

**29th Annual Report**  
**2009 - 2010**

The logo for Elgi Rubber Company Limited, featuring the word "ELGI" in a bold, sans-serif font. The letter "G" is stylized with a thick, curved line that loops around the bottom and right side of the letter. The logo is centered on the page and is surrounded by a decorative arrangement of small, solid black squares of varying sizes, some of which are slightly offset from the main grid, creating a modern, geometric pattern.

**ELGI**

**Elgi Rubber Company Limited**

Historical Perspective - 10 Year Performance

(Rs. in Million)

Particulars	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	2009-2010
Sales & Other Income	1004.0	965.2	1047.9	1245.9	1407.4	1402.3	1603.5	559.5	660.0	660.4
Profit before Depreciation and Tax	204.6	204.7	191.8	218.4	247.2	179.1	165.8	105.4	113.9	101.5
Profit before Tax	177.1	181.5	161.3	184.5	206.3	133.5	124.4	79.4	89.6	60.5
Profit after Tax	105.1	125.6	105.2	128.3	134.1	104.2	83.6	76.2	57.6	42.5
Dividend %	90	100	110	100	60	45	35	10	10	10*
Gross Fixed Assets	439.1	456.1	573.1	571.7	694.4	776.1	777.0	409.9	494.1	571.6
Net Fixed Assets	153.5	148.4	238.6	223.1	310.3	350.5	381.1	215.4	277.1	316.2
Investments	278.4	342.4	454.1	355.5	403.9	300.9	263.9	374.8	256.6	279.5
Net Working Capital	562.5	499.2	414.5	611.5	644.2	779.9	867.6	205.2	249.6	273.6
Total Capital Employed	1001.2	1088.7	1140.6	1272.5	1380.1	1431.3	1512.6	795.4	843.6	870.1
Shareholders' Funds	1001.0	1088.4	1140.6	1245.5	1350.4	1432.6	1498.8	801.3	846.4	876.4
Borrowed Funds										
Other borrowed funds	0.2	0.2	---	---	---	---	---	---	---	---
Total Funds	0.2	0.2	---	---	---	---	---	---	---	---

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

# **Elgi Rubber Company Limited**

## **Annual Report 2009 - 2010**

### **Directors**

Sudarsan Varadaraj  
(Managing Director)  
Dr Jairam Varadaraj  
M John Edward  
Suresh Jagannathan  
MD Selvaraj  
P Vijay Raghunath  
CN Srivatsan

### **Key Executives**

Sudarsan Varadaraj  
(President)  
SR Venkatachalam  
(Vice President - Finance)  
K Vijayalakshmi  
(Company Secretary)

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### **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**

Thimmavaram, Chengalpattu  
Kanjikode, Palakkad  
Annur, Coimbatore  
Kovilpalayam, Coimbatore  
Lorena - SP, Brasil  
Luling - Texas, USA

### **Internal Auditors**

MS Jagannathan & Visvanathan  
Chartered Accountants  
Coimbatore

### **Registrar & Share Transfer Agent**

Link Intime India Private Limited

### **Regd. Office**

C/13, Pannalal Silk Mills Compound  
Bhandup (West)  
Mumbai 400 078

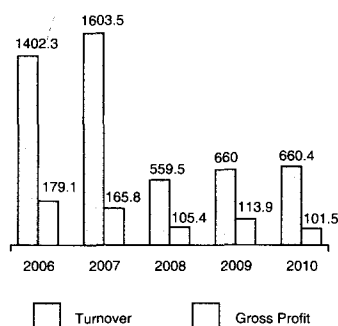
### **Branch Office**

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

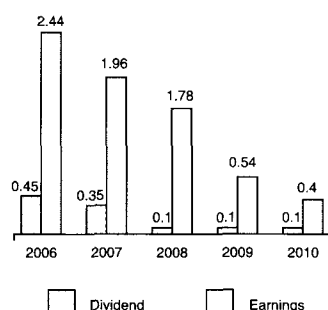
## Directors' Report

We are pleased to present the twenty ninth annual report and audited accounts for the year ended March 31, 2010. The Management Discussion and Analysis (MD&A) Report have been included at the appropriate places in this report.

