time : 10 days for transfer / transmission of physical shares.

Bad deliveries received : 14 due to signature variations.(36,910 shares)

**VI(a). Annual General Meetings**

The last three Annual General Meetings were held as under:

AGM	Financial Year	Date	Time - Hr	Venue
21st	2001 - 2002	19 Aug, 2002	16.00	Coimbatore, Tamilnadu
22nd	2002 - 2003	19 Aug, 2003	16.00	Coimbatore, Tamilnadu
23rd	2003 - 2004	20 Aug, 2004	16.00	Coimbatore, Tamilnadu

The special resolutions as set out in the respective notices to the members were passed by the shareholders. No special resolution was put through postal ballot during last year.

**VI(b). Extraordinary General Meeting**

No Extraordinary General Meeting was held during the year 2004-2005.

**VI(c). Code of Conduct for prevention of Insider Trading**

The Company has framed a Code of Conduct for prevention of Insider Trading based on SEBI (Insider Trading) Regulations, 1992. This Code is applicable to all directors / officers / designated employees. The Code ensures the prevention of dealing in shares by persons having access to unpublished price sensitive information.