HINDUJA FOUNDRIES LIMITED

Annual Report 2011 - 12

HINDUJA GROUP

Contents

Message from the Managing Director

B. Swaminathan

Managing Director

Dear Shareholder,

It gives me great pleasure to communicate with you after my message last year. The year 2011-12 comprising 18 months ending September 30, 2012 has been a period of challenges for the Company. While the Company has been able to ramp up sales and production volumes across all the three units, the profitability of the Company has been a matter of concern due to market situation and operational issues as could be seen further in this message.

Global Outlook

As the year 2012 draws to a close, the global outlook is one of cautious gloom with limited prospects for a smart recovery in 2013. Global growth remains historically low for the second year running, with slow down in economic activity in 2012-13 in large emerging economies and advanced nations. It unfortunately validates the fear that the global economy is beset with problems of weak and sluggish recovery. While, growth remains unequally distributed, developing countries are relatively growing faster than advanced economies thus somewhat closing the income gap.

Global inflation risks have risen significantly over the last year in all the segments.

The Indian Economy

During 2011-12, Indian economy slowed down substantially compared to the previous year. Overall GDP growth rate has dropped from a high of 8.1% in 2010-11 to 6.9% in the first 3 quarters of the year.

This slowdown continued through the first half of 2012-13. In fact, India has seen the sharpest downgrade among global markets, with 2012-13 GDP growth projections being reduced from 6.2% to 4.9% in just 3 months. 2013-14 growth projections for India stand at 6%. For the first time in recent years, India's growth estimates are less than average growth estimates of emerging economies.

The Auto Sector

The Indian Auto Sector is likely to witness a significant softening owing to weak economic factors, accelerated by worsening rupee and rising crude oil prices. India is a multi-billion dollar market for automobiles, accessories and components. Apart from being the largest manufacturer of two-wheelers and the fifth largest commercial vehicles manufacturer in the world, India has also the fourth biggest passenger car market in Asia.

By 2015, India is set to become the sixth largest passenger vehicle producer globally touching a volume of 5 million cars per annum. India has sold 3.2 million Passenger Vehicles, in 2011-12. With 550,000 tractors sold in 2011-12, India is the largest tractor manufacturer in the world.

Although the long term prospects for the sector appear sound, in the short term, the sector is facing strong headwinds.

In the backdrop of rising commodity prices and higher interest rates, growth could be negative in 2012-13, this being part of the typical cyclicality exhibited by the Auto sector. The market is expected to calibrate itself.

In the backdrop of this economic slowdown, demand for key end-user sectors and OEMs barely held up in 2011-12 and have dropped substantially in 2012-13. The market for medium and heavy commercial vehicles grew by 8% in 2011-12 but contracted by 14% in the first half of FY 2012-13, compared to the same period in the previous year. The prognosis for the rest of the fiscal is bearish. The market for Light Commercial Vehicles grew marginally, primarily driven by new product introductions in the 2-3.5T GVW segment. The market for construction equipment has faced a severe drop of nearly 40% in 2012-13. While the Tractor market has slowed down by 4%, passenger car market is still showing growth due to SUV segment's robust performance. Overall, 2012-13 bears a dim outlook with the levels of contraction expected to persist for the rest of the year.

Having adequate foundry capacity, however, is critical to service the automobile industry in its quest for growth in the coming years, which will require the foundry industry to remain resilient

The Foundry Scene & Hinduja Foundries

India has nearly 4600 foundry units, 80% of them in SME sector. The industry is making a contribution of Rs 7000 per ton produced to the National exchequer by way of Excise and other levies. Sector exports touched US$ 215 Million in 2010-11. The manufacturing units are located in 12 identified and recognized clusters and in 20 other clusters. Only about 50 of these units have International Quality Accreditation and only about 10 of them have modern manufacturing facilities for high volume production. In India approximately 70% of the total production is from Grey Iron and Hinduja Foundries mainly operates in this segment. In the niche segment of cylinder blocks and heads, your Company continues to be the largest casting manufacturer in India.

