

HARITA SEATING SYSTEMS LIMITED

Seventeenth Annual Report 2012-2013





Board of Directors

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

President and Manager

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
State Bank of Mysore

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

Share Transfer Agent

"Jayalakshmi Estates", 1st Floor,
No.29 (Old No.8), Haddows Road,
Chennai - 600 006
Tamil Nadu, India.
Tel. : 044 - 2828 4959; 2827 2233
Fax : 044 - 2825 7121
E-mail : kr.raman@scl.co.in
sclshares@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.553-D, 2nd Stage,
Belur Industrial Area,
Dharwad - 580 011, Karnataka, India

Plot No.35, Sector 4,
Integrated Estate, Pant Nagar,
Rudrapur, Udham Singh Nagar Dist.,
Uttarkhand - 263 153, India

Web site: www.haritaseating.com

Subsidiary company

Harita Fehrer Limited, Chennai

Contents	Page No.
Financial highlights	2
Notice to the shareholders	3
Directors' report to the shareholders	6
Report on Corporate Governance	15
Auditors' report to the shareholders	30
Balance Sheet	34
Statement of Profit and Loss	35
Notes on accounts	36
Accounting Standards and additional disclosures	45
Cash flow statement	59
Statement under Section 212 of the Companies Act, 1956	61
Auditors' Report on Consolidated Accounts	63
Consolidated Accounts	64
Financial Information of Subsidiary as per Section 212(8) of the Companies Act, 1956	78

HARITA SEATING SYSTEMS LIMITED

Financial Highlights

Rs. in lakhs

Details	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Statement of Profit & Loss										
Sales	9,202.06	11,798.82	13,736.82	15,547.33	19,104.87	19,625.18	22,356.35	24,078.27	30,664.18	27,616.68
Other income	90.81	117.93	143.80	149.41	271.76	196.98	893.51	153.53	225.85	226.18
Total income	9,292.87	11,916.75	13,880.62	15,696.74	19,376.63	19,822.16	23,249.86	24,231.80	30,890.03	27,842.86
Gross profit before interest, depreciation & tax	894.03	987.92	1,292.85	1,363.01	1,772.58	330.76	1,487.56	594.85	2,516.04	2,295.52
Depreciation	212.76	269.39	315.28	386.34	532.93	696.92	883.52	431.66	434.38	422.14
Profit/(Loss) before interest & tax	681.27	718.53	977.57	976.67	1,239.65	(366.16)	604.04	163.19	2,081.66	1,873.38
Interest	0.35	0.28	31.78	75.75	286.90	424.77	704.44	747.29	663.70	559.36
Profit/(Loss) before taxation	680.92	718.25	945.79	900.92	952.75	(790.93)	(100.40)	(584.10)	1,417.96	1,314.02
Profit/(Loss) after taxation	437.69	451.78	638.79	583.92	641.25	(892.09)	8.81	(509.99)	1,122.01	1,067.15
Balance Sheet										
Net fixed assets	1,564.07	1,878.80	2,337.96	4,380.64	5,546.86	7,999.88	4,705.11	4,652.63	3,577.92	4,101.30
Investment	661.12	367.96	407.87	350.00	437.38	259.85	2,988.76	2,759.00	2,759.00	2,759.00
Net current assets	305.29	598.89	1,420.19	1,866.44	725.77	5,217.27	900.36	1,064.00	2,374.75	2,139.52
Total	2,530.48	2,845.65	4,166.02	6,597.08	6,710.01	13,477.00	8,594.23	8,475.63	8,711.67	8,999.82
Share capital	388.45	388.45	388.45	388.45	776.90	776.90	776.90	776.90	776.90	776.90
Reserves & Surplus	1,767.96	2,082.72	2,522.17	2,902.57	2,930.94	2,055.78	2,072.98	1,561.79	2,407.25	3,250.84
Net worth	2,156.41	2,471.17	2,910.62	3,291.02	3,707.84	2,832.68	2,849.88	2,338.69	3,184.15	4,027.74
Loan funds	240.10	220.04	1,091.96	3,125.62	2,639.73	10,200.03	5,422.27	5,888.97	5,282.64	4,757.69
Deferred tax liability	133.97	154.44	163.44	180.44	362.44	444.29	322.08	247.97	244.88	214.39
Total	2,530.48	2,845.65	4,166.02	6,597.08	6,710.01	13,477.00	8,594.23	8,475.63	8,711.67	8,999.82
Earnings per share (Rs.)	11.20	11.75	16.44	15.03	^ 8.25	(11.48)	0.11	(6.56)	14.44	13.74
Dividend per share (Rs.)	3.00	3.20	4.50	4.50	2.50	—	—	—	3.50	2.50
Book value per share (Rs.)	55.51	63.62	74.93	84.72	47.73	36.46	36.68	30.10	40.99	51.84
Return on capital employed %(ROCE)*	30.40	28.40	25.80	18.70	19.40	(2.69)	7.31	1.92	25.88	22.40
Return on networth % (RONW)**	21.80	19.50	23.70	18.80	18.30	(27.28)	0.31	(19.66)	40.63	29.59
Fixed asset turnover (No. of times) #	6.36	6.85	6.52	4.63	3.85	2.90	3.52	5.15	7.45	7.19
Working capital turnover (No. of times) @	14.97	26.10	13.61	9.46	14.74	6.60	7.31	24.52	17.83	12.24
Gross profit as % of total income	9.60	8.30	9.30	8.70	9.10	1.70	6.40	2.45	8.15	8.24
Profit/(Loss) before tax as % of total income	7.30	6.00	6.80	5.70	4.90	(4.00)	(0.43)	(2.41)	4.59	4.72

