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# Message from the Managing Director

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## Growth and Sustenance

### Dear Shareholder,

Your company has been growing from strength to strength over the last five decades.

As the global economy recovers growth in both advanced economies and emerging/developing economies has outpaced initial expectations. This raises some hopes for sustained, though moderately paced global recovery during 2011. The downside risk to global growth arises from oil prices and significant sovereign and banking sector default risks. Global inflation risks have risen significantly over the last year, not just in emerging markets but also in advanced economies.

The Indian economy continues to stride ahead with robust and broad based real GDP growth for the current fiscal estimated to be at 8.6% and predictions for a 9% average growth over the next few years. Backed by a rise in the domestic saving and investment rates, a revival of growth in agriculture and resilience in the manufacturing and services sector, India has staged a commendable recovery post the global slowdown and is also poised for a promising medium and longer term future.

Growth momentum in 2011-12 is likely to be moderate compared to the fast pace trend witnessed during 2010-11. This is despite predicted normal monsoon, demand conditions and positive lead indicators for services. Higher interest rates will impact growth momentum during 2011-12.

High global crude oil and other commodity prices coupled with double digit inflation pose a risk to India's growth story.

### The Auto Sector

The Indian industry and in particular the Auto sector is headed for a global expansion path. The Indian automobile industry is being touted to be near an inflection point. Currently, it is set to become the sixth largest passenger vehicle producer and has sold 2.9 million Passenger Vehicles, in 2010-11. With 550,000 tractors sold in 2010-11, India is the largest tractor manufacturer in the world and is also a strong player in commercial vehicles segment with 750,000 units produced and sold in 2010-11.

The Indian automobile sector has seen strong demand across segments in 2010-11, resulting in 26.17% volume growth. However, for 2011-12, in the backdrop of rising commodity prices and higher interest rates, growth could be down to 12-15%.

The increasing degree of affordability of popular cars is an early signal of a structural demand shift. According to SIAM, the annual car sales are projected to increase up to 5 million vehicles by 2015 and more than 9 million by 2020. Hence, this is an attraction for global players to come to India. This shift could lead to a sustained market growth but pressures from higher input material costs remain an overhang.

Having adequate Foundry capacity is critical to facilitate this explosive growth. The challenge lies, in not only meeting the demand, but equally, in sustaining the growth, given the depressing cyclicity of this sector.

### The Foundry Scene

India has achieved the position of becoming the second largest casting manufacturer in the world producing 7.4 million MT

per annum of castings overtaking US and Russia. China, at 35 million MT, continues to dominate the market contributing 43% to the global production. Almost 90% of castings produced in China are consumed in Asia itself. The industry in the USA is still in the downsizing phase brought about by non-availability of skilled labour and high input prices. Europe records a mixed story of growth and weakness with countries like Germany and France showing growth and expect to regain the output levels of 2008 by the year 2012. However, like USA, high input costs and lack of skilled labour continue to be the cause of shutting down several foundries.

In India, there are approx. 4500 units out of which 80% can be classified as small scale units and 10% each as Medium and Large Scale units. Only about 500 of these have International Quality Accreditation. In India, approx. 70% of total production is from Grey Iron and Hinduja Foundries Limited mainly operates in this segment. In the niche segment of cylinder Head and Block, your company continues to be the largest Indian casting manufacturer.

Hinduja Foundries has a robust order book, exceeding 140,000 metric tons of cast iron parts from marquee customers across India and abroad for the year 2011-12. Our challenge lies in meeting this enviable demand and more so, in the process, shaping out to be a reliable supplier of high quality castings.

Another initiative of ours is to move up the value stream by delivering blocks and heads duly pre-machined, which has the propensity to raise our quality levels substantially. We have committed ourselves to the task of building a robust supply chain to meet the stringent demands of the OEMs.

The company will be investing Rs. 700 million this fiscal towards equipment for capacity balancing and machining. We are equally focused in improving capacity utilization by 30%. Above all, we are implementing cost reduction measures and processes that will ensure reduction in rejections both of which will register healthier financial results. There are ambitious plans to expand our capacity and commence supplies in the larger weight segment of upto 500 kg casting weight.

We are building a performance driven and responsive management team to facilitate the future growth of the company.

I would like to thank you for your continued support and belief in the sustained growth and success of your company.