Hinduja Foundries has a cherished history being one of the earliest grey iron foundries in India and has continued to be a key player in this segment. With an order book of nearly 100000 mts for FY 2013, mostly from marquee customers from India and abroad, your Company is well set to achieve this target by end March 2013. The year gone-by was beleaguered by many challenges in the form of quality concerns, high power cost owing to power cuts and power holidays in both Andhra Pradesh and Tamil Nadu and market slump affecting the top line.

During the 18 months ended September 2012, your Company has ended with a gross production of 157408 mts compared to 88545 mts in FY 2011 (12 months). Sales during the same period were at 130750 mts as against 73170 mts .These volumes were achieved on the back of substantial shares of business from commercial vehicle engine manufacturers such as Ashok Leyland and Tata Cummins Limited, growth due to new products such as the cylinder blocks and heads for the Ashok Leyland Nissan Dost vehicles and maintenance of share of business among major tractor customers.

The Company's performance in 2011-12 was affected due to the impact of rising material costs in the first 10 months, price increase from customers not adequately compensating increase in costs and higher level of rejections in new products, apart from power related factors. Your Company though recorded higher output and sales, could not brave all these challenges

The Company's machining project has made progress with the addition of new customers viz. Simpson, John Deere, Mahindra and Tata Cummins. We continue to service existing customers such as Renault and Ashok Leyland (Neptune blocks & heads).

A good number of new products were developed during in the last 2 years that are expected to deliver higher volumes in the coming years. Further efforts are under way to increase the share of business with existing manufacturers of commercial vehicles, tractors, power generation equipment and passenger cars.

An integrated transformation programme has been launched to enable achievement of better quality and throughput increase. The programme, christened "Mission New Leaf", will address issues of debottlenecking production lines to increase capacity headroom so that the units are equipped to handle upturn in demand when the market returns. This initiative is equally aimed at reducing quality issues and effecting cost control thereby increasing overall operational efficiency. It is expected that Mission New Leaf will usher in a new chapter in our endeavour to improve our performance against global benchmarks.

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

General Information

Board of Directors	R Seshasayee	Chairman
	D G Hinduja (Alternate : Y M Kale)	Co-Chairman
	D J Balaji Rao	
	Jean Brunol	
	Jorma Antero Halonen	
	S Ragothaman	
	F Sahami	
	Sridhar Venkiteswaran	
	B Swaminathan	Managing Director
Chief Financial Officer	P K Ranganathan	
Company Secretary	Govind M Joshi	
Bankers	Bank of America Canara Bank DBS Bank Limited HDFC Bank Limited ICICI Bank Limited IDBI Bank Limited Karur Vysya Bank Limited Standard Chartered Bank State Bank of India State Bank of Travancore Union Bank of India	
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 Estate Arneri Village, Sriperumbudur 602 105	

Five Year Review

(Rs. Lakhs)

Particulars	2011-12 (18 Months Period)	2010-11	2009-10	2008-09	2007-08
Income and Dividend					
Sales/Operating Income	102936	55116	39154	36313	45142
Other Income	742	668	992	546	147
Total Income	103678	55783	40146	36859	45289
Operating Profit / (Loss)	(13388)	6688	5853	3012	5209
Profit/Loss(-) Before Tax	(30138)	845	65	(1859)	2590
Profit/Loss(-) After Tax	(29134)	748	35	(1198)	1692
Dividend including Tax	-	-	-	-	612
Assets Employed					
Net Fixed Assets @ $	71110	65282	59723	55003	29338
Net Current Assets	14485	33297	20829	17458	14100
Other Assets/Expenditure not written off	259	334	21	149	22
Total	85854	98913	80573	72610	43460
Financed by					
Net Worth	18518	40852	35132	35142	12501
Borrowed Funds	67336	57057	44534	36591	29502
Deferred Tax Liability	-	1004	907	877	1457
Total	85854	98913	80573	72610	43460
General					
Sales Units - Tonnes	130750	73170	57701	49130	74184
Earning Per Share	(102.21)	2.09	(0.48)	(7.30)	9.31
Book Value Per Share	56.01	133.49	176.41	175.78	61.24
@ includes addition on Revaluation of Fixed Assets	18863	18885	18900	18926	379
$ includes Investments	1204	1204	3	-	-

Report of the Directors

To

THE MEMBERS:

Your Directors present the Fifty Second Annual Report together with the Audited Accounts of your Company for the 18 months period ended September 30, 2012.