Notes:

The figures from 2010-11 are based on the Revised Schedule VI classifications. The figures upto 2009-10 are based on the respective year's reported results.

* 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.

^ Adjusted for bonus issue.

Notice to the Shareholders

NOTICE is hereby given that the seventeenth annual general meeting of the shareholders of the Company will be held at Kasturi Srinivasan Hall (Mini Hall), The Music Academy, No.168, (Old No. 306) T. T. K. Road, Royapettah, Chennai 600 014 on Wednesday, the 4th September 2013 at 10.00 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 2013 and the statement of profit and loss 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 C N Prasad, 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 the firm registration no. 004207S issued by The Institute of Chartered Accountants of India, be and are hereby re-appointed as 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."

By order of the Board

Chennai
22nd May 2013

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.**
2. The interim dividend on the equity shares for the year ended 31st March 2013 as declared by the board of directors will be paid on 5th June 2013 to those shareholders (or their mandatees) whose names appear in the register of members of the Company as at the close of 1st June 2013, being the record date fixed by the board at its meeting held on 22nd May 2013.
3. The register of members and the share transfer books of the Company will remain closed for six days, from 30th August 2013 to 4th September 2013, both days inclusive, for the purpose of annual general meeting of the Company, in terms of Clause 16 of the Listing Agreement.

4. In terms of Section 205A read with Section 205C of the Companies Act, 1956 ("the Act"), 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, are requested to make their claims by surrendering the unencashed warrants immediately to the Company.

Pursuant to Investor Education and Protection Fund (Uploading of information regarding unpaid and unclaimed amount lying with companies) Rules 2012, the Company shall provide / host the required details of unclaimed amounts referred to under Section 205C (2) of the Act on its website and also in the website of the Ministry of Corporate Affairs (MCA) in the relevant form every year.

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 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. Corporate members are requested to send a duly certified copy of the board resolution / power of attorney authorizing their

representative to attend and vote at the annual general meeting.

9. SEBI vide its circular no. CIR/MRD/DP/10/2013 dated 21.03.2013 has mandated that in order to enable usage of electronic payment instruments, companies whose securities are listed on the stock exchanges (or their RTI & STA) shall maintain requisite bank details of their investors. The circular further mandates the Companies or their Share Transfer Agents (STA) shall take necessary steps to maintain updated bank details of the investors at its end. The circular also provides that only in cases where MICR, IFSC Code required for making electronic payment are not available or the electronic payments instructions have failed or have been rejected by the Bank, companies / STA can make cash payments (i.e. dividend warrant) to investors. However, even while making such payments by cash, companies shall mandatorily print the bank account details of the investors on such electronic payments. In view of the above circular, investors may note the following advice:-

Investors holding shares in physical mode are requested to intimate / update the bank account details viz, Bank Name, Bank Branch, Account Number, MICR No., IFSC Code along with a copy of the cancelled cheque to the Company / STA for updating your records with us.

Investors holdings shares in demat mode are requested to intimate / update the bank account details with other details as may be required by their concerned Depository Participant.