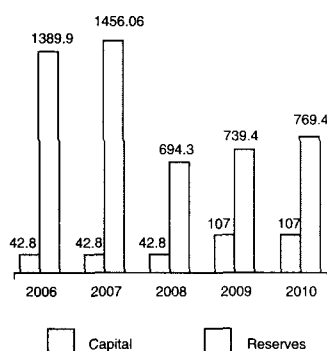
### Profitability



### Dividend / Earnings Per Share



### Net Worth



## Abstract of the Financial Results of the Company

(Rs. in Million)

	2009 - 2010	2008 - 2009
<b>Profit Before Depreciation and Tax</b>	<b>101.53</b>	<b>113.89</b>
Less : Depreciation	41.00	24.28
<b>Profit Before Taxation</b>	<b>60.53</b>	<b>89.61</b>
Less: Provision for Taxation	20.80	29.00
(Add)/ Less: Deferred Tax	(3.46)	3.00
<b>Profit after Tax</b>	<b>43.19</b>	<b>57.61</b>
Add / (Less) : Income Tax of earlier years	(0.74)	-
	<b>42.45</b>	<b>57.61</b>
Add: Balance surplus b/f from previous year	372.34	333.01
<b>Profit available for appropriation</b>	<b>414.79</b>	<b>390.62</b>
<b>Appropriation</b>		
General Reserve	4.24	5.76
Proposed Dividend at 10% (10 %)	10.70	10.70
Dividend Distribution Tax	1.78	1.82
<b>Balance surplus carried to balance sheet</b>	<b>398.07</b>	<b>372.34</b>

During the year the Company has recorded sales of Rs.590.41 Million as against the Rs.564.02 Million last year. Other Income amounted to Rs.43.67 Million, compared to Rs.58.59 Million last year.

## Dividend

The directors recommend a dividend of Re.0.10 per equity share of Re.1/- each. This along with the dividend distribution tax translates to a payout of 28.89% of the profit after tax. The dividend will be paid to the registered members, who are in the register of members as on the book closure date and upon approval by the members of the Company at the ensuing annual general meeting. In respect of the dematerialized shares, dividend will be paid to the beneficial owners based on the list provided by the depositories. The dividend will be disbursed through the National Electronic Clearing Service of HDFC Bank.

## Review of Operations and Future Outlook

During the year under review, though sales has improved, the profits from operations has been lower. This is on account of higher raw material costs and higher depreciation on new equipment for expansion and for the manufacture of new products.

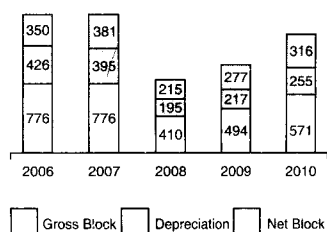
The first quarter of the year saw unprecedented increase in raw material costs. However during the second half of the year the company was able to pass on raw material cost increase to customers which has considerably improved the bottom line.

The sale of retreading accessories to corporate accounts continues to grow but at a very slow pace. The sale of these products through distributors has registered very high growth rates. The company's thrust area is overseas markets.

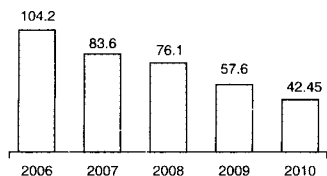
High increase in polymer cost is driving the rubber industry to look for alternate/ recycled products. As a result, the growth in the reclaimed rubber sales is very encouraging. The company is actively looking at capacity expansion through new facilities or acquisition.

The Company continues to maintain its debt free status.

**Fixed Assets**



**Net Profit**



## Risk and Concerns

The company does not face any risk other than those that are prevalent in the industry. The company has taken all possible steps to overcome such risks. The main concerns are the volatility in raw material prices and fluctuations in foreign exchange. The company is taking measures that will enable it to pass on the part of raw material prices in tune with the competition. Foreign exchange fluctuation risk is minimized through proper planning and natural hedging.

As a part of the overall risk management strategy, all assets are appropriately insured.

## 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 enjoy a cordial relationship with its employees at all levels. The total strength of employees as on March 31, 2010 is 219.

## Subsidiaries

The Brazilian subsidiary - Titan Technologies Internacional Comercio De Maquinas E Equipamentos Ltda has been renamed as Elgi Industria E Comercio De Borrachas Ltda. The company is yet to commence its commercial operations.