Yours Sincerely,



**B. Swaminathan**  
Managing Director

## General Information

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### Board of Directors

R Seshasayee  
Chairman  
D G Hinduja (Alternate : Y M Kale)  
Co-Chairman  
D J Balaji Rao  
Jean Brunol  
Jorma Antero Halonen (from 01.05.2011)  
Narender Nagpal  
S Ragothaman  
F Sahami  
Sridhar Venkiteswaran (from 31.03.2011)  
B Swaminathan (from 01.05.2011)  
Managing Director

### Chief Financial Officer

V Sankar

### Company Secretary

V V Naresh

### Bankers

Bank of America  
HDFC Bank Limited  
ICICI Bank Limited  
IDBI Bank Limited  
Standard Chartered Bank  
State Bank of India  
State Bank of Travancore  
Union Bank of India  
Canara Bank

### Auditors

BSR and Company  
10, Mahatma Gandhi Road,  
Nungambakkam,  
Chennai 600 034

### Registered Office

Kathivakkam High Road  
Ennore, Chennai 600 057

### Plant Locations

Ennore, Chennai 600 057  
Ductron Casting unit  
IDA, Uppal, Hyderabad 500 039  
  
Plot K - 2, SIPCOT Industrial Park  
Arneri Village, Sriperumbudur 602 105  
Kanchipuram District

### Project Office

Plot 27-A, (SP) Developed Plots  
Industrial Estate, Guindy  
Chennai 600 032

## Five Year Review

(Rs. Lakhs)

Particulars	2010-11	2009-10	2008-09	2007-08	2006-07
<b>Income and Dividend</b>					
Sales/Operating Income	55116	39154	36313	45142	39524
Other Income	569	992	546	147	288
Total Income	55685	40146	36859	45289	39812
Operating Profit	6688	5853	3012	5209	4089
Profit/Loss(-) Before Tax	845	65	(1859)	2590	2502
Profit/Loss(-) After Tax	748	35	(1198)	1692	1616
Dividend including Tax	-	-	-	612	1053
<b>Assets Employed</b>					
Net fixed Assets @ \$	65282	59723	55003	29338	19297
Net Current Assets	33297	20829	17458	14100	9428
Other Assets/Expenditure not written off	334	21	149	22	24
Total	98913	80573	72610	43460	28749
<b>Financed by</b>					
Net Worth	40852	35132	35142	12501	11449
Borrowed Funds	57057	44534	36591	29502	16695
Deferred Tax Liability	1004	907	877	1457	605
Total	98913	80573	72610	43460	28749
<b>General</b>					
Sales Units - Tonnes	73170	57701	49130	74184	73056
Earning per share	2.09	(0.48)	(7.30)	9.31	8.87
Book value per share	133.49	176.41	175.78	61.24	54.78
@ includes addition on Revaluation of Fixed Assets	18885	18900	18926	379	407
\$ includes investments of Rs.2.50 lakhs	1204.38	2.50	-	-	-

## Report of the Directors

**To**

### The Members:

Your Directors present the Fifty First Annual Report together with the audited Accounts of your Company for the year ended March 31, 2011.

### Financial Results (Rs. Lakhs)

	2010-11	2009-10
Profit before tax/ (Loss)	844.84	64.61
Less: Provision for Taxation	97.19	30.00
Profit/(Loss) after Tax	747.65	34.61
Less : Transfer to General Reserve	747.65	34.61
Balance brought forward from last year	45.43	10.82
Less : Transfer to Capital Redemption Reserve	-	-
Balance available for appropriation	793.08	45.43
Appropriation:		
Dividend on preference shares	-	-
Tax thereon	-	-
Proposed dividend on equity shares	-	-
Tax thereon	-	-
Balance carried to balance sheet	793.08	45.43
Earnings per share	2.09	(0.48)

### Dividend

In view of the carried forward losses and marginal profit, your Directors regret their inability to recommend any dividend for the year.

### Business Operations:

Your Company earned a sales revenue for the year at Rs. 55116.35 lakhs compared to Rs. 39154.46 lakhs in the previous year and earned a profit before tax of Rs. 844.84 lakhs against the profit before tax of Rs. 64.61 lakhs in the previous year. Total sales of ferrous and non-ferrous castings was higher at 73,170 tonnes compared to 57,701 tonnes in the previous year. Gross Production of ferrous and non-ferrous castings during the year increased to 88,545 tonnes from 66,235 tonnes in 2009-10.

