

HARITA SEATING SYSTEMS LIMITED



Twelfth Annual Report 2007-2008

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HARITA SEATING SYSTEMS LIMITED

Board of Directors

H Lakshmanan, *Chairman*
S I Jaffar Ali
Martin Grammer
C N Prasad

President

S Thiagarajan

Secretary & Compliance Officer

S Srinivasan

Audit Committee

H Lakshmanan, *Chairman*
S I Jaffar Ali
C N Prasad

Investors' Grievance Committee

H Lakshmanan, *Chairman*
S I Jaffar Ali
C N Prasad

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

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.: 02138-660742

Chaurasia Road, Pargana Plassi
Village Bhatian, Thesil Nalagarh
Solani District,
Himachal Pradesh
Pin: 174 101
Tel.: 01795-220562

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Financial Highlights							
(Rupees in lakhs)							
Year ended	2002	2003	2004	2005	2006	2007	2008
Profit & Loss Account							
Sales	6025.27	7873.25	9202.06	11798.82	13736.82	15547.33	19104.87
Other income	38.45	48.71	90.81	117.93	143.80	149.41	271.76
Total income	6063.72	7921.96	9292.87	11916.75	13880.62	15696.74	19376.63
Gross profit before interest, depreciation & tax	490.58	730.09	894.03	987.92	1292.85	1363.01	1772.58
Depreciation	164.11	174.99	212.76	269.39	315.28	386.34	532.93
Profit before Interest & tax	326.47	555.10	681.27	718.53	977.57	976.67	1239.65
Interest	39.97	10.11	0.35	0.28	31.78	75.75	286.90
Profit before taxation	286.50	544.99	680.92	718.25	945.79	900.92	952.75
Profit after taxation	182.06	341.80	437.69	451.78	638.79	583.92	641.25
Balance Sheet							
Net fixed assets	1172.41	1329.35	1564.07	1878.80	2337.96	4380.64	5546.86
Investment	0.06	0.06	661.12	367.96	407.87	350.00	437.38
Net Current Assets	1066.82	924.23	305.29	598.89	1420.19	1866.44	725.77
Total	2239.29	2253.64	2530.48	2845.65	4166.02	6597.08	6710.01
Share Capital	388.45	388.45	388.45	388.45	388.45	388.45	776.90
Reserves & Surplus	1227.27	1464.20	1767.96	2082.72	2522.17	2902.57	2930.94
Net Worth	1615.72	1852.65	2156.41	2471.17	2910.62	3291.02	3707.84
Loan Funds	521.02	265.25	240.10	220.04	1091.96	3125.62	2639.73
Deferred tax liability	102.55	135.74	133.97	154.44	163.44	180.44	362.44
Total	2239.29	2253.64	2530.48	2845.65	4166.02	6597.08	6710.01
Earnings per share (Rs.)	4.69	8.80	11.20	11.75	16.44	15.03	8.25
Dividend per share (Rs.)	2.50	2.50	3.00	3.20	4.50	4.50	2.50
Book value per share (Rs.)	41.59	47.69	55.51	63.62	74.93	84.72	47.73
Return on capital employed % (ROCE)*	15.20	27.80	30.40	28.40	25.80	18.70	19.40
Return on net worth % (RONW) **	11.20	19.70	21.80	19.50	23.70	18.80	18.30
Fixed asset turnover (No. of times) #	5.02	6.29	6.36	6.85	6.52	4.63	3.85
Working capital turnover (No. of times)@	5.39	7.91	14.97	26.10	13.61	9.46	14.74
Gross profit as % of total income	8.10	9.20	9.60	8.30	9.30	8.70	9.10
Profit before tax as % of total income	4.70	6.90	7.30	6.00	6.80	5.70	4.90

* 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 Twelfth 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 Thursday, the 7th August 2008 at 10.30 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 31st March 2008 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. 2.50 per share on 77,69,040 equity shares of Rs. 10/- each fully paid up, absorbing a sum of Rs. 194.23 lakhs be and is hereby declared for the year ended 31st March 2008 and the same be paid to those shareholders whose names appear in the register of members of the Company as at the close of 1st August 2008.