10. 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 meeting, nature of his expertise in specific functional areas, his other directorships and committee memberships and his shareholdings and relationships with other directors in the Company are given below:

I. Mr C N Prasad

Born on 1st July 1947, Mr C N Prasad is a graduate in mechanical engineering and

postgraduate 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 the 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 of REVL grew several folds during his tenure.

He has been awarded ITM Awards for Corporate Excellence in 2006 by ITM Business School and has also been awarded 'Best CEO' by Quality Circle Forum of India (QCFI) for the year 2007.

He joined Sundaram-Clayton Limited (SCL) in February 2003 as President and currently is the Group President & CEO - Automotive Products Division with overall responsibilities of SCL.

He is the member of the Audit Committee, Investors' Grievance Committee and

Remuneration Committee of directors of the Company.

He does not hold any share in the Company and he is not related to any director of the Company. Details of his other directorships and memberships / chairmanships of committees are given below:

S. No	Name of the Companies	Position held	Committee memberships/ chairmanships
1.	Harita Fehrer Limited	Director	Member - Audit Committee
2.	Sundaram Auto Components Limited	Director	Member - Audit Committee
3.	Harita-NTI Limited	Director	Member - Audit Committee
4.	TVS Energy Limited	Director	–
5.	TVS Wind Energy Limited	Director	Member - Audit Committee
6.	TVS Wind Power Limited	Director	Member - Audit Committee
7.	Emerald Haven Realty Limited	Director	–

Directors' Report to the Shareholders

The directors have pleasure in presenting the seventeenth annual report of the Company and the audited accounts for the year ended 31st March 2013.

1. FINANCIAL HIGHLIGHTS

(Rs. in lakhs)

Particulars	Year ended 31.3.2013	Year ended 31.3.2012
Sales and other income	27,842.86	30,890.03
Gross profit before financial costs, depreciation and amortization expenses and tax	2,295.52	2,364.22
Finance costs	559.36	663.70
Depreciation and amortization expenses	422.14	434.38
Profit / (Loss) before exceptional items and tax	1,314.02	1,266.14
Exceptional items (income)	—	151.82
Profit before tax	1,314.02	1,417.96
Provision for taxation	246.87	295.95
Profit / (Loss) after tax	1,067.15	1,122.01
Add: Surplus brought forward	213.17	(493.99)
Profit / (Loss) available for appropriation	1,280.32	628.02

Appropriations:

Tax relating to earlier years	13.74	3.25
Proposed Interim Dividend	194.23	271.92
Dividend tax payable	15.59	27.48
Transfer to general reserve	106.72	112.20
Balance surplus in profit and loss statement carried forward	950.04	213.17

2. DIVIDEND

The board, at its meeting held on 22nd May 2013, declared an interim dividend of Rs. 2.50/- per share (25%) for the year 2012-13 absorbing a sum of Rs.209.82 lakhs including dividend

distribution tax on 77,69,040 equity shares of Rs.10/- each. The same will be paid to the shareholders on 5th June 2013.

The directors of the Company do not recommend any further dividend for the year under consideration.

3. MANAGEMENT DISCUSSION AND ANALYSIS REPORT

The Company provides complete seating solutions for driver and cabin seating for commercial vehicles, tractors and construction equipment, as well as passenger seats for buses across all segments and has established itself as a leader in these segments in the country for seating systems. This premier position in the country has helped the Company emerge as the seat provider of choice for new OEMs entering the country, such as Scania buses.

INDUSTRY STRUCTURE AND DEVELOPMENTS

In 2012-13, the economy grew only at 5.5%, a steep fall not only from the past years, but also from the outlook at the beginning of the year. In tandem, the industrial sector grew moderately by 3.6% as against 5.1% in the previous year. This slowdown can be attributed to all-round contraction in demand as well as drop in consumer confidence due to the global economic conditions.

During the fiscal year 2012-13, Rupee depreciated steeply to Rs. 53 / USD from the Rs. 48-49 / USD levels in the previous year.

All the customer segments of the Company in the Indian domestic market registered a decline during 2012-13. The following table highlights the segment wise industry sales figures in vehicle units.

Category	2012-13 Nos.	2011-12 Nos.	Variance (in %)
Medium and Heavy Commercial Vehicles (M & HCV)	2,87,371	3,76,618	(23.70)
Light Commercial Vehicles (LCV)	5,85,816	5,25,577	11.46
Buses - M & HCV	53,691	58,704	(8.54)
Tractors	5,90,672	5,96,500	(0.98)

[Source: SIAM, TMA]

Despite the decline across key customer segments ranging from 7% to 23% across segments, the Company was able to limit the sales decline by securing additional share of business from key customers. The overall sales of the Company declined by 10% in 2012-13.