The US subsidiary – ELGI Rubber Company LLC has commenced commercial operations during the year. The company has achieved sales of USD 2.28 Million during the first seven months of operations.

## Directors

We regret to inform the sad demise of our beloved Chairman, Sri. LG Varadarajulu on May 19, 2010. He was the Founder promoter of our Company and under his able leadership, the Company has emerged as one of the major companies of ELGI group. He was an active member in the Board. Sri.LG Varadarajulu had been an inspiring leader throughout his life time and his contribution to the society and the entire engineering industry is truly unforgettable. The Board places its sincere condolences to his bereaved family members.

As per the provisions of Companies Act and Articles of Association M John Edward and Suresh Jagannathan retire by rotation. Being eligible, they offer themselves for re-appointment.

Further, as per the terms of appointment of Sudarsan Varadaraj, Managing Director and M John Edward, Marketing Advisor their tenure of office expires on December 31, 2010 and March 31, 2011 respectively. Considering the wide managerial expertise and experience of Sudarsan Varadaraj and the sales and marketing knowledge of M John Edward, the board of directors at their meeting held on May 26, 2010 have re-appointed them as per the terms and conditions set out in the agenda of the notice of the Annual General Meeting. The Board recommends the approval of the members for the resolution as set out in the agenda of the Annual General Meeting.

## Auditors

M/s Reddy, Goud and Janardhan, Chartered Accountants, Statutory Auditors of the Company retire at the ensuing Annual General Meeting and are eligible for re-appointment.

## Directors' Responsibility Statement

In accordance with the provisions of Section 217(2AA) of the Companies Act, 1956, the Directors confirm

1. That in the preparation of annual accounts, the applicable accounting standards had been followed along with proper explanation relating to material departures.
2. That the Directors had selected such 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 and loss of the Company for that period.

3. That the Directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities.
4. That the Directors had 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. None of the employees are drawing remuneration above Rs.2.40 Million per annum, hence the particulars of employees as required under section 217(2A) of the Companies Act, 1956 has not been given.

#### **Corporate Governance**

A separate report on the compliance with Clause 49 of the Listing Agreement with the Stock Exchanges and the Auditors' Certificate on the 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 are liable to differ materially from those either expressed or implied.

#### **Acknowledgement**

The Directors thank the Company's customers, vendors, investors, business associates and bankers for their support to the Company. Directors also wish to place on record their appreciation to the contributions made by the employees at all levels towards the growth of the Company.

#### **Annexure to Directors Report\***

##### **A. Conservation of Energy**

###### **a) Energy conservation measures taken**

Energy conservation is one of the primary objectives of the company and measures taken albeit small, is a constant process

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

No significant proposals

###### **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**

Marginal reduction in energy costs

###### **d) Total energy consumption per unit of production**

Not applicable

##### **B. Technology absorption**

###### **e) Efforts made in technology absorption**

###### **(i) Research and Development (R&D)**

###### **1. Specific areas in which R & D is carried out by the Company**

Aircraft tyre retreading

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

Increase in orders received from new markets

###### **3. Future plan of action**

No significant plans except for aircraft tyre retreading

<b>4. Expenditure on R &amp; D</b>	<b>Rs. in Million</b>
a. Capital	: 0.47
b. Recurring	: 10.12
c. Total	: 10.59
d. Total R & D expenditure as a percentage of total turnover	: 1.79%

**(ii) Technology absorption, adaptation and innovation**

Not applicable

**C. Foreign Exchange Earnings & Outgo**

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

The Company is constantly and consciously planning to penetrate unexplored markets to improve its international market share

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

Foreign Exchange Earned : Rs.125.56 Million

Foreign Exchange Used : Rs. 11.11 Million

\* vide the Companies (Disclosure of particulars in the Report of Board of Directors) Rules, 1988

**For the Board of Directors**

Coimbatore  
26.05.2010

**Sudarsan Varadaraj**  
**Managing Director**

**MD Selvaraj**  
**Director**

**Addendum to Director's Report**

Ministry of Corporate Affairs, Government of India, vide its order no. 47/635/2010-CL-III dated 01.07.2010 has granted approval exempting the Company from the requirement to attach various documents in respect of subsidiary companies, as set out in sub-section (1) of section 212 of the Companies Act, 1956. Financial information of the subsidiary companies as required by the said order, is disclosed in the annual report. The Company will make available the annual accounts of the subsidiary companies and the related detailed information to any member of the Company. The annual accounts of the subsidiary companies will also be kept open for inspection by any investor at the registered Office of the Company and that of the respective subsidiary companies. The consolidated financial statements presented by the Company includes financial results of its subsidiary companies.