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 Mr. C N Prasad be and is hereby appointed as a Director of the Company in the vacancy caused by the resignation of Mr C Narasimhan, in terms of Articles of Association of the Company and applicable provisions of the Companies Act, 1956.

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

RESOLVED THAT subject to the provisions of section 269 read with 198, 309, 387 and Schedule XIII of the Companies Act, 1956 (the Act) and such other applicable provisions, if any, of the Act, Mr. S Thiagarajan, President of the Company be and is hereby appointed as Manager, for the purpose of the Act for a period of 5 years commencing from 1st December 2007, on such terms and conditions of his appointment and remuneration, as per the agreement entered into between him and the Company, a copy of which is placed before this meeting and initialled by the Chairman for the purpose of identification thereof, with the powers of the board of directors of the Company to determine quantum of individual items of his remuneration, payable at such intervals, within the overall limits, for each financial year so as not to exceed 5% of the net profits of the Company, calculated in accordance with the provisions of section 349 and 350 of the Companies Act, 1956.

RESOLVED FURTHER THAT the remuneration within the aforesaid limits, as mentioned below, payable to Mr. S Thiagarajan, as Manager under the Act, for a period of five years from 1st December 2007, subject to the condition that the board of directors, from time to time, may determine the quantum of individual items of his remuneration for each financial year not exceeding the maximum limits specified in each category as follows, be and is hereby approved.

- (1) Salary and commission on profits or performance linked incentive or bonus:
Subject to a ceiling of Rs.50 lacs per annum
- (2) Perquisites and allowances:
Perquisites like unfurnished accommodation / house rent allowance, conveyance

allowance, medical reimbursement, leave travel assistance for self and family, club fees, medical / personal accident insurance premia and other benefits or amenities, in aggregate restricted to a sum not exceeding Rs.25 lakhs per annum; and

Provision of telephone at residence including payment of local calls and long distance calls shall not be included in the computation of perquisites for the purpose of calculation of the said ceiling.

Personal long distance calls on telephone for private purposes shall be recovered by the Company.

(3) Contribution to statutory funds:

Company's contribution to provident fund and superannuation fund not exceeding 27% of the salary or such other percentage of the salary as may be fixed by the Central Government from time to time; and Gratuity as per the rules of the Company.

Company's contribution to provident, superannuation and gratuity funds, shall not be included for computation of limits of perquisites and allowances as aforesaid.

(4) Pension benefits:

Entitled to pension, if any, payable after retirement, as per the rules of the Company

RESOLVED FURTHER THAT the salary, commission on profits or performance linked incentive, perquisites and other allowances/benefits, contributions payable at such quantum and such intervals, as may be decided by the board of directors, from time to time, for each financial year, in aggregate, shall always be well within the limits prescribed under section 198 read with 309 and 387 of the Act.

RESOLVED FURTHER THAT in the event of loss or inadequacy of profits in any financial year, the board of directors of the Company, shall revise the remuneration payable to Mr. S Thiagarajan as Manager during such financial year in such manner as may be agreed to between the board of directors of the Company and Mr. S Thiagarajan and within the limits prescribed in this behalf under Schedule XIII of the Companies Act, 1956.

RESOLVED FURTHER THAT Mr. S Thiagarajan, as manager of the Company shall be subject to the superintendence, control and directions of the board of directors of the Company and he shall have all such powers, duties and responsibilities in terms of the provisions of the Act and that may be

vested in him by the board of directors of the Company, from time to time.