Your company has expanded the customer base, which now includes Global OEMs in commercial vehicle, construction and passenger car industries.

Your company has been successful in increasing its domestic market share in the commercial vehicles, tractors and construction equipments and with supplies to international OEMs commencing in

second half of 2011-12, it will be strengthening its market share in the passenger car segment as well.

Development of new products for new and existing customers is progressing as per schedule. In line with the latest developments, project implementations have been suitably planned based on customer requirements.

However, the company faced several challenges during the year, including severe power cuts, industrial relations and skill availability.

### Technology Upgradation/Modernization

Your Company's drive for technology upgradation to gain an advantageous position in the market is moving ahead. Sriperumbudur unit is now producing contemporary blocks and heads for both commercial vehicles and tractor segments. Modernisation of Ennore (Eastland) plant has commenced in a modest way.

The company has commenced sale of machined castings, leading to better value realization.

The particulars required under Companies (Disclosure of Particulars in the Report of the Board of Directors) Rules, 1988 to the extent applicable are furnished in Annexure - A to this report.

Your company is planning to bring an additional capital infusion of Rs. 125 crores to meet the funding requirements. It proposes to issue 1,66,63,812 shares of Rs.10/- each at a premium of Rs.65/- per share on Rights basis in the ratio of 29 shares for every 50 shares presently held to all members whose names appear in the Register of Members as on Record Date to be fixed by the Board of Directors. This issue is expected to bring in funds of around Rs. 124.98 crores.

The resolutions for the proposed Rights Issue are placed for your approval.

### Corporate Governance

With the appointment of Mr. R. Seshasayee as Chairman in place of Mr. R.J. Shahaney on 21st October, 2010, one half of the Board should comprise of Independent Directors.

As on 31st March, 2011, the company had 9 Directors on its Board, out of whom 4 were independent Directors. The company thus had

## Report of the Directors

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time till 19th April, 2011 to comply with Clause 49(I)(C)(iv) of the Listing Agreement.

The company however, was not in compliance with Clause 49 of the Listing Agreement for a period of 12 days from 19th April, 2011. During this period the company did not hold any Board meeting and hence did not take any decisions. The company subsequently appointed an independent Director with effect from 01st May, 2011 thereby increasing the composition of independent Directors and hence complying with the Listing requirements.

A detailed Report on Corporate Governance together with Certification of the Managing Director and Chief Financial Officer is furnished in Annexure – B. The certification of the Managing Director on the adherence to the Code of Conduct specified in said clause is provided separately.

The certificate of the Statutory Auditors on the Company's Compliance with the Corporate Governance requirements is attached in Annexure – C. The Management Discussion and Analysis Report is attached in Annexure D.

As required under Section 217(2AA) of the Companies Act, 1956, the Directors' Responsibility Statement is furnished in Annexure E to this report.

### Fixed Deposits

The amount of matured and unclaimed deposits as on March 31, 2011 was Rs. 0.10 lakhs.

### Directors

Mr. Sridhar Venkiteswaran, Mr. B. Swaminathan and Mr. Jorma Antero Halonen have been appointed as Additional Directors of the Company and will hold office till the ensuing Annual General Meeting (AGM). Notices have been received from Members proposing their appointment as Directors of the Company at the AGM.

Mr. D.J. Balaji Rao, Mr. D.G. Hinduja and Mr. R. Seshasayee retire at the ensuing AGM and being eligible offer themselves for re-election.

### Auditors

M/s. B S R and Company, Chartered Accountants, Chennai retire at the close of the ensuing AGM and are eligible for reappointment.

### Personnel

Overall the Company enjoys good relationship with its employees. The details of employees as prescribed under Section 217(2A) of the Companies Act, 1956 read with Companies (Particulars of employees) Amendment Rules, 2011 are furnished in Annexure – F.

### Forward Looking Statements

This Report together with the annexures contains forward looking statements that involve risks and uncertainties. When used in this report, the words "anticipate", "believe", "estimate", "expect", "intend", "will", and other similar expressions as they relate to the Company and/or its business are intended to identify such forward looking statements. Neither the Company nor the Directors undertake any obligation to publicly update or revise any forward-looking statements, whether as a result of any new information, future events, or otherwise.

