

# **HARITA SEATING SYSTEMS LIMITED**



## **Tenth Annual Report 2005-2006**

### Board of Directors

H Lakshmanan, *Chairman*

S I Jaffar Ali

C Narasimhan

Martin Grammer

### President

S Thiagarajan

### Secretary and Compliance Officer

A C Padmaja

### Works:

Hosur - Thally Road

Belagondapalli

Krishnagiri District

Tamilnadu

PIN 635 114

Tel.: 04347-233445

Fax: 04347-233460

Plot A2 MIDC Industrial area  
Ranjangaon, Koregaon village,

Shirur taluk, Pune District

Maharashtra

PIN - 412210

Tel.: 02138-560742

### Bankers

State Bank of India

Industrial Finance Branch

Anna Salai, Chennai 600 002

### 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.

### Registered Office:

"Jayalakshmi Estates"

No.29 (Old No.8)

Haddows Road

Chennai 600 006

Tel.: 044-28272233

Fax: 044-28257121

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**Financial Highlights**

(Rs.in lakhs)

Year	2000	2001	2002	2003	2004	2005	2006
<b>Profit &amp; Loss Account</b>							
Sales	5983.67	6937.37	6025.27	7873.25	9202.06	11798.82	<b>13736.82</b>
Other income	40.95	40.47	38.45	48.71	90.81	117.93	<b>192.77</b>
Total income	6024.62	6977.84	6063.72	7921.96	9292.87	11916.75	<b>13929.59</b>
Gross profit before interest,depreciation & tax	751.32	778.99	490.58	730.09	894.03	987.92	<b>1292.85</b>
Depreciation	153.11	138.30	164.11	174.99	212.76	269.39	<b>315.28</b>
Profit before Interest & tax	598.21	640.69	326.47	555.10	681.27	718.53	<b>977.57</b>
Interest	102.87	76.55	39.97	10.11	0.35	0.28	<b>31.78</b>
Profit before taxation	495.34	564.14	286.50	544.99	680.92	718.25	<b>945.79</b>
Profit after taxation	292.34	357.14	182.06	341.80	437.69	451.78	<b>638.79</b>
<b>Balance Sheet</b>							
Net fixed assets	1025.52	1226.41	1172.41	1329.35	1564.07	1878.80	<b>2337.96</b>
Investment	0.10	0.08	0.06	0.06	661.12	367.96	<b>407.87</b>
Net Current Assets	1202.43	1167.56	1066.82	924.23	305.29	598.89	<b>1420.19</b>
Miscellaneous expenses	2.78	-	-	-	-	-	<b>-</b>
Total	2230.83	2394.05	2239.29	2253.64	2530.48	2845.65	<b>4166.02</b>
Share Capital	388.45	388.45	388.45	388.45	388.45	388.45	<b>388.45</b>
Reserves & Surplus	987.31	1236.89	1227.27	1464.20	1767.96	2082.72	<b>2522.17</b>
Net Worth	1375.76	1625.34	1615.72	1852.65	2156.41	2471.17	<b>2910.62</b>
Loan Funds	855.07	768.71	521.02	265.25	240.10	220.04	<b>1091.96</b>
Deferred tax liability	-	-	102.55	135.74	133.97	154.44	<b>163.44</b>
Total	2230.83	2394.05	2239.29	2253.64	2530.48	2845.65	<b>4166.02</b>
Earnings per share (Rs.)	7.53	9.19	4.69	8.92	11.20	11.75	<b>16.44</b>
Dividend per share (Rs.)	2.50	2.50	2.50	2.50	3.00	3.20	<b>4.50</b>
Book value per share (Rs.)	35.35	41.84	41.59	47.69	55.51	63.62	<b>74.93</b>
Return on capital employed % *(ROCE)	28.0	28.2	15.2	27.8	30.4	28.4	<b>25.8</b>
Return on net worth % (RONW) **	22.8	23.8	11.2	19.7	21.8	19.5	<b>23.7</b>
Fixed asset turnover (No. of times) #	6.05	6.16	5.02	6.29	6.36	6.85	<b>6.52</b>
Working capital turnover (No. of times) @	5.45	5.85	5.39	7.91	14.97	26.10	<b>13.61</b>
Gross profit as % of total income	12.5	11.2	8.1	9.2	9.6	8.3	<b>9.3</b>
Profit before tax as % of total income	8.2	8.1	4.7	6.9	7.3	6.0	<b>6.8</b>

\* ROCE is profit before interest and taxation divided by average networth plus loan funds.

