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25th Annual Report 2005-2006

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BRITYREX 2005
Harrogate, UK



AUTO PROMOTEC
Bologna, Italy

Elgitread (India) Limited

Annual Report 2005 - 2006

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)
T.Ashok Anand
(Director - Manufacturing)
S.R.Venkatachalam
(Chief Finance Officer)
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

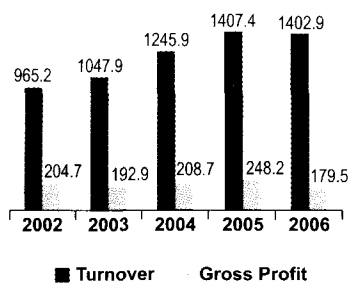
"Surya", 35, May Flower Avenue
Behind Senthil Nagar
Sowripalayam
Coimbatore 641 028, Tamilnadu

Historical Perspective - 10 Year Performance

(Rs. in Million)

Particulars	1996-1997	1997-1998	1998-1999	1999-2000	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006
Sales & Other Income	1435.5	1461.3	1313.9	1136.4	1004	965.2	1047.9	1245.9	1407.4	1402.9
Profit before Depreciation and Tax	264.5	278.8	339.2	282.1	204.6	204.7	191.8	218.4	247.2	179.1
Profit before Tax	233.3	247.8	306.1	250.4	177.1	181.5	161.3	184.5	206.3	133.5
Profit after Tax	161.8	182.8	216.1	160.4	105.1	125.6	105.2	128.3	134.1	104.2
Dividend %	50	50	100	65	90	100	110	100	60	45*
Gross Fixed Assets	324.5	389.2	423.3	439.9	439.1	456.1	573.1	571.7	694.4	776.1
Net Fixed Assets	126.5	163.0	167.1	162.4	153.5	148.4	238.6	223.1	310.3	350.5
Investments	73.0	34.4	32.9	160.8	278.4	342.4	454.1	355.5	403.9	300.9
Net Working Capital	458.8	471.0	611.4	612.2	562.5	499.2	414.5	611.5	644.2	779.9
Total Capital Employed	658.3	668.4	811.5	939.2	1001.2	1088.7	1140.6	1272.5	1380.1	1449.7
Shareholders' Funds	462.7	629.9	808.7	938.3	1001.0	1088.4	1140.6	1245.5	1350.4	1432.7
Borrowed Funds										
Bank Overdraft	125.8	-	-	-	-	-	-	-	-	-
Long Term Loans	44.7	8.4	-	-	-	-	-	-	-	-
Other borrowed funds	25.1	30.1	2.8	0.9	0.2	0.2	-	-	-	-
Total Funds	195.6	38.5	2.8	0.9	0.2	0.2	-	-	-	-

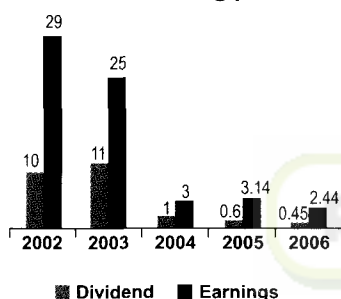
* Subject to the approval in the Annual General Meeting.

Profitability**Directors' Report**

The Board of Directors take pleasure in presenting the 25th Annual Report and Audited Accounts for the year ended March 31, 2006. The Management Discussion and Analysis Report is included at the appropriate places in this report.

An abstract of the financial results of the company is given below

	2005 - 2006	2004 - 2005 (Rs. in million)
Profit Before Depreciation	179.52	248.23
Less: Depreciation	45.50	40.89
Profit Before Taxation	134.02	207.34
Less: Provision for Taxation	38.51	46.72
Less: Provision for Deferred Tax	(9.21)	25.47
Profit After Tax	104.72	135.15
Add: Balance from previous year	144.73	53.34
Add: Adjustment relating to earlier years	(0.47)	(1.02)
Profit available for appropriation	248.98	187.47
Appropriation		
General Reserve	10.47	13.50
Proposed Dividend @ 45% (60%)	19.24	25.65
Dividend Distribution Tax	2.69	3.60
Balance Carried to Balance Sheet	216.58	144.72

Dividend / Earning per Share**Dividend**

We recommend a dividend of 45% on the equity shares, and this along with the Dividend Distribution Tax translates to a payout of 21.04% 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.

