

HARITA SEATING SYSTEMS LIMITED

Fifteenth Annual Report 2010-2011

Board of Directors

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

President

A G Giridharan

Company Secretary

N Iswarya Lakshmi

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

Remuneration Committee

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

Bankers

State Bank of India
Industrial Finance Branch
Anna Salai, Chennai 600 002

State Bank of Mysore
Industrial Finance Branch
Anna Salai, Chennai 600 006

Auditors

Sundaram & Srinivasan
Chartered Accountants,
No. 4 (Old No. 23), Sir C.P. Ramaswamy Road,
Alwarpet, Chennai 600 018

Shares listed with

Madras Stock Exchange Ltd., Chennai
National Stock Exchange of India Ltd., Mumbai
Bangalore Stock Exchange Ltd., Bengaluru

Shares Transfer Agent

Sundaram-Clayton Limited
No. 22 (Old No. 31), Railway Colony, 3rd Street,
Mehta Nagar, Chennai - 600 029
Tel. : 044 - 2374 1889, 2374 2939
Fax : 044 - 2374 1889
E-mail : kr.raman@scl.co.in
scshares@gmail.com
investorscomplaintssta@scl.co.in
ni.iswarya@scl.co.in

Registered Office

"Jayalakshmi Estates"
No.29 (Old No.8), Haddows Road,
Chennai - 600 006, Tamil Nadu, India
Tel. : 044-28272233, Fax : 044-28257121

Factories

Belagondapalli, Thally Road,
Hosur - 635 114, Tamil Nadu, India.
Tel. : 04347-233445, Fax : 04347-233460

Plot A2 MIDC Industrial area
Ranjangaon, Koregaon village, Shirur taluk,
Pune - 412210, Maharashtra, India
Tel. : 02138-660742

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

Plot No. 116, 117
Bommasandra Industrial Area
Bengaluru - 560 099, Karnataka, India.
Tel. : 080-27832851, Fax : 080-27832853

Web site: www.haritaseating.com

Subsidiary company

Harita Fehrer Limited, Chennai

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HARITA SEATING SYSTEMS LIMITED

Financial Highlights										
(Rupees in lakhs)										
Details	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Profit & Loss Account										
Sales	6025.27	7873.25	9202.06	11798.82	13736.82	15547.33	19104.87	19625.18	22356.35	22504.00
Other income	38.45	48.71	90.81	117.93	143.80	149.41	271.76	196.98	893.51	691.17
Total income	6063.72	7921.96	9292.87	11916.75	13880.62	15696.74	19376.63	19822.16	23249.86	23195.17
Gross profit before interest , depreciation & tax	490.58	730.09	894.03	987.92	1292.85	1363.01	1772.58	330.76	1487.56	580.04
Depreciation	164.11	174.99	212.76	269.39	315.28	386.34	532.93	696.92	883.52	431.66
Profit / (Loss) before interest & tax	326.47	555.10	681.27	718.53	977.57	976.67	1239.65	(366.16)	604.04	148.38
Interest	39.97	10.11	0.35	0.28	31.78	75.75	286.90	424.77	704.44	732.48
Profit / (Loss) before taxation	286.50	544.99	680.92	718.25	945.79	900.92	952.75	(790.93)	(100.40)	(584.10)
Profit / (Loss) after taxation	182.06	341.80	437.69	451.78	638.79	583.92	641.25	(892.09)	8.81	(509.99)
Balance Sheet										
Net fixed assets	1172.41	1329.35	1564.07	1878.80	2337.96	4380.64	5546.86	7999.88	4705.11	4652.63
Investment	0.06	0.06	661.12	367.96	407.87	350.00	437.38	259.85	2988.76	2952.10
Net current assets	1066.82	924.23	305.29	598.89	1420.19	1866.44	725.77	5217.27	900.36	870.90
Total	2239.29	2253.64	2530.48	2845.65	4166.02	6597.08	6710.01	13477.00	8594.23	8475.63
Share capital	388.45	388.45	388.45	388.45	388.45	388.45	776.90	776.90	776.90	776.90
Reserves & Surplus	1227.27	1464.20	1767.96	2082.72	2522.17	2902.57	2930.94	2055.78	2072.98	1561.79
Net worth	1615.72	1852.65	2156.41	2471.17	2910.62	3291.02	3707.84	2832.68	2849.88	2338.69
Loan funds	521.02	265.25	240.10	220.04	1091.96	3125.62	2639.73	10200.03	5422.27	5888.97
Deferred tax liability	102.55	135.74	133.97	154.44	163.44	180.44	362.44	444.29	322.08	247.97
Total	2239.29	2253.64	2530.48	2845.65	4166.02	6597.08	6710.01	13477.00	8594.23	8475.63
Earnings per share (Rs.)	4.69	8.80	11.20	11.75	16.44	15.03	^ 8.25	(11.48)	0.11	(6.56)
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	36.46	36.68	30.10
Return on capital employed %(ROCE)*	15.2	27.80	30.40	28.40	25.80	18.70	19.40	(2.69)	7.31	1.75
Return on networth % (RONW)**	11.2	19.70	21.80	19.50	23.70	18.80	18.30	(27.28)	0.31	(19.66)
Fixed asset turnover (No. of times) #	5.0	6.29	6.36	6.85	6.52	4.63	3.85	2.90	3.52	4.81
Working capital turnover (No. of times) @	5.4	7.91	14.97	26.10	13.61	9.46	14.74	6.60	7.31	25.41
Gross profit as % of total income	8.1	9.20	9.60	8.30	9.30	8.70	9.10	1.70	6.40	2.50
Profit / (Loss) before tax as % of total income	4.7	6.90	7.30	6.00	6.80	5.70	4.90	(4.00)	(0.43)	(2.52)