**For the Board of Directors**

Coimbatore  
26.05.2010

**Sudarsan Varadaraj**  
**Managing Director**

**MD Selvaraj**  
**Director**

**Report on Corporate Governance – Annexure to Director's Report**  
**(In compliance with Clause 49 of the Listing Agreement)**

**1. 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. The company has adopted a code of conduct for its non - executive directors.

**2. Board of Directors**

- i. The Board comprises of executive Chairman, Managing Director and six non - executive directors of the Company (out of which four directors are independent directors). None of the directors on the board is a member of more than 10 committees or chairman of more than 5 committees across all companies in which he is a director. Necessary disclosure regarding committee positions in other public companies as on March 31, 2010 have been made by the directors.
- ii. 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	Attendance Particulars		No. of other Directorship held in Public Companies *	No. of Committee positions in other companies #	
		Board	AGM		Chairman	Member
LG Varadarajulu \$	Executive Chairman – Promoter	3	No	5	-	1
Sudarsan Varadaraj	Managing Director – Promoter	4	Yes	7	-	4
Jairam Varadaraj	Non executive – Promoter	2	No	10	-	5
M John Edward	Non executive – Non Independent	4	Yes	2	-	-
MD Selvaraj	Non executive – Independent	4	Yes	2	2	3
Suresh Jagannathan	Non executive – Independent	4	Yes	3	-	1
P Vijay Raghunath	Non executive – Independent	3	No	2	2	-
CN Srivatsan	Non executive – Independent	4	No	4	1	2

\* Directorships in foreign companies and private companies have not been considered.

# Only audit committee, remuneration committee and investor grievance committee are considered.

\$ Sri. LG Varadarajulu, Chairman expired on May 19, 2010

Sri. LG Varadarajulu, Chairman, Sudarsan Varadaraj, Managing Director & Jairam Varadaraj, Director are related amongst themselves. None of the other directors are related.

Four board meetings were held during the year and the gap between did not exceed four months. The date on which the board meetings were held are as follows:

Sl No	Date of Board Meeting	No. of Directors Present
1	May 29, 2009	6
2	Jul 30, 2009	8
3	Oct 24, 2009	7
4	Jan 27, 2010	7

**3. Audit Committee**

The audit committee is constituted in accordance with the provisions of Clause 49 of the Listing Agreement with the stock exchange read with Section 292A of the Companies Act, 1956 and comprises of three non-executive independent directors.

The role, powers and functions of the committee are as per section 292A of the Companies Act, 1956 and the guidelines set out in the listing agreement with the stock exchange. 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.

During the year under review the committee met 4 times on May 25, 2009; July 27, 2009; October 19, 2009 and January 23, 2010.

The Composition of the Audit Committee and particulars of meetings attended by the members of the Audit Committee are given below :

Name	Category	No of Meetings during the year 2009 - 2010	
		Held	Attended
MD Selvaraj (Chairman)	Independent – Non Executive	4	4
Suresh Jagannathan (Member)	Independent – Non Executive	4	3
P Vijay Raghunath (Member)	Independent – Non Executive	4	4

The representatives of both Statutory and Internal Auditors of the Company and the Vice President Finance of the Company attended the committee meetings. Company Secretary and Compliance Officer acts as Secretary of the audit committee. The minutes of the audit committee meetings were circulated to the board, where it was discussed and duly recorded. The committee considered and reviewed the accounts for the year 2009 - 2010, before it was placed in the board.

#### 4. Remuneration Committee

- (i) 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.
  - 1) Suresh Jagannathan
  - 2) MD Selvaraj
  - 3) CN Srivatsan
- (ii) The committee is responsible for the appointment of and determining the compensation payable to the executive and non - executive directors. The committee met on October 19, 2009 to consider the variation in the remuneration payable to Sudarsan Varadaraj, Managing Director.
- (iii) The minutes of the remuneration committee meeting was circulated to the board, where it was discussed and duly ratified.

