

Harita Seating Systems Limited

Annual Report 2004 - 2005

HARITA SEATING SYSTEMS LIMITED

Board of Directors

H Lakshmanan

S I Jaffar Ali

C Narasimhan

Martin Grammer

President

S Thiagarajan

Secretary and Compliance Officer

A C Padmaja

Bankers

STATE BANK OF INDIA
Industrial Finance Branch
Anna Salai, Chennai – 600002

Shares listed with:

The Madras Stock Exchange Ltd.
The Bangalore Stock Exchange Ltd.

Auditors:

SUNDARAM & SRINIVASAN
Chartered Accountants,
23, Sir C.P. Ramaswamy Road,
Alwarpet, Chennai 600 018.

Works:

Hosur-Thally Road
Belagondapalli
Krishnagiri District
Tamilnadu
PIN – 635114
Tel.: 04347-233445
Fax : 04347-233460

Plot A2 MIDC Industrial area
Ranjangaon, Koregaon village,
Shirur taluk, Pune District
Maharashtra
PIN – 412210
Tel.: 02138-560742

Registered Office:

“Jayalakshmi Estates”
No.24 (Old No.8),
Haddows Road
Chennai 600 006.
Tel. : 044-28272233
Fax. : 044-28257121

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HARITA SEATING SYSTEMS LIMITED

Financial Highlights

	(Rs. In lakhs)						
Year ended	1999	2000	2001	2002	2003	2004	2005
Profit & Loss Account							
Sales	5091.63	5983.67	6937.37	6025.27	7873.25	9202.06	11798.82
Other Income	93.67	40.95	40.47	38.45	48.71	90.81	117.93
Total Income	5185.30	6024.62	6977.84	6063.72	7921.96	9292.87	11916.75
Gross Profit before interest, depreciation & tax	658.34	751.32	778.99	490.58	730.09	894.03	987.92
Depreciation	129.32	153.11	138.30	164.11	174.99	212.76	269.39
Profit before Interest & tax	529.02	598.21	640.69	326.47	555.10	681.27	718.53
Interest	98.49	102.87	76.55	39.97	10.11	0.35	0.28
Profit before taxation	430.53	495.34	564.14	286.50	544.99	680.92	718.25
Profit after taxation	281.53	292.34	357.14	182.06	341.80	437.69	451.78
Balance Sheet							
Net fixed assets	952.22	1025.52	1226.41	1172.41	1329.35	1564.07	1878.80
Investments	0.11	0.10	0.08	0.06	0.06	661.12	367.96
Net Current Assets	992.15	1202.43	1167.56	1066.82	924.23	305.29	598.89
Miscellaneous expenses	4.26	2.78	-	-	-	-	-
Total	1948.74	2230.83	2394.05	2239.29	2253.64	2530.48	2845.65
Share Capital	388.45	388.45	388.45	388.45	388.45	388.45	388.45
Reserves & Surplus	806.05	987.31	1236.89	1227.27	1464.20	1767.96	2082.72
Net Worth	1194.50	1375.76	1625.34	1615.72	1852.65	2156.41	2471.17
Loan Funds	754.24	855.07	768.71	521.02	265.25	240.10	220.04
Deferred tax liability	-	-	-	102.55	135.74	133.97	154.44
Total	1948.74	2230.83	2394.05	2239.29	2253.64	2530.48	2845.65
Earnings per share (Rs.)	7.25	7.53	9.19	4.69	8.92	11.20	11.75
Dividend per share (Rs.)	2.50	2.50	2.50	2.50	2.50	3.00	3.20
Book value per share (Rs.)	30.64	35.35	41.84	41.59	47.69	55.51	63.62
Return on capital employed % (ROCE)	28.4	28.0	28.2	15.2	27.8	30.4	28.4
Return on net worth % (RONW)	25.6	22.8	23.8	11.2	19.7	21.8	19.5
Fixed asset turnover (No. of times)	5.42	6.05	6.16	5.02	6.29	6.36	6.85
Working capital turnover (No. of times)	5.70	5.45	5.85	5.39	7.91	14.97	26.10
Gross profit as % of total income	12.7	12.5	11.2	8.1	9.2	9.6	8.3
Profit before tax as % of total income	8.3	8.2	8.1	4.7	6.9	7.3	6.0

ROCE is profit before interest and taxation divided by average network plus loan funds.