* 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 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.

^ Adjusted for bonus issue.

Notice to the Shareholders

NOTICE is hereby given that the fifteenth annual general meeting of the Shareholders of the Company will be held at Mini Hall of Narada Gana Sabha Trust at New No.314 (Old No.254), T.T.K. Road, Alwarpet, Chennai - 600 018 on Monday, the 19th September 2011 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 31st March 2011 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 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."

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

"RESOLVED THAT the retiring auditors, M/s. Sundaram & Srinivasan, Chartered Accountants, Chennai, having firm registration no.004207S issued by The Institute of Chartered Accountants of India, be and are hereby re-appointed as statutory auditors of the Company to hold office from the conclusion of this annual general 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

4. To consider and if thought fit, to pass with or without modification, the following resolution as a special resolution:

"RESOLVED THAT, pursuant to the provisions of Section 31 and other applicable provisions, if any, of the Companies Act, 1956, the Articles of Association of the Company, be and are hereby altered in the manner specified below:

In the Articles of Association of the Company, the existing Article 145, be re-numbered as 145(a) and the following Article be inserted:

Article 145(b)

Subject to the applicable provisions of the Act and any statutory modification or re-enactment thereof for the time being in force, the board shall have the power to permit directors to participate and vote through the means of video or tele-conferencing at a duly constituted meeting of the board of directors or committee thereof, subject to applicable rules and regulations. The provision relating to convening of physical board meeting as contained in these articles shall *mutatis mutandis* apply in case of convening of meetings by video-conferencing.

In the existing Article 147, the following proviso will be inserted at the end:

"Provided the directors participating in the meetings through video-conferencing shall form part of valid quorum for transacting any business at such meetings".

By order of the Board

Chennai
3rd August 2011

N Iswarya Lakshmi
Company Secretary

Registered Office:
"Jayalakshmi Estates"
No.29 (Old No.8), 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 of attorney or other authority shall be deposited at the registered office of the Company not later than 48 hours before the time fixed for holding the meeting.

GREEN INITIATIVE IN CORPORATE GOVERNANCE

Ministry of Corporate Affairs (MCA) has undertaken a 'Green Initiative in Corporate Governance' to promote paperless compliances by the companies through electronic mode. Members can now receive notices, annual reports and other documents through electronic mode by registering their e-mail addresses with the Company.

The Company would like to avail this opportunity for sending notices / annual reports / other documents (documents) to the members in the electronic mode to their e-mail addresses already registered and available (i) in the records of depositories, which have been made available to the Company by them; or (ii) in the records of Share Transfer Agent of the Company namely Sundaram-Clayton Limited (STA).