Review of operations and future outlook

Sales during the year was Rs. 1.33 billion as against 1.30 billion the previous year. Other income amounted to Rs.69.62 million, compared to Rs.109.68 million last year. Cash profit was Rs. 179.52 million as against Rs.248.23 million. Segment wise, exports increased by 96% while sales to franchisees and road transport corporations registered negative growths. The electric power generated by the company's wind mills was 3.77 million units compared to 4.70 million units during the previous year. The Company has maintained its debt free status.

Very little has changed in terms of the structure and development in the industry since our last report. The last year has seen exponential increases in material costs and an inability on the part of the industry to pass on material cost increases. This has substantially affected the bottom line.

Though it was anticipated that the introduction of taxes like Service Tax and VAT would bring more fiscal accountability into the industry and benefits to the organised sector, no tangible results were seen, except in states where the industry came under the scrutiny of the authorities. On the other hand, with the company's manufacturing facilities located predominantly in Tamilnadu and Pondicherry - states where VAT is yet to be introduced, the bulk of the products manufactured are not competitive in terms of pricing. Hopefully the introduction of VAT in these two states and a GST regime in the future will make the products manufactured by organized companies more competitive.

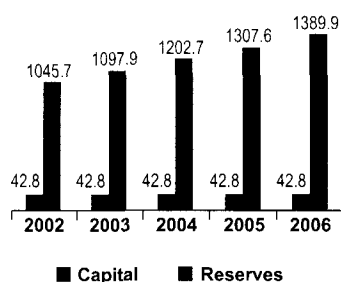
An exhaustive study has been conducted on the Golden Quadrilateral and Corridor Highway systems with reference to our network of franchisees. Based on this analysis, a road map has been drawn up for the focus area. The company continues its efforts on exports, where the product acceptance continues to strengthen.

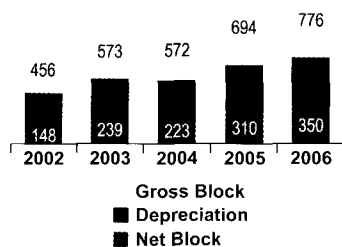
Risks and Concerns

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 upward spiral in raw material prices continue and until some stability is seen in this regard, the bottom line will continue to be under pressure.

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.

Network

Fixed Assets**Internal Control Systems**

Internal Audit is being done every quarter by an independent firm of Chartered Accountants and observations are reported to the management. Immediate steps are taken to rectify any discrepancies. All significant audit observations were discussed in the audit committee meetings.

Human Resources and Industrial Relations

The company continues to have cordial and harmonious relationship with its employees. As at 31st March 2006, it employs 478 people.

Subsidiaries

The company has made an investment of Rs. 8.77 Million in Elgitread Do Brasil Industria E Comercio De Artefatos De Borracha Ltda towards 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 the National Security Depository Ltd., and the Central Depository Services (India) Ltd. As on March 31, 2006 - 24,961,129 Equity shares forming 58.38% 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 and the listing fees have been duly paid.

Directors

In accordance with the provisions of the Articles of Association, Sri.L.G.Varadarajulu and Sri.Vijay Raghunath retire by rotation and being eligible offer themselves for re-appointment.

The term of office of Sri.L.G.Varadarajulu, Executive Chairman expired on 31.12.2005 and he continues the office as Non - Executive Chairman with effect from 01.01.2006.

Sri.M.John Edward resigned from the Wholetime Directorship of the Company with effect from 31.03.2006 and continues as an Ordinary Director of the Company with effect from 01.04.2006.

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:

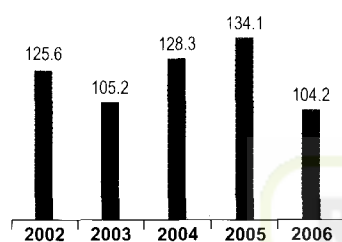
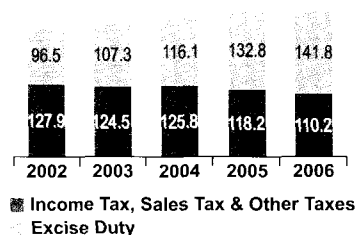
- followed in the preparation of the Annual Accounts, the applicable accounting standards with proper explanations relating to material departures;
- selected suitable accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true 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;
- 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
- 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.

Net Profit**Contribution to Exchequer**

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. 400 KW and 250 KW Variable Speed Drives installed for the internal mixers in the Coimbatore factory, for improving the quality of mixing and for power saving.
- ii. Conventional exhaust fans replaced with energy efficient Turbo Ventilators in the Palakkad factory.
- iii. Automatic Power Factor Controller installed in the Coimbatore factory for reducing power consumption.