RONW is profit after tax divided by average network

Fixed assets turnover is sales divided by average net fixed assets as at the end of the year.

Working capital turnover is sales divided by average net current assets as at the end of the year.

HARITA SEATING SYSTEMS LIMITED

Notice to the shareholders

NOTICE is hereby given that the Ninth Annual General Meeting of the shareholders of the company will be held at Kasturi Srinivasan Hall (Mini Hall), 'The Music Academy', New No.168 (Old No.306), TTK Road, Chennai 600 014 on Monday, the 5th September 2005 at 2.00 p.m. to transact the following business:

ORDINARY BUSINESS

1. To consider and if thought fit to pass with or without modification the following resolution as an ordinary resolution:

RESOLVED THAT the audited balance sheet as at 31st March 2005 and the profit and loss account of the company for the year ended on that date, together with the directors' report and the auditors' report thereon as presented to the meeting be and the same are hereby approved and adopted.

2. To consider and if thought fit to pass with or without modification the following resolution as an ordinary resolution:

RESOLVED THAT pursuant to the recommendation of directors, a dividend of Rs. 3.20 per share absorbing a sum of Rs. 124.30 lakhs be and is hereby declared on 38,84,520 equity shares of Rs. 10/- each fully paid up comprised in the paid up equity share capital of the company viz., Rs.388.45 lakhs, for the year ended 31st March 2005 and the same be paid to the shareholders whose names appear in the register of members of the company as at the close of 24th August 2005.

3. To consider and if thought fit to pass with or without modification the following resolution as an ordinary resolution:

RESOLVED THAT Mr H Lakshmanan, director, who retires by rotation and being eligible for re-appointment, be and is hereby re-appointed as a director of the company.

4. To consider and if thought fit to pass with or without modification the following resolution as an ordinary resolution:

RESOLVED THAT Mr C Narasimhan, director, who retires by rotation and being eligible for re-appointment, be and is hereby re-appointed as a director of the company.

5. To consider and if thought fit to pass with or without modification the following resolution as an ordinary resolution:

RESOLVED THAT the retiring auditors, Messrs. Sundaram & Srinivasan, Chartered Accountants, Chennai be and are hereby re-appointed as auditors of the company to hold office from the conclusion of this meeting till the conclusion of the next annual general meeting of the company on such remuneration as may be fixed in this behalf by the board of directors of the company.

By Order of the Board

Chennai
17th June 2005

H Lakshmanan
Director

Registered office:
"Jayalakshmi Estates"
24, Haddows Road
Chennai 600 006

Notes:

1. A member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and vote instead of himself and the proxy or proxies so appointed need not be a member or members as the case may be of the company. The instrument appointing the proxy and the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority shall be deposited at the registered office of the company not later than 48 hours before the time fixed for holding the meeting.
2. The register of members and the share transfer books of the company will remain closed from 25th August 2005 to 31st August 2005 both days inclusive.
3. The dividend on the equity shares as recommended by the board of directors if approved by the shareholders in the ensuing annual general meeting will be paid on 6th September 2005 to those shareholders (or their mandatees) whose names appear in the register of members of the company as at the close of 24th August 2005.
4. In terms of Section 205A read with Section 205C of the Companies Act, 1956, the dividends declared by the company which remain unclaimed for a period of seven years will be transferred to the Investor Education and Protection Fund (IEPF) established by the Central Government on the due dates. The particulars of

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due dates for transfer of such unclaimed dividends to IEPF are furnished in the report on corporate governance forming part of the annual report.

Members who have not encashed their dividend warrants are requested to make their claim by surrendering the unencashed warrants immediately to the company.

5. Members holding shares in physical form, in their own interest, are requested to dematerialise the shares to avail the benefits of electronic holding / trading.
6. Members are requested to notify to the company immediately any change in their address. Members holding shares in depository are requested to advice change of address to their depository participants.
7. As a measure of economy, copies of the annual report will not be distributed at the annual general meeting. Members are therefore requested to bring their copies of the annual report to the meeting.
8. Members are requested to affix their signature at the space provided on the attendance sheet annexed to the proxy form and hand over the slip at the entrance of the meeting hall.
9. In terms of clause 49 of the listing agreement with stock exchanges, a brief resume of directors who are proposed to be re-appointed at this meeting is given below:
 1. **Mr H Lakshmanan**
 Born on 14th August 1933, Mr H Lakshmanan is a company executive with vast experience. He joined the TVS Group in 1953. He rose to the position of executive director of Sundaram-Clayton Limited in 1982 and continues to hold the position. He has rich experience, expertise and knowledge in areas such as banking, finance, business administration and human resources.