\*\* RONW is profit after tax divided by average networth.

# 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.

### Notice to the shareholders

NOTICE is hereby given that the Tenth 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 18<sup>th</sup> September 2006 at 10.15 a.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 31<sup>st</sup> March 2006 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 the board of directors of the company, a dividend of Rs. 4.50 per share on 38,84,520 equity shares of Rs. 10/- each fully paid up absorbing a sum of Rs. 174.80 lakhs be and is hereby declared for the year ended 31<sup>st</sup> March 2006 and the same be paid to those shareholders whose name appear in the register of members of the company as at the close of 13<sup>th</sup> September 2006.

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

RESOLVED THAT Mr S I Jaffar Ali, 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 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.

#### SPECIAL BUSINESS

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

RESOLVED THAT, in supersession of the ordinary

resolution passed by the shareholders in the general meeting of the company held on 15<sup>th</sup> January 1997, the consent of the company be and is hereby accorded to the board of directors under Section 293(1) (d) and all other applicable provisions of the Companies Act, 1956 and the Articles of Association of the Company, for borrowing, from time to time, as it may consider fit, any sum or sums of moneys from any person, whether or not the moneys so borrowed together with the moneys already borrowed by the company and remaining outstanding at any one time (apart from temporary loans obtained from the company's bankers in the ordinary course of business) exceed the aggregate of the paid up capital of the Company and its free reserves, that is to say, reserves that are not set apart for any specific purpose, provided that the total amount so borrowed and outstanding at any one time, (apart from temporary loans obtained from the company's bankers in the ordinary course of business) shall not exceed Rs. 40 crores (Rupees forty crores only) and that the board of directors be and is hereby empowered and authorized to arrange and fix the terms and conditions of all such moneys to be borrowed, from time to time, as to interest, repayment, security or otherwise as it may think fit.

By order of the Board

Chennai  
28<sup>th</sup> July 2006

A C PADMAJA  
Secretary

Registered office:  
"Jayalakshmi Estates"  
29, 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 explanatory statement pursuant to Section 173(2) of the Companies Act, 1956, in respect of the special business as set out in the notice is annexed hereto.

3. The register of members and the share transfer books of the company will remain closed from 14<sup>th</sup> September 2006 to 18<sup>th</sup> September 2006 both days inclusive.
4. 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 20<sup>th</sup> September 2006 to those shareholders (or their mandatees) whose names appear in the register of members of the company as at the close of 13<sup>th</sup> September 2006.
5. 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 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.
6. Members holding shares in physical form, in their own interest, are requested to dematerialise the shares to avail the benefits of electronic holding / trading.
7. Members are requested to notify to the company immediately any change in their address. Members holding shares in depository are requested to advise change of address to their depository participants.
8. 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.
9. 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.
10. In terms of clause 49(IV)(G) of the listing agreement with the stock exchanges, a brief resume of a director, who is proposed to be re-appointed in this meeting, nature of his expertise in specific functional areas and other required particulars are given below:

**Mr S I Jaffar Ali**

Born on 30<sup>th</sup> November 1938, Mr S I Jaffar Ali is a post-graduate in economics from Madras University and also a law graduate from Madras Law College. He was co-opted as a director by the board on 22<sup>nd</sup> January 1997. He held senior positions in the Indian Police service and retired in the year 1995 as Inspector General of Police. He is member of the audit committee of the board of directors of the company.

He does not hold any position as a director or a member of any committee of directors of any other company. He does not hold any share in the company.

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**Explanatory statement pursuant to Section 173(2) of the Companies Act, 1956.**

**The following explanatory statement sets out all the material facts relating to the special business mentioned in the accompanying notice dated 28<sup>th</sup> July 2006 and shall be taken as forming part of the notice.**

**Item no. 5**

In terms of Section 293(1)(d) of the Companies Act, 1956 (the Act), the board of directors have the powers to borrow moneys, where the moneys to be borrowed together with moneys already borrowed (other than the temporary loans obtained from the company's bankers in the ordinary course of business) exceeding the aggregate of the paid up capital and free reserves of the company, with the consent of the shareholders obtained in a general meeting.