The Company registered sales at Rs.27,616.68 lakhs in 2012-13 (Rs.30,664.18 lakhs in 2011-12). During the year, the Company stabilized in profitability. Efficiency in supply chain was improved through inter-plant coordination horizontal deployment of lean and other improvement initiatives was done across plants. These initiatives, along with the implementation of various other cost reduction projects across functions have enabled the Company to post a profit before tax of Rs.1314.02 lakhs in 2012-13 (Rs. 1417.96 lakhs in 2011-12).

OPPORTUNITIES AND THREATS

The Company has initiated product development activities to maintain the leadership position in the tractor segment in the domestic market. The Company continues to supply products to export markets and is exploring opportunities to increase export sales.

As the leader in the deluxe segment of bus passenger seats with a wide range of seats, the Company has consolidated its position with new product variant launches, including the seat with integrated 3-point seat belt. The Company expects the added features to support further growth in this segment. The Company has obtained new business for supply of seats from OEMs who have entered the Indian market in the last year for the deluxe buses.

A significant competitive threat is the entry of overseas competition. During the past year, international seating companies have entered India with plans for local manufacturing facility either directly or through joint ventures. The Company continues to invest in the indigenous design capability to counter and address this threat.

The continued slow-down in the Indian economy is a threat to the Company owing to the large share of domestic sales. The Company is taking steps to expand the customer base and market spread to counter this threat.

PRODUCT-WISE PERFORMANCE

The Company posted a decline of 10% in the overall sales. The Company's sales declined by 14% in the Commercial Vehicle segment, 11% in tractor segment and 2% in bus passenger segment.

BUSINESS OUTLOOK AND OVERVIEW

Continuing the depressed growth scenario in the previous year, the projected GDP growth for 2013-14 is 5.0-5.5%. The M&HCV and LCV segments are estimated to further decline. Tractor and bus segments are also estimated to decline over last year levels. As a result, the Company estimates a flat to very moderate growth for 2013-14.

RISKS AND CONCERNS

The domestic market for commercial vehicles, buses and tractors has declined last year. The continuing depressed GDP growth projection for the country is expected to further impact the commercial vehicles and bus industry. The Company is working across the entire value chain to improve operational efficiency and maintain the cost base during the market decline.

Slow-down in infrastructure growth is hampering the tractor industry growth. The Company plans to develop additional products to maintain its growth plans. The Company has also put in place initiatives to improve product quality to support the growth plans.

The Rupee depreciated in the last year to Rs.53-55 levels against the US dollar. Further depreciation is expected in 2013-14, and the Company is taking suitable forex cover to mitigate the risk in foreign exchange fluctuations.

OPERATIONS REVIEW

a. Manufacturing:

The Company has continued its focus on imparting training to key employees in an effort to reskill people and upgrade the manufacturing processes, apart from improvements in the facility by means of automation.

Further improvements of Lean Manufacturing initiatives will help the Company in containing manufacturing costs.

b. Quality:

The Company has earned recognition as a Partner-level supplier for 2012 in the John Deere Achieving Excellence Program. The Partner-level status is John Deere's highest supplier rating. The Company was selected for the honour in recognition of its dedication to providing products and service of outstanding quality as well as its commitment to continuous improvement. The quality system at the factories aims at achieving total customer satisfaction through its focus on improving product quality. Consistently, the Company has been achieving improved Quality levels at the customer-end, both in their line and warranty quality.

All plants of the Company are certified for TS 16949. In addition, the Quality laboratory at the Company is certified by National Accreditation Board for Testing and Calibration Laboratories (NABL) for conformance to ISO/IEC 17025.

100% employee participation in the Company's improvement programmes like suggestion schemes, Quality Control Circle projects, Supervisory Improvement Team projects, Cross Functional Team projects and Task Force Team projects continued successfully for the 12th year in succession.

c. Focus on Vendor Development:

The Company has launched a programme to improve capability and competitiveness of its vendors, in association with CII and Prof. Shoji Shiba, through the auspices of the Visionary Small and Medium Enterprises Programme. The pilot programme, run in one plant, has yielded positive results. This initiative will be continued in 2013-14 also wherein the Company will roll out this programme to cover other product segments internally, associated vendors and satellite plants in a phased manner.