 He is the Chairman of the Audit committee, Investors Grievance Committee and Administrative Committee of the company. Details of his other directorships and membership/chairmanship of committees are given below:

Name of the company	Position held	Committee membership/chairmanship
TVS Motor Company Limited	Director	–
Harita NTI Limited	Director	–
Anusha Investments Limited	Whole time director	Audit committee – Member
Harita Stocks Limited	Director	–
Sundaram Auto Components Limited	Director	–
Auto (India) Engineering Limited	Director	–
Sundaram Investment Limited	Director	–
TVS Electronics Limited	Director	Audit committee – Member
TVS Finance and Services Limited	Director	Investors' grievance committee –Member
		Audit committee – Member
TVS Investments Limited	Director	Audit committee – Chairman
Harita Infoserve Inc. USA	Director	–
Harita Infoserve Limited	Director	Audit committee – Chairman
Sundaram Clayton Senior Officers Welfare Foundation (P) Limited	Director	–
Harita Engineering Services (P) Limited	Director	–

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II. Mr C Narasimhan

Born on 1st August, 1941, Mr C Narasimhan is a company executive with vast experience. He started his career as a mechanical engineer in Crompton Greaves Ltd., Mumbai in the year 1963. He had a successful career spanning over 30 years, specializing in operations management, production engineering and total quality control practices. He joined the TVS Group in 1995 as president of M/s Sundaram – Clayton Ltd and continues to hold the position. He is one of the key members who were involved in the process that enabled Sundaram-Clayton Ltd to win the prestigious Deming Prize and Japan Quality Medal, the first Indian company to earn both these recognitions. He is a recipient of the "Firodia award" for outstanding contribution to Industrial Engineering.

He is a director on the boards of Anusha Investments Ltd, Auto (India) Engineering Ltd and other companies. He is a member of the TPM Club of India, Executive Committee member of Automotive Component Manufacturers Association of India and also Vice Chairman of ACMA Centre for Technology.

He is the chairman of the Audit Committee of Anusha Investments Ltd and the member of the Audit committee, Investors Grievance Committee and Administrative Committee of the company.



HARITA SEATING SYSTEMS LIMITED

Directors' report to the shareholders

The directors herewith present the ninth annual report of the company and the audited accounts for the year ended 31st March 2005.

FINANCIAL HIGHLIGHTS

(Rs. in lakhs)

	Year ended 31.3.2005	Year ended 31.3.2004
Sales and other income	11916.75	9292.87
Gross profit before interest and depreciation	987.92	894.03
Interest	0.28	0.35
Depreciation	269.39	212.76
Profit before tax	718.25	680.92
Provision for taxation	266.47	243.23
Profit after tax	451.78	437.69
Add: Surplus brought forward	143.93	140.17
Tax relating to earlier years	4.71	(2.46)
Profit available for appropriation	600.42	575.40
<u>Appropriations:</u>		
Dividend	124.30	116.54
Tax on dividend	17.43	14.93
Transfer to general reserve	300.00	300.00
Surplus in profit and loss account	158.69	143.93

DIVIDEND

The directors recommend a dividend of 32% for the year ended 31st March 2005. The dividend, if approved by the shareholders, would absorb a sum of Rs.124.30 lakhs and will be paid to all shareholders whose names stand on the register of members as at the close of 24th August 2005.

PERFORMANCE DURING THE YEAR

The year 2004-05 has been a milestone year for the company - sales crossed the Rs.100 crores mark for the first time and ended the year with Rs.117.99 crores, recording a growth of 28% over the previous year. During

the same period, profit after tax rose from Rs.437.69 lakhs to Rs.451.78 lakhs.

The financial and operational performance of the company for the year under review along with other material disclosures are furnished in the management discussion and analysis report as a separate statement in terms of clause 49 of the listing agreement, forming part of the annual report.