The shareholders of the company, at the general meeting held on 15<sup>th</sup> January 1997 fixed the monetary ceiling for borrowing in excess of the paid up capital and free reserves of the Company at Rs.15 crores, taking into account the then prevailing business volumes.

Considering the growth of the Company since 1997 and the proposed expansion activities of the company, the directors have considered it desirable to enhance the borrowing powers from Rs.15 crores to Rs.40 crores.

Accordingly, the resolution is placed before the shareholders for their approval.

None of the directors is in anyway concerned / interested in the resolution.

The directors recommend the resolution to be adopted as an ordinary resolution by the shareholders.

By order of the Board

Chennai  
28<sup>th</sup> July 2006

A C PADMAJA  
Secretary

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

## Directors' report to the shareholders

The directors herewith present the tenth annual report of the company and the audited accounts for the year ended 31<sup>st</sup> March 2006.

## FINANCIAL HIGHLIGHTS

	Rs. in lakhs	
	<b>Year ended 31.3.2006</b>	Year ended 31.3.2005
Sales and other income	<b>13,929.59</b>	11,916.75
Gross profit before interest and depreciation	<b>1,292.85</b>	987.92
Interest	<b>31.78</b>	0.28
Depreciation	<b>315.28</b>	269.39
Profit before tax	<b>945.79</b>	718.25
Provision for taxation	<b>307.00</b>	266.47
Profit after tax	<b>638.79</b>	451.78
Add: Surplus brought forward	<b>158.69</b>	143.93
Tax relating to earlier years	<b>(0.02)</b>	4.71
Profit available for appropriation	<b>797.46</b>	600.42
<u>Appropriations:</u>		
Dividend	<b>174.80</b>	124.30
Tax on dividend	<b>24.52</b>	17.43
Transfer to general reserve	<b>400.00</b>	300.00
Surplus in profit and loss account	<b>198.14</b>	158.69

## DIVIDEND

The directors recommend a dividend of 45% for the year ended 31<sup>st</sup> March 2006. The dividend, if approved by the shareholders, would absorb a sum of Rs.174.80 lakhs and will be paid to all shareholders whose names stand on the register of members as at the close of 13<sup>th</sup> September 2006.

## APPROPRIATIONS

Out of the profits available for appropriation a sum of Rs.400 lakhs has been transferred to General Reserve. The surplus of Rs.198.14 lakhs has been retained in the profit and loss account.

## PERFORMANCE

During the year under review, sales increased by 16% from Rs.117.99 crores to Rs.137.37 crores and net profit by 41% from Rs.4.52 Crores to Rs.6.39 Crores.

During the year 2005-06, the Indian economy continued its steady growth of over 7% achieved in the last few years and the automotive industry also followed suit with robust growth in all segments. While tractors grew by 13% in 2005-06 over the previous year, commercial vehicles registered a growth of 11% and two wheelers by 15% during the same period. Cars and multi-utility vehicles recorded a growth of 7% in the year 2005-06 over the previous year.

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.

## DIRECTORS

During the year, Mr H Lakshmanan, director was appointed as chairman by the Board of Directors for a period of five years effective 24<sup>th</sup> April 2006 in terms of the articles of association of the company.

Mr S I Jaffar Ali, director, retires at the ensuing annual general meeting of the company and being eligible offers himself 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 analysis report and a report on corporate governance are enclosed. The company, in terms of the revised clause 49 of the Listing agreement, has adopted a 'Code of business conduct and ethics' for the board and senior management personnel of the company. 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, technological 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, 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.

Cash flow statement for the year 2005-06 is attached to the Balance Sheet.

### 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 of 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  
28<sup>th</sup> July 2006

H Lakshmanan  
Chairman



**Annexure I to the Directors' report for the year ended 31<sup>st</sup> March 2006**  
**Information pursuant to section 217(1) (e) of the Companies Act, 1956**

**A. CONSERVATION OF ENERGY**

**(1) Measures taken**

- Changeover to liquefied petroleum gas (LPG) from superior kerosene oil for powder coating pretreatment process system.
- Introduction of high energy efficient transformer for power and distribution Systems.
- Introduction of energy saving devices for compressed air system.
- Introduction of energy saving luminaries for lighting system.
- Installation of LPG bulk storage facility.
- Introduction of FRP thermal insulation for heating systems in foaming process.