Details of Remuneration paid to the directors for the year ended March 31, 2010 are as follows:

##### a) Executive Directors

Name	Position	Total Remuneration (in Rs.)	Service Contract
LG Varadarajulu	Executive Chairman	* 630,000	For a period of 3 years w.e.f. 01.04.2008
Sudarsan Varadaraj	Managing Director	2,013,963	For a period of 5 years w.e.f. 01.01.2006

Remuneration includes salary, Company's contribution to Provident Fund, reimbursement of medical expenses and other perquisites.

\* Includes sitting fees of Rs. 30,000/-

##### b) Non Executive Directors

Name of the Directors	Sitting Fees Paid (Rs.)
Dr Jairam Varadaraj	20,000
M John Edward	40,000
MD Selvaraj	80,000
Suresh Jagannathan	70,000
P Vijay Raghunath	70,000
CN Srivatsan	40,000

The Company does not pay any remuneration to its non executive directors barring sitting fees for attendance during the meetings except to M John Edward, non executive director who was paid a fee of Rs. 1,155,504/- (inclusive of service tax) for advisory services rendered during the year.

c) The Company does not have any Employee Stock Option Scheme.

##### d) Shareholdings of Non Executive Directors

Name of Director	No. of Shares held (as on March 31, 2010)
Suresh Jagannathan	1,500
MD Selvaraj	187

None of the other non executive directors are holding any shares in the Company. There has been no materially relevant pecuniary transaction or relationship between the Company and its non executive Independent Directors during the year.

## 5. Investors' Relation Committee

The Company has investors' relation committee of directors to look into the redressal of complaints of investors such as transfer/ transmission of shares, non receipt of dividend warrants and to approve transfers, transmissions, consolidation and splitting of share certificates and to make necessary endorsements on the share certificates.

The committee had met sixteen times during the year 2009 – 2010.

The composition of investors' relation committee and the attendance of the members in the meeting are given below:

Name	Category	No. of Meetings Attended
MD Selvaraj (Chairman)	Non Executive Director	16
Sudarsan Varadaraj (Member)	Managing Director	11
P Vijay Raghunath (Member)	Non Executive Director	16

K Vijayalakshmi is Company Secretary and Compliance Officer of the Company. The minutes of the investors' relation committee were placed before the board meeting for due ratification and approval.

During the year, the Company had received five letters/ complaints from the shareholders and all of them were resolved satisfactorily by furnishing the requisite information/ documents to the shareholders.

### Investors' complaints

The Company has attended to the investors' grievances and correspondence within a maximum period of 7 days from the date of receipt of the same during the year 2009 – 2010. There were no outstanding complaints as on March 31, 2010.

### Number of shares transferred during 2009 – 2010

Physical transfers	: 6 nos constituting 62,990 shares
Transmission	: 11 nos constituting 165,260 shares
No. of pending share transfers / demat requests as on March 31, 2010	: NIL
Average turn around time	: 10 days for transfer / transmission of physical shares.
Bad deliveries received	: NIL

### Management Discussion and Analysis Report

The contents of the Management Discussion and Analysis Report have been included in the Directors' Report at the appropriate places and thus the said report forms part of the annual report.

## 6. Annual General Meetings

Location and time where the last three Annual General Meetings were held and details of the Special Resolutions passed at the last three Annual General Meetings held:

Details of Meeting	Date of Meeting	Time of Meeting	Venue of Meeting	Details of Special Resolutions Passed
Annual General Meeting 2006 - 2007	11.08.2007	4.00 PM	Ardra Convention Centre, North Husur Road, Coimbatore - 641018	NIL
Annual General Meeting 2007 - 2008	30.08.2008	4.00 PM	Ardra Convention Centre, North Husur Road, Coimbatore - 641018	1. Appointment of LG Varadarajulu as Executive Chairman & fixing his remuneration 2. Appointment of M John Edward as Non Executive Director & fixing his remuneration. 3. Change in name of the Company 4. Delisting of shares from Coimbatore stock exchange
Annual General Meeting 2008 - 2009	17.08.2009	4.00 PM	Ardra Convention Centre, North Husur Road, Coimbatore - 641018	NIL

No extra ordinary general meeting was held during the financial year 2009 – 2010.