Members are requested to note:

- that the documents will also be available on the Company's website www.haritaseating.com for downloading by the members;*
- that physical copies of the documents will also be available at the Registered Office of the Company, at No. 29, Haddows Road, Chennai - 600 006, for inspection during office hours;*
- that members, who opted to receive the documents in electronic mode, are also entitled to receive copies of the documents free of cost, upon receipt of a requisition at any time;*
- that those members, who are holding shares in electronic form and have not registered their e-mail addresses with their DPs, are requested to update the same with DPs;*
- that those members, who are holding shares in physical form and have not registered their e-mail addresses with the STA, are requested to update the same; and*
- to update change of e-mail address with the STA or with the Company or with their DPs, from time to time, for receiving the future communication on any other e-mail address.*

2. The Explanatory Statement pursuant to Section 173 (2) of the Companies Act, 1956 in respect of Special Business under item no. 4 as set above is annexed hereto.
3. The register of members and the share transfer register of the Company will remain closed for a period of 4 days from 16th September 2011 to 19th September 2011 (both days inclusive), for the purpose of the annual general meeting of the Company.
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 on due dates to the Investor Education and Protection Fund (IEPF) established by the Central Government. 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, in respect of the above period, are requested to make their claim(s) by surrendering the unencashed warrants immediately to the Company.
5. Members holding shares in physical form, in their own interest, are requested to dematerialize the shares to avail the benefits of electronic holding/trading.
6. Members are requested to notify any change in their address to the Company immediately. Members holding shares in electronic form are requested to advise change of correspondence and e-mail addresses to their DPs.
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 slip 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 the director, who is proposed to be re-appointed in this annual general meeting, nature of his expertise in specific functional areas, his other directorships and committee memberships, his 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, shareholders / investors' grievance committee and remuneration 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 is not related to any director of the Company.

ANNEXURE TO NOTICE

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 3rd August 2011 and shall be taken as forming part of the notice.

Item No. 4

Keeping in tune with the Green initiatives in Corporate Governance, MCA has permitted the

companies to conduct Board or Committee meeting(s) through electronic means i.e. video or tele-conferencing. The Information Technology (IT) Act, 2000 also recognizes communications in digital or electronic form and holding of such meetings through electronic means are permissible under the IT Act.

It is considered desirable to have suitable amendments made to the Articles of Association of the Company (AoA) providing for participation of such directors, who are unable to be physically present at the meetings, through electronic mode. This will facilitate the Board to have the benefit of their advice in the deliberations at the meetings and their participation will also be counted for quorum and voting purposes.

As per Section 31 of the Companies Act, 1956 the amendments to AoA requires approval of the shareholders by way of a Special Resolution.

Accordingly, your directors recommend the Special Resolution at item no. 4 of the notice for approval of the shareholders.

None of the directors of the Company is interested or concerned in the said resolution.

Inspection of documents

The documents referred to in the notice and the explanatory statement will be available for inspection at the Registered Office of the Company on any working day between 10.00 a.m. to 12.00 noon.

By order of the Board

Chennai
3rd August 2011

N Iswarya Lakshmi
Company Secretary

Registered Office:
"Jayalakshmi Estates"
No.29 (Old No.8), Haddows Road
Chennai 600 006

Directors' Report to the Shareholders

The directors have pleasure in presenting the fifteenth annual report of the Company and the audited accounts for the year ended 31st March 2011.

I. FINANCIAL HIGHLIGHTS

(Rs. in lakhs)

	Year ended 31.3.2011	Year ended 31.3.2010
Sales and other income	23,195.17	23,249.86
Gross profit before interest, depreciation and tax	580.04	1,487.56
Interest	732.48	704.44
Depreciation	431.66	883.52
Profit / (Loss) before tax	(584.10)	(100.40)
Provision for taxation (including deferred tax)	(74.11)	(109.21)
Profit / (Loss) after tax	(509.99)	8.81
Add: Surplus brought forward	17.20	—
Profit / (Loss) available for appropriation	(492.79)	8.81
Appropriations:		
Tax relating to earlier years	1.20	(8.39)
Surplus / (Deficit) in profit and loss account	(493.99)	17.20

2. DIVIDEND

The board of directors of the Company has not recommended any dividend for the year ended 31st March 2011.

3. 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, barring passenger car segment.