APPROPRIATIONS

Out of the profit available for appropriation a sum of Rs.300 lakhs has been transferred to General Reserve. The surplus of Rs.158.69 lakhs has been retained in the profit and loss account.

DIRECTORS

With deep regret the directors announce that Mr Georg Grammer, one of the founder directors of the company, passed away on 15th May 2005 at the age of 74 years in his home town in Germany. Mr Georg Grammer was deeply involved in the progress of the company right from the beginning and had greatly contributed to its growth.

The directors wish to place on record their appreciation of the yeoman service rendered by Mr Georg Grammer during the tenure of his directorship in the company and convey their condolences to his family members.

Mr H Lakshmanan and Mr C Narasimhan directors retire at the ensuing annual general meeting of the company and being eligible offer themselves for re-appointment.

AUDITORS

M/s Sundaram and Srinivasan, Chartered Accountants, Chennai, retire at the ensuing annual general meeting and are eligible for re-appointment.

CORPORATE GOVERNANCE

As required by clause 49 of the listing agreement, a management discussion and

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analysis report and a report on corporate governance are enclosed. 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.

STATUTORY STATEMENTS

As per the requirements of section 217(1)(e) of the Companies Act, 1956, read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988, the information regarding conservation of energy, technology absorption and foreign exchange earnings and outgo are furnished in annexure I to this report.

The particulars required pursuant to section 217(2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975, as amended are furnished in annexure II to this report.

As required under section 217(2AA) of the Companies Act, 1956, the directors' responsibility statement is given in annexure III to this report.

ACKNOWLEDGEMENT

The directors acknowledge the support and co-operation received from the promoters, Harita Group, Chennai.

The directors thank the customers, suppliers, financial institutions and bankers for their valuable support and assistance.

The directors wish to place on record their appreciation for the sincere efforts of all the employees of the company during the year under review.

The directors also thank the shareholders for their continued faith in the company.

For and on behalf of the Board

Chennai
17th June 2005

H Lakshmanan
Director

C Narasimhan
Director



Annexure 1 to the Directors report for the year ended 31st March 2005

INFORMATION PURSUANT TO SECTION 217(1)(e) OF THE COMPANIES ACT, 1956

A. CONSERVATION OF ENERGY

(1) Measures taken

- (i) Changeover to Liquefied petroleum gas (LPG) from high speed diesel (HSD) for powder coating heating process.
- (ii) Modification of chilling plant.
- (iii) Introduction of high energy motors for foaming process.
- (iv) Conversion to variable frequency drive for motors.

The above measures have resulted in the annual savings of Rs. 10.15 Lakhs.

(2) Proposed Measures

- (i) Changeover to Liquefied petroleum gas (LPG) from Superior kerosene oil (SKO) for pretreatment process system.
- (ii) Introduction of high energy transformer for power and distribution system.
- (iii) Introduction of energy saving devices for compressed air system.
- (iv) Introduction of energy saving luminaries for lighting system.

The above measures are expected to yield an annual savings of Rs. 8.00 Lakhs.

B. TECHNOLOGY ABSORPTION

Research & development

1. SPECIFIC AREAS IN WHICH R&D IS CARRIED OUT IN THE COMPANY

- (i) Pour-in-place process for headrest developed for first time in India.
- (ii) Integral skin process developed for production of armrest.
- (iii) Development of new generation bus passenger seats and variants for various segments.
- (iv) Development of new platform concept for Bus passenger DLX / Semi DLX segment.
- (v) Development of seats for construction equipment for domestic and export market.
- (vi) Development of seats for Multi Utility Vehicles.

- (vii) Development of new generation modular suspension mechanism for driver seats.

2. BENEFITS DERIVED AS A RESULT OF ABOVE MEASURES:

- (i) Enhanced bus passenger seat sales with STU's and Private segment.
- (ii) Enhanced market presence in tractor and driver seat segment.
- (iii) Enhanced aesthetics and comfort levels to passengers and drivers.
- (iv) Entry into automotive seating in Exports.
- (v) Reduction in input cost due to introduction of alternate process.