Actual results, performances or achievements could differ materially from those expressed or implied in such forward-looking statements due to risks, uncertainties or even inaccurate assumptions. No undue reliance should be placed on these forward-looking statements that speak only as of their dates. This Report should be read in conjunction with the financial statements included herein and the notes thereto.

### Acknowledgement

The Directors wish to acknowledge and place on record their appreciation of the valuable advice and support received from Hinduja Automotive Ltd., UK (formerly LRLIH Limited) and Ashok Leyland Limited.

The Directors wish to express their gratitude to the Government of India, the Government of Tamil Nadu, Government of Andhra Pradesh and other government agencies. They also thank the Company's Bankers, Shareholders, Customers, Suppliers and all the employees for their continued support.

On behalf of the Board of Directors

Chennai  
May 20, 2011

**R Seshasayee**  
Chairman

## Annexure A to the Directors' Report

### A) CONSERVATION OF ENERGY

The Company continued its efforts to optimize energy utilization through energy audit, introduction of energy efficient machine tools, inbuilt control circuit to switch off the machines automatically if not in operation continuously for more than 5 minutes etc.

The manufacturing flow has been re-engineered to avoid unnecessary movements resulting in reduced energy consumption. Gas Fired melting furnace has been commissioned to mitigate the continued power cut situation in Tamil Nadu as also to use gas as an alternate source of power to melt virgin metal.

Efforts have been made to improve power factor and reduce harmonic variation in Medium Frequency Induction Furnace and thus reduce energy loss. Cold box core making process has replaced "Heated core process" which contributes to energy saving on a permanent basis. The Company has also maximized the yield per Mould Box thus reducing energy per casting produced.

Installation of screw compressors in place of reciprocating air compressors has resulted in energy saving.

At the new Sriperumbudur Unit, a number of measures has been implemented for energy conservation through improved furnace lining, high speed robotics core line etc.

The Company continues to focus on non-conventional energy resources like wind and gas power as an alternate source of Power to address the power cut situation prevailing in Tamilnadu.

### B) TECHNOLOGY ABSORPTION

#### Research & Development (R & D)

1. Specific areas in which R & D is carried out by the Company:
  - All major softwares have been applicated and commissioned to validate design, manufacturing and product.
  - Alternate materials, like Import Substitute for core wash, Core sand and veining additives have been developed.

- Efforts are on to work with customers for new casting designs including weight optimization.

#### 2. Benefits derived as a of the above R&D:

- Import Substitute.
- Meeting the new engine design requirements .
- To develop Intellectual property.

#### 3. Future Plan of Action:

- Installation of automatic robot core line for high-CV block castings. This facility for car blocks Has already been in operation.
- Sand Reclamation for core and moulding sand.
- Re-engineering of existing process flow to optimize output.

#### 4. Expenditure on R & D:

a) Capital	:	Rs. 2930.57 lakhs
b) Recurring	:	Rs. 588.75 lakhs
c) Total	:	Rs. 3519.32 lakhs
d) Total R & D		
expenditure as a		
percentage of		
total turnover	:	6.39 %

Technology Absorption, Adaptation and Innovation:

#### 1. Efforts in brief, made towards technology absorption, adaptation and innovation:

The following have been achieved in Sriperumbudur Unit

- Successful implementation of premachining facilities for Car Blocks
- Successful implementation of auto pour facility
- Installation of a new on-line sand control unit
- Successful machining of cylinder blocks and heads made using compacted graphite

In addition to the above aluminum cylinder heads have been developed for diesel engines from LPDC to GDC.

## Annexure A to the Directors' Report

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### 2. Benefits derived as a result of above efforts:

The Company is keeping itself ahead in technology and is geared to play a pioneering role in the foundry industry in relation to future engine requirements.

### 3. Other information

#### a) Technology imported

Appropriate prototype technology for development of commercial vehicle blocks and heads has been imported.

- b) Has technology been fully absorbed, if not fully absorbed, areas where this has

not taken place, reasons therefor and future plan of action.

Technology so acquired has been used in relation to the product for which it is intended. As a further step, utilizing the same in other related areas is contemplated.