INDUSTRY STRUCTURE AND DEVELOPMENTS

The economy grew by 8.6% in 2010-11 and industry sector grew by 8.1%. This was entirely driven by 10% growth in construction sector. The other two sub-components namely mining and electricity had reduced growth rates of 6.2% and 5.1% compared to 6.9% and 6.4% of last year. Growth in manufacturing sector remained unchanged at 8.8%.

In fiscal 2010-11, the Rupee depreciated to Rs.47.57 per USD in May 2010 but with a sharp upturn in portfolio flows and a strong domestic growth, the Rupee has rebounded close to Rs.45.00 per USD in the third quarter of financial year 2010-11 and exited the financial year at Rs.44.65.

All the segments of the Indian automotive industry registered high growth during 2010-11. The following table highlights the industry sales figures in vehicle units.

Category	2010-11 Nos.	2009-10 Nos.	Growth %
Medium and Heavy Commercial Vehicles (MHCV)	351229	240138	46
Light Commercial Vehicles (LCV)	399225	291667	37
Buses	57539	47676	21
Cars & MUVs	2973296	2268551	31
Tractors	544495	364399	49
Three wheelers	795989	604848	32
Two wheelers	13324714	10253337	30

[Source: SIAM]

The growth of commercial vehicle segment and the tractor segment of the domestic automotive industry resulted in the overall sales of the

Company growing by 27% in 2010-11 (on comparable basis after the transfer of two wheeler seats and foaming business to the subsidiary company viz., Harita Fehrer Limited, Chennai). Due to start of supply of new products to export customers, the Company's export sales grew by 92% to Rs.21.47 Cr. The Company has registered a sale of Rs.225 Cr in 2010-11 (Rs.177 Cr in 2009-10 on a comparable basis) and a loss of Rs.5.8 Cr in 2010-11 (loss of Rs.1 Cr in 2009-10).

The Company has posted losses in the financial year 2010-11 due to lack of adequate capacity in the vendor base, causing unprecedented air freight to the export customers based in the US. Poor vendor capacity also affected timely delivery to other domestic customers leading to penalties and the steep rise in commodity prices for steel, foam, plastic and vinyl rexines, which could not be passed on to customers.

OPPORTUNITIES AND THREATS

Though widespread optimism has been expressed about the economic growth in financial year 2011-12, there are strong reasons to believe that the growth would be muted in the range of 7.0% to 7.5%. With expected growth in economy, the Company expects the commercial vehicles market to grow in volumes as well as in value of high-end sophisticated vehicles. Measures are being undertaken by the Company for development of high-end seats for these applications. Being an established leader for seating systems in this segment, the Company expects to grow along with the customers.

The Company continues to be in the leadership position in tractor seat segment in the domestic market and has laid up strategies to improve the overall market share. The Company is now focusing on export market and is committed to meet customer requirements in terms of quality, cost, delivery and service.

The Company is the leader in deluxe segment of the bus passenger seat. With more

multinational competition in the deluxe bus segment, the Company expects the market to grow. This has provided the Company with greater opportunities in the high-end bus segment.

The increased spending of the Government on strengthening infrastructure in the country is helping the growth in the demand for the Earth Moving Equipment. The Company has bagged orders from new entrants in the segment and has already developed suitable seats for this application and expects greater opportunities for business in this segment.

The growth in Indian automotive market has attracted multinational seat manufacturing companies to set up manufacturing facilities in India, which poses a significant threat.

The Company continues to invest on research and development and believes that innovation is the key to success. The Company is fully committed to focus on product innovation by developing newer, cost effective products, precisely targeted at customer needs, in order to meet the threats posed by competition and to leverage the opportunities offered by the market. The Company's well established range of products and in-house design capabilities with proximity to customers will enable the Company to retain and improve its market share through well defined strategies.

PRODUCT-WISE PERFORMANCE

The high growth in all segments of the domestic automotive industry resulted in the Company's overall sales growing by 27% in 2010-11. The sales in commercial vehicles segment resulted in a growth of 53% in MHCV segment and sales from tractor segment grew by 29%.

BUSINESS OUTLOOK AND OVERVIEW

In 2011-12, the GDP is projected to grow at 7.0 - 7.5%. This outlook of the economy is expected to grow in the domestic automotive

sector. The MHCV and LCV segments are expected to grow at 12% and 20% respectively. Tractor segment is estimated to register a growth of 10%. As regards the exports, the US market is expected to grow by 2%. In view of the factors mentioned above, the sale is estimated to grow at a rate higher than 2010-11.