3. FUTURE PLAN OF ACTION:

- (i) Development of variants in new generation premium bus passenger seat.
- (ii) Upgradation of semi-deluxe bus passenger seats.
- (iii) Development of seats for new models of two wheeler seats.
- (iv) Development of modular Low SIP suspended driver seats.
- (v) Development of seats for Low tonnage vehicles.
- (vi) Development of cost effective new type seats for auditorium.

4. EXPENDITURE ON R&D

	Rs. in lakhs
(i) Capital	103.69
(ii) Recurring	126.66
(iii) Total	<u>230.35</u>
(iv) Total expenditure as a percentage of turnover	1.93%

5. TECHNOLOGY ABSORPTION, ADAPTATION AND INNOVATION

- (i) Efforts in brief:
 - (a) Development of cost effective alternate materials and processes to reduce the material cost.
 - (b) Exploration of various technologies in polyurethane foaming.

HARITA SEATING SYSTEMS LIMITED

- (c) Development of new process in headrest foaming.
- (ii) Benefits derived as a result of the above will be improvement in manufacturing process, upgradation of technology, improvement in product quality, aesthetics, productivity and end-user comfort besides improvement in profitability.
- (iii) Details relating to imported technology : (Technology imported during the last 5 years reckoned from the beginning of the financial year)

NIL

- (ii) The company is continuing its efforts to export driver seats for agriculture, construction machinery, material handling equipment, Bus passenger seats and seat components to USA, European Union, middle east and far east nations.

(b) Total foreign exchange used and earned
Foreign exchange earnings : Rs.551.55 lakhs
Foreign exchange outgo : Rs.586.13 lakhs

For and on behalf of the Board

C . FOREIGN EXCHANGE EARNINGS AND OUTGO

- (a) Activities relating to export :
 - (i) During the year 2004-05 export increased to Rs. 5.52 crores from Rs.3.84 crores in the previous year.

Chennai
17th June 2005

H Lakshmanan
Director

C Narasimhan
Director



Annexure II to the Directors' report for the year ended 31st March 2005

Particulars of employees as per section 217(2A) of the Companies Act, 1956

Sl. No.	Name	Age (yrs)	Designation	Date of employment	Remuneration (Gross) Rs.	Qualification	Experience (years)	Previous Employment
1	S Thiagarajan	57	President	27.11.1995	41,89,007	BE (Mech.) PDGBM (IIM-A)	32	Sr. Vice President Fisher Xomox (India) Ltd.
2	Y N Kale	47	General Manager (R&D)	02.03.1988	27,89,580	BE (Mech) M.DES (Product Design)	21	Product Designer Bharat Forge Ltd.
3	V Thiagarajan	44	General Manager (Finance) & Company Secretary	11.02.1998	25,60,291	B.Com., ACA, ACS MBA	19	Manager-Finance Lakshmi Auto Components Ltd.

Notes:

- 1) Years of experience include experience prior to joining the company also.
- 2) Remuneration comprises of salary, dearness allowance wherever applicable, lease rent paid, special allowance, contribution to provident fund and superannuation fund, medical reimbursement, medical insurance premium, leave travel assistance and other benefits evaluated under Income Tax Rules.
- 3) Besides, employees are entitled to gratuity as per rules.
- 4) None of the employees is related to any of the directors of the company.
- 5) Terms of employment of above mentioned employees are contractual.
- 6) None of the employees, either individually or together with spouse or children, held more than 2% of the equity shares of the company.

For and on behalf of the Board

Chennai
17th June 2005

H Lakshmanan
Director

C Narasimhan
Director

Annexure III to the Directors' report for the year ended 31st March 2005

Directors' Responsibility Statement as required under section 217(2AA) of the Companies Act, 1956

Pursuant to the requirement of section 217(2AA) of the Companies Act, 1956 with respect to Director's Responsibility Statement, it is hereby stated:

- i. that in the preparation of the annual accounts for the financial year ended 31st March 2005, the applicable accounting standards had been followed along with proper explanation relating to material departures;
- ii. that the directors had selected such accounting policies and applied them consistently and made judgements and estimates that were 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 the year under review;
- iii. that the directors had 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
- iv. that the directors had prepared the annual accounts for the financial year ended 31st March 2005 on a "going concern basis".

For and on behalf of the Board

Chennai
17th June 2005

H Lakshmanan
Director

C Narasimhan
Director