By order of the Board

Chennai
2nd July 2008

S SRINIVASAN
Secretary

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

Notes:

- 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 notorially 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.**
- The explanatory statement, pursuant to section 173(2) of the Companies Act, 1956 in respect of the special business Nos.5 & 6 as set out above are annexed hereto.
- The register of members and the share transfer books of the Company will remain closed from 1st August 2008 to 7th August 2008 (both days inclusive).
- 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.
- Members holding shares in physical form, in their own interest, are requested to dematerialise the shares to avail the benefits of electronic holding / trading.
- 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.

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(IV)(G) of the Listing Agreement with the stock exchanges, a brief resume of directors, who are proposed to be re-appointed / appointed in this meeting, nature of their expertise in specific functional areas, their other directorships and committee memberships and their shareholdings and relationships with other directors in the Company are given below:

I. Mr. S I Jaffar Ali

Born on 30th 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 of the Company by the board on 22nd January 1997.

He held senior positions in the Indian Police service and retired in the year 1995 as Inspector General of Police. He is a member of the audit committee and shareholders'/investors' grievance 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 and he is not related to any other directors of the Company.

II. Mr. C N Prasad

Born on 1st July 1947, Mr. C N Prasad is a Graduate in Mechanical Engineering and post graduate in Manufacturing Technology from Cranfield University, UK. He is also an MBA in Technology Management from La Trobe University, Australia.

His experience includes 16 years in Hindustan Aeronautics Limited in various areas of manufacturing, production engineering and project management, 3 years in Kinetic Honda, Indore as Works Manager and 15 years in Rane Engine Valves Limited (REVL) as Director and CEO.

During his tenure as CEO of REVL a strong quality orientation and customer centricity were brought into that Company that resulted in several accolades and achievements. REVL was one of the earliest companies in India to secure ISO 9000 certification in 1993, won the best vendor awards from Maruti and Deutz, Germany. The export business and turnover grew several folds.

He joined Sundaram-Clayton Limited (SCL) in February 2003 as President and elevated as Group President effective June 2006 with overall responsibilities for SCL.

During his tenure as President of SCL, the Company has won several awards and recognitions from customers and external agencies including the following:

- ACMA Gold trophy for "Manufacturing Excellence" in 2003
- Frost & Sullivan, India Manufacturing Excellence Award – Overall Gold in 2005.
- Frost & Sullivan, India Manufacturing Excellence Award – Super Platinum in 2007
- JIPM – TPM Category 1 Award.

He has been awarded by ITM Business School for ITM Awards for Corporate Excellence in 2006 and has also been awarded Best CEO by QCFL for the year 2007.

He is the member of the audit committee and investors' grievance committee of the board of directors of the Company. He does not hold any share in the Company and he is not related to any other directors of the Company. Details of his other directorships and membership/ chairmanship of committees are given below:

Sl. No.	Name of the Company	Position held	Committee membership/ chairmanship
1.	Auto (India) Engineering Limited	Director	—
2.	WABCO-TVS (INDIA) Limited	Whole time Director	Member- Shareholders/ Investors' Grievance Committee

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 2nd July 2008 and shall be taken as forming part of the notice.

Item no. 5

Mr. C N Prasad was appointed as a director, in terms of Section 262 of the Companies Act, 1956, in the casual vacancy caused by the resignation of Mr. C Narasimhan, Director effective 23rd April 2008. Mr C N Prasad will hold office upto this annual general meeting, when Mr C Narasimhan would have retired in the normal course.

Notice has been received from a member of the Company under section 257 of the Companies Act, 1956, along with a deposit of Rs.500/- signifying his intention to propose the candidature of Mr C N Prasad for the office of director and to move the resolution as set out in item no.5 of this notice.

The directors recommend the resolution as set out in item no. 5 of the notice to be approved as an ordinary resolution by the shareholders.

None of the directors except Mr. C N Prasad is deemed to be interested or concerned in the resolution.

Item no. 6

In terms of the provisions of section 269 of the Companies Act, 1956, every public Company, or a private Company which is a subsidiary of a public Company, having a paid-up share capital of Rs. 5 crores or more, should have a managing or whole-time director or a manager.