The above measures have resulted in an annual savings of Rs. 18 Lakhs.

**(2) Proposed measures**

- Introduction of high energy efficient motors for pneumatic systems.
- Energy saving through modifying the heating system of hydraulic mould fixtures operations.
- Energy saving luminaries for street lighting.
- Auto switching on-off control systems for lighting system.
- Energy saving through modifying the control circuit of the exhaust systems and powder coating equipment.

The above measures will result in an annual saving of about Rs. 5.53 lakhs.

**B. TECHNOLOGY ABSORPTION**

Research & Development

**(1) Specific areas in which R&D is carried out in the Company**

- i) Developed new generation suspension system adopted for driver seat to enhance comfort and safety.

- ii) Developed driver seats for trucks, agricultural and garden tractors for exports.
- iii) Developed three new variants of bus passenger seats for domestic market.
- iv) Developed new seats for premium motorcycles.

**(2) Benefits derived as a result of above measures**

- i) Enhanced market share in bus passenger seat segment.
- ii) Established market presence for tractor and driver seats in overseas market.
- iii) Enhanced aesthetics and comfort levels to passengers and drivers.

**(3) Future plan of action**

- i) Development of new variants of driver seats for tractors and commercial vehicles.
- ii) Development of PU composites for automobile application.
- iii) Development of PU elastomer spring aids for automobile application.
- iv) Development of new generation of city bus seats.
- v) Development of new products for exports.

**(4) Expenditure on R&D**

	Rs. in lakhs
(i) Capital	53.20
(ii) Recurring	129.37
(iii) Total	182.57
(iv) Total expenditure as a percentage of turnover.	1.31%

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

**(i) Efforts in brief:**

- a) Development of alternate materials and processes to reduce the material cost.



- b) Exploration of various technologies in polyurethane foaming.

**(ii) Benefits derived as a result of the above are :**

- Optimisation of raw material usage for weight reduction and simplified manufacturing/assembly process of metro bus seats.
- Reduction in weight and elimination of pre-treatment and painting by using alternate material in bus passenger seats.
- Natural resources used in 3-wheeler seats in place of imported PU chemicals.

**(iii) Details relating to imported technology:**

(Technology imported during the last 5 years reckoned from the beginning of the financial year).

NIL

**C. FOREIGN EXCHANGE EARNINGS AND OUTGO**

**a) Activities relating to export:**

- i) During the year 2005-06 new orders for export of driver seats for garden tractors and seat components for driver seats for commercial vehicles were received and executed.
- ii) The company is continuing its efforts to export driver seats to USA, Europe and Middle East.

**b) Total foreign exchange used and earned:**

Foreign exchange earnings: Rs. 349.09 lakhs

Foreign exchange outgo:Rs.1222.33 lakhs

For and on behalf of the Board

Chennai  
28<sup>th</sup> July 2006

H LAKSHMANAN  
Chairman



**Annexure II to the Directors' report for the year ended 31st March 2006**
**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	Previous Employment
1	S Thiagarajan	58	President	27.11.1995	5085774.00	BE (Mech.) PDGBM (IIM-A)	33	Sr. Vice President Fisher Xomox (India) Ltd.
2	Y N Kale	48	Vice President (R&D)	02.03.1988	3299339.00	BE (Mech) M.DES (Product Design)	22	Product Designer Bharat Forge Ltd.
3	V Thiyagarajan *	45	General Manager (Finance)	11.02.1998	1381344.00	B.Com, ACA, ACS, MBA	20	Manager-Finance Lakshmi Auto Components Ltd.

Notes:

\* Employed for part of the year only.

- 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, performance incentive, leave salary, car/driver perquisites, education 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, the employee is 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 is 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  
28th July 2006

H LAKSHMANAN  
Chairman

**Annexure III to the Directors' report for the year ended 31st March 2006**
**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 2006, 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 2006 on a "going concern basis".

For and on behalf of the Board

Chennai  
28th July 2006

H LAKSHMANAN  
Chairman