#### c) Foreign Exchange Earnings and Outgo:

Details of earnings and outgo of foreign exchange are given in notes to the Accounts.

The Company continues to strive to improve the export earnings.



## Annexure B to the Directors' Report

### Report on Corporate Governance

#### 1. Philosophy on Code of Corporate Governance

Hinduja Foundries Limited (HFL) believes that Corporate Governance is a systemic process, which enhances the wealth-generating capacity of the Company through efficient conduct of business. The Company is committed to improve its service to all the stakeholders through transparency and professionalism in all decisions and by maintaining high standards of ethics, integrity and accountability in letter and spirit.

#### 2. Board of Directors

##### i. Composition and membership in other Boards and Board Committees

The Company's Board comprises of Nine Directors headed by a Non-Executive Chairman belonging to the promoter group. The composition and category of the Board as on March 31, 2011 and the number of other Directorships/ Committee Memberships held by them are as under:

Category	Name	Membership	
		Other Boards	Other Board Committees
Non Executive Directors			
Non-Independent	Mr. R Seshasayee (Chairman)	13 (As Chairman - 3)	1
	Mr. D G Hinduja (Co Chairman)	6 (As Chairman-1)	2
	Mr. F Sahami	1	1
	Mr. Narender Nagpal	-	-
Independent	Mr. D J Balaji Rao	9 (As Chairman - 1)	9 (As Chairman - 3)
	Mr. S Ragothaman	7	3 (As Chairman- 2)
	Mr. Jean Brunol	1	-
	Mr. Sridhar Venkiteswaran	-	-
Executive Director	Mr. V Mahadevan (Managing Director)	1	-
Alternate Director	Mr. Y M Kale (Alternate to Mr. Hinduja)	1	1 (As Chairman)

Notes:

- Other Directorships exclude Foreign Companies, Private Limited Companies and Alternate Directorships.
- Only Membership in Audit Committees and Shareholders'/Investors' Grievance Committees (other than HFL) are reckoned for Other Board Committee Memberships.
- Mr R J Shahaney, Mr Prabal Banerji and Mr Anders Spare have resigned from the Board of directors on October 21, 2010, December 2, 2010 and March 29, 2011 respectively.

## Annexure B to the Directors' Report

### ii. Board Meetings and attendance at Board Meetings and Annual General Meeting (AGM)

The Board of Directors met seven times during the year 2010-11 and the details are as follows:

Date of meeting	Board Strength	No. of Directors present
April 30, 2010	11	9
July 28, 2010	11	10
August 12, 2010	11	6
October 21, 2010	11	8
January 23, 2011	9	8
March 11, 2011	9	8
March 31, 2011	9	4

The following are the details of attendance of each director at the Board Meetings and last AGM held on July 28, 2010:

Name of Director	No. of Board Meetings attended	Attendance at AGM
Mr. R J Shahaney	4	Yes
Mr. D G Hinduja	5	Yes
Mr. D J Balaji Rao	7	Yes
Mr. Jean Brunol	2	No
Mr. S Ragothaman	6	Yes
Mr. Sridhar Venkiteswaran	-	No
Mr. Narender Nagpal	3	Yes
Mr. F Sahami	4	Yes
Mr. R Seshasayee	6	Yes
Mr. A Spare	5	Yes
Mr. Prabal Banerji	4	Yes
Mr. V Mahadevan	7	Yes
Mr. Y M Kale (Alternate to Mr. Hinduja)	-	No
Mr. B Swaminathan (Alternate to Mr.A.Spare)	1	Yes

### 3. Audit Committee

#### i. Terms of reference

The terms of reference of the Audit Committee is same as specified in Clause 49 of the Listing Agreement with the Stock Exchanges. These also fully comply with the requirements of Section 292A of the Companies Act, 1956.

#### ii. Composition

The Committee comprises of the following members:

Sl. No	Name	Category
01	Mr. D J Balaji Rao – Chairman	Non-Executive, Independent
02	Mr. S Ragothaman	Non-Executive, Independent
03	Mr. F Sahami	Non-Executive, Promoter Group

All members of the Committee have financial knowledge. The Chairman of the Committee was the Deputy Managing Director of ICICI Limited and also the Managing Director of Infrastructure Development Finance Company Limited. The other two members are qualified finance professionals.