The Company has firmed up the strategy to improve market share by creating assembly locations close to the customers and strengthening marketing and product development. The results of this action will start realizing from 2011-12 onwards.

RISKS AND CONCERNS

The increase in the interest rate and the fuel prices are expected to slow down the automotive growth momentum and may affect the profitability of the OEM's, who have invested heavily for building their capacities.

The Company has been able to settle commodity related price increase with majority of the customers and discussions are continuing with the remaining customers. Under the anticipated slowdown, the Company expects delay in the settlement of price increases, due to increase in labour and power costs with the customers. The timely settlement will determine the Company's performance.

Considering the stringent quality demand of customers, which could result in rework or product recall, the Company is giving greater importance to the quality of products. The Company has also taken product liability cover to overcome such unforeseen circumstances. Risks due to fluctuations in foreign exchange are mitigated by taking forex cover.

OPERATIONS REVIEW

a. Manufacturing:

The Company's manufacturing facilities follow the best practices such as Total Quality Management (TQM), Total Product

Management (TPM) and Lean Manufacturing, with best-in-class practices for safety, work environment, water and energy conservation. The Company is certified for ISO 14001 & OHSAS 18001.

Implementation of Lean Manufacturing has been taken up very actively by the senior management team. This initiative undertaken in all the manufacturing locations, is expected to reduce cost of manufacturing and improve quality.

b. Quality:

The quality system at the factories aims at achieving total customer satisfaction through its focus on improving product quality to World Standards. This is achieved through total employee involvement and continuous improvement culture. Rigorous usage of poka-yokes, utilization of statistical tools for process optimization and control also contribute towards improving the product quality. The Company is certified for TS 16949.

TQM is a way of life in the Company. 100% participation in employee involvement has been successfully achieved for the 11th consecutive year.

c. Focus on Cost:

The Company has adopted techniques of Lean Manufacturing to reduce the costs across the plants. By implementing Lean Manufacturing practices, the Company expects to reduce cost of operations to a large extent.

Further, the Company has trained R & D and process engineers for doing bench marking, value engineering and the Company is expecting new product designs with the above concepts to reduce material costs in the financial year 2011-12.

d. Financial performance:

The financial and operational performance of the Company for the year 2010-2011, as compared to the previous year 2009-2010, is as follows:

Particulars	Year ended 31 st March 2011		Year ended 31 st March 2010	
	Rs. in lakhs	%	Rs. in lakhs	%
Income:				
Sales	22,504.00	97.02	22,356.35	96.16
Other Income	691.17	2.98	893.51	3.84
Total Income	23,195.17	100.00	23,249.86	100.00
Expenditure:				
Raw materials and components consumed	18,036.74	77.76	16,426.22	70.65
Staff cost	1,924.91	8.30	2,078.80	8.94
Stores and tools consumed	459.12	1.98	283.10	1.21
Power and fuel	181.69	0.78	301.59	1.30
Repairs and maintenance	254.20	1.10	496.53	2.14
Other expenses	1,758.47	7.58	2,176.06	9.36
Interest	732.48	3.16	704.44	3.03
Depreciation	431.66	1.86	883.52	3.80
Total expenditure	23,779.27	102.52	23,350.26	100.43
Profit / (Loss) before tax	(584.10)	(2.52)	(100.40)	(0.43)
Provision for taxation - Current tax	—	—	13.00	0.06
- Deferred tax	(74.11)	(0.32)	(122.21)	(0.53)
Profit / (Loss) after tax	(509.99)	(2.20)	8.81	0.04
		2010-11		2009-10
EBITDA / Turnover %		2.58		6.65
Profit / (Loss) before tax/turnover %		(2.60)		(0.45)
Return on capital employed %		1.75		7.31
Return on net worth %		(19.66)		0.31
Earnings per share in Rs.		(6.56)		0.11

INTERNAL CONTROLS AND THEIR ADEQUACY

The Company has a proper and adequate internal control system to ensure that all assets are safeguarded and protected against loss from unauthorized use or disposition and those transactions that are authorized and recorded

are reported correctly. The internal controls are supplemented by an extensive programme of internal audits, review by management and documented policies, guidelines and procedures. The status of the observations made during the internal audit is reviewed by the audit committee of directors and concerns, if any, are