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

- i. New energy efficient fan-less cooling tower being installed in the Pondicherry factory.
- ii. Proposed to replace the conventional cooling towers in the Palakkad factory with fan-less cooling towers.
- iii. Automatic Power Factor Controller being proposed for the Palakkad factory to save energy.

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 reduction in energy as a result of the measures taken.

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 patterns and moulds developed for European and Russian tyre markets.
- ii. Improvements made in retreading machines to take up new and bigger sizes of tyres

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

- i. Increase in orders received from new markets in Europe.

3. Future plan of action

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

4. Expenditure on R & D Rs. in million

- | | | |
|---------------|---|------|
| i. Capital | : | NIL |
| ii. Recurring | : | 4.76 |
| iii. Total | : | 4.76 |

- iv. Total R & D expenditure as a percentage of total turnover : 0.36

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 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.459.70 million

Foreign Exchange Used : Rs.94.61 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 March 31, 2006.

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	48 years B.E.(Hons), M.S.(M.E) 25 years	10,341,439	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.

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For the Board of Directors

Coimbatore
22.05.2006

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 Non - Executive Chairman, a Managing Director, One Wholtime Director and Eight Non - Executive Directors of the Company.

During the year, the Board of Directors of the Company have approved and laid down a Code of Conduct applicable for all the Board Members and the Employees 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	Non - Executive Chairman - Promoter	4	Yes	6	2 / -
Sudarsan Varadaraj	Managing Director - Promoter	4	Yes	11	2 / -
Jairam Varadaraj	Non - Executive - Promoter	2	No	8	3 / -
T.Ashok Anand	Director - Manufacturing	3	Yes	2	-
*M.John Edward	Non - Executive	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
Vijay Raghunath	Non - Executive Independent	4	No	3	1 / -
C.N.Srivatsan	Non - Executive Independent	3	No	3	5 / -

The term of office of the Executive Chairman expired on 31.12.2005 and Sri.L.G.Varadarajulu continue the office as Non - Executive Chairman with effect from 01.01.2006.

*Sri.M.John Edward resigned from the Wholtime Directorship of the Company with effect from 31.03.2006 and continue as an Ordinary Director of the Company with effect from 01.04.2006.

Four Board Meetings were held during the year ending 31.03.2006. The dates on which the meetings were held are as follows:

Date of Meeting	No. of Directors present
May 24, 2005	10
July 22, 2005	10
October 29, 2005	9
January 30, 2006	10

Shareholdings of Directors

Name of the Director	No. of shares held	% of holding
L.G.Varadarajulu	647,870	1.52
Sudarsan Varadaraj	7,588,210	17.75
Suresh Jagannathan	1,500	-
K.Jayaraman	500	-
C.Thyagarajan	20,250	0.05

Other directors do not hold any shares in the Company.

III. Audit Committee

This Committee comprises of three non - executive directors with all are 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 2005 - 2006, before it was placed in the Board.

IV. Remuneration Committee

The Remuneration Committee consists of the following Non - Executive Directors. The Chairman of the Committee is elected among the members at the time of each meeting.

Suresh Jagannathan
M.D.Selvaraj
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 2005 - 2006.

Details of remuneration paid to the directors for the year ended March 31, 2006 are as follows

(i) Executive Directors

Name	Position	Total Remuneration (Rs.)
L.G.Varadarajulu	Executive Chairman	56,357
Sudarsan Varadaraj	Managing Director	10,341,439
T.Ashok Anand	Director - Manufacturing	912,420
M.John Edward	Director - Sales & Marketing	912,420

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.)
L.G.Varadarajulu	10,000
Jairam Varadaraj	20,000
C.Thyagarajan	80,000
M.D.Selvaraj	80,000
Suresh Jagannathan	80,000
K.Jayaraman	30,000
Vijay Raghunath	40,000
C.N.Srivatsan	30,000

The Company currently does not have any Stock Option Scheme.

V. Investors' Relation Committee

The Committee had met twenty two times during the year 2005 - 06.

The functions of the Investors' Relation Committee are to review and redress Shareholder's / Investor's query / grievance / compliant 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 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
C.Thyagarajan (Chairman)	Non - Executive Director	22
Sudarsan Varadaraj	Managing Director	4
M.D.Selvaraj	Non - Executive Director	22
M.John Edward	Non - Executive Director	21