The Company is required to appoint such managerial person in terms of the provisions of section 269 of the Companies Act, 1956 ("the Act") since the paid up capital of the Company increased from Rs.3,88,45,200 consisting of 38,84,520 equity shares of Rs.10/- each

to Rs.7,76,90,400 consisting of 77,69,040 equity shares of Rs.10/- each following the allotment and issue of bonus shares in the ratio of 1:1 to the shareholders of the Company.

Such managerial person in place, on appointment, will be subject to the superintendence, control and directions of the board of directors of the Company, from time to time.

Accordingly, Mr S Thiagarajan, President of the Company was appointed as "Manager" for the purpose of the Act for a period of five years from 1st December 2007 in terms of the agreement entered into with him by the Company, subject to the approval of the shareholders in the ensuing annual general meeting of the Company.

The directors therefore recommend the resolution as set out in item no. 6 of the notice to be approved as an ordinary resolution by the shareholders.

None of the directors is deemed to be interested or concerned in the resolution.

Inspection of documents:

Copies of the resolutions passed by the board of directors of the Company on 6th December 2007 and the agreement entered into between the Company and Mr. S Thiagarajan are available for inspection at the registered office of the Company as mentioned above between 10.00 AM and 12.00 PM on all working days except Saturdays.

By order of the Board

Chennai
2nd July 2008
Registered office:
"Jayalakshmi Estates"
29, Haddows Road
Chennai 600 006

S SRINIVASAN
Secretary

Directors' report to the shareholders

The directors herewith present the twelfth annual report of the Company and the audited accounts for the year ended 31st March 2008.

FINANCIAL HIGHLIGHTS

	Rs. in lakhs	
	Year ended 31.3.2008	Year ended 31.3.2007
Sales and other income	19,376.63	15,696.74
Gross profit before interest depreciation and tax	1,772.58	1,363.01
Interest	286.90	75.75
Depreciation	532.93	386.34
Profit before tax	952.75	900.92
Provision for taxation (including FBT and Deferred Tax)	311.50	317.00
Profit after tax	641.25	583.92
Add: Surplus brought forward	239.12	198.14
Transfer from investment allowance reserve	-	50.00
Profit available for appropriation	880.37	832.06
<u>Appropriations:</u>		
Tax relating to earlier years	(2.81)	4.20
Proposed dividend	194.23	-
Interim dividend paid	-	174.80
Tax on dividend	33.01	24.52
Transfer to general reserves	425.00	389.42
Surplus in profit and loss account	230.94	239.12

DIVIDEND

The board of directors of the Company have recommended a dividend of Rs. 2.50 per share for the year 2007-2008, absorbing a sum of Rs.194.23 lakhs subject to the approval of the shareholders in the ensuing annual general meeting.

BONUS SHARES

During the year, the board of directors of the Company, on 19th November 2007, allotted 38,84,520 equity shares of Rs. 10/- each as bonus shares in the ratio of one equity share of Rs. 10/- each aggregating Rs. 38,845,200/- to every equity share of Rs. 10/- each held by the shareholders as on the record date namely 16th November 2007 by capitalizing an equal amount of Rs. 38,845,200/- standing to the credit of the general reserve account of the Company. After the allotment, the said bonus shares were listed in the Madras Stock Exchange Ltd. (MSE) and Bangalore Stock Exchange Ltd. (BgSE). MSE and BgSE also accorded their trading permissions to deal / trade in Company's new shares with effect from 11th December and 13th December 2007, respectively. Thus, the Company ensured the compliance with the provisions of Chapter XV of SEBI (Disclosure and Investor Protection) Guidelines 2000 for implementation of the proposal of bonus shares recommended by the Board in their meeting held on 28th July 2007 i.e. within six months.

APPROPRIATIONS

Out of the profits available for appropriation a sum of Rs. 425 lakhs has been transferred to General Reserves. The surplus of Rs. 230.94 lakhs has been retained in the profit and loss account of the Company.

PERFORMANCE

During the year under review, the sales and other income increased from Rs.156.96 crores to Rs.193.77 crores registering a growth of 23%. Profit before interest, depreciation and tax has recorded a growth of 30 % in 2007-08 over the previous year, the net profit rose by 10% from Rs.5.84 crores to Rs.6.41 crores.

The financial and operational performance of the Company for the year under review along with other material disclosures are furnished herein below in the management discussion and analysis report as a separate statement in terms of clause 49 of the Listing Agreement.

MANAGEMENT DISCUSSION AND ANALYSIS REPORT

The Company provides seating solutions for transport applications and has established a leading position in the country catering to all segments of the automotive industry.

INDUSTRY STRUCTURE AND DEVELOPMENTS

India continued to be one of the fastest growing economies of the world. During the year 2007-08, the Indian economy grew at a robust pace for the fifth consecutive year. Real GDP growth was estimated to be 8.7%. While agricultural and allied activities grew by 2.6%, Industrial sector's growth at 8.6% was moderated against 10.6% achieved in the previous year. Manufacturing and service sectors continued to maintain the growth momentum. Despite rupee appreciation, exports continued to show a healthy growth of 23% in dollar terms in 2007-08.

As far as automobile industry is concerned, the bus segment had an impressive 29% growth over the previous year followed by LCVs at 13% and Cars & MUVs at 12% while two wheelers remained flat. Tractor was the only segment which failed to keep pace with other segments and was down by 2% in 2007-08.

PRODUCT- WISE PERFORMANCE

During the year 2007-08, the Company's sales grew by 23% over the previous year. All segments of seating business registered growth. Driven by driver seats, which posted an impressive growth of 91% in 2007-08 over the previous year, LCV seats grew by 20%, tractor seats by 20%, bus passenger seats by 37%, Cars & MUV by 179% . The two wheeler seats registered a negative growth of 17% over the previous year. Exports also contributed to the increase in top line with a substantial growth of 42% over the previous year.

During the year 2007-08, the Company upgraded the driver seats for heavy commercial vehicles and construction equipment to meet the AIS 023 regulations of the Government and commenced supplies to OE customers successfully. The efforts taken by the Company in speedily meeting the AIS 023 regulation was well appreciated by the OE customers and resulted in higher sales in this segment. Besides this, the Company also developed and productionised seat components

for export markets and introduced variants of existing bus passenger seat models to meet customer requirements.

Company's new technology products like micro cellular urethane products and long fibre injection moulded components for automotive applications have been well received by customers and pilot supplies were effected. Commercial production of these products are expected to pick up momentum this year. Being a new technology, we expect longer lead time for the markets to evaluate and accept these products in a big way.

OPPORTUNITIES AND THREATS

Year 2007-08 witnessed a number of MNCs joining hands with local players in forming JVs for commercial vehicles. With this, we expect the commercial vehicle market to grow in terms of high value high-end sophisticated vehicles with international standards to be launched in Indian market in the near future. Being an established leader in this segment, we expect the Company to capitalize on these developments. Efforts have already been made to develop high-end seats for these applications.

Having established a leading position in tractor seat segment in the domestic market, the company is now focusing on export market and is committed to meet customer requirements in terms of quality, cost, delivery and service.

The year 2007-08 also witnessed another phenomenon of public sector transport undertakings launching low floor city buses, upgradation of existing fleet and induction of high-end buses for long distance travelling. Increased concern on public transportation shown by public sector undertakings has also resulted in higher off-take of passenger carriers. The introduction of Volvo buses revolutionized the concept of safety and comfort in long distance travelling. This has brought a new outlook among other leading bus manufacturers, who also started making Volvo like buses. This has helped the company with greater opportunities in the high end bus passenger segment. The Company's plant in Himachal Pradesh is ideally situated to cater to the needs of the customers in the northern India. While production of two wheeler and tractor seats have