FINANCIAL RESULTS

(Rs. In Lakhs)

PARTICULARS	2011-12 (18 Months)	2010-11 (12 Months)
Profit / (Loss) before Depreciation and Taxation	(24972.12)	3262.26
Less : Depreciation	5166.02	2417.42
Less: Provision for Taxation	(1004.19)	97.19
Profit / (Loss) after Taxation	(29133.95)	747.65
Add : Balance brought forward from previous year	793.08	45.43
Balance carried to Balance Sheet	(28340.87)	793.08
Basic and Diluted Earnings Per Share of face value of Rs. 10/- each. (in Rs.)	(102.21)	2.09

The Company's performance during the period has been adversely impacted by steep hike in power tariff, incremental power costs incurred on account of power purchase through exchange, price increase from customers not adequately compensating costs incurred and other adverse market conditions. These are in addition to high structural costs, new product development costs and rejections. Net loss before depreciation and tax for the current period is after considering the difference between book stock and physical stock aggregating to Rs 8295.00 lakhs as explained in Note No 38 of the Financial Statements. As a result, the losses for the period were exceptionally high.

DIVIDEND

In view of loss for the period under review, your Directors regret their inability to recommend any dividend for the year.

BUSINESS OPERATIONS

The Company earned a sales revenue for the 18 months ended September 30, 2012 at Rs.102936 lakhs compared to Rs.55116 lakhs for the 12 months ended March 31, 2011.

The Company incurred a loss of Rs.30138 lakhs for the 18 months period September 30, 2012 against a profit before tax of Rs. 845 lakhs in the previous accounting year. Total Net sales of ferrous and non-ferrous castings were proportionately higher at 130750 tonnes in the present accounting period compared to 73170 tonnes in the previous year. Gross production of ferrous and non -ferrous castings during the year increased to 157408 tonnes from 88545 tonnes in 2010-11.

In the year under review, the Company expanded the customer base through inclusion of John Deere, Tata Cummins and JCB in the commercial vehicles/ tractors / construction equipment segments. The domestic market share of the Company, in commercial vehicles, tractors and construction equipment segments, has been steadily increasing, signifying the Company's business growth at a good pace. The Company expects to improve the market share further with the new products, which are under development.

The Company has successfully completed the schedules with John Deere, Simpson (S3 Block) and JCB for the development of their new products. The above projects are expected to realize the estimated potential after commercial implementation in the coming years. The Company has however faced several operational and commercial challenges during the year in the form of contraction in demand due to market slow down, customers not adequately compensating for cost increases, acute power shortage in Tamil Nadu and Andhra Pradesh leading to purchase of power from outside and challenges relating to volume ramp up at SPU. Your Company has been taking all necessary steps to face the above challenges and devise measures to operate efficiently and viably.

TECHNOLOGY UPGRADATION/MODERNIZATION

Your Company's drive for technology upgradation to gain an advantageous position in the market continues to be pursued. Sriperumbudur unit is now producing contemporary blocks and heads for both commercial vehicles and tractor segments. 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.

PUBLIC DEPOSITS

The Company has not accepted any fixed deposits from public during the year under review. However, the amount of matured and unclaimed deposits as of September 30, 2012 was Rs. 0.10 Lakhs.

WITHDRAWAL OF THE RIGHTS ISSUE

The Rights Issue of 1,66,63,812 equity shares of Rs.10/- each for cash at a price of Rs.75/- (including a premium of Rs.65/-) per equity share aggregating Rs. 124.98 Lakhs approved by the shareholders at their 51st Annual General Meeting held on July 20, 2011 was withdrawn considering the volatile stock market conditions, price of the Company's shares quoted at the bourses, and therefore challanges to acheive complete subscription of the issue. Since the Promoters of the Company hold 70.38% of the share capital and further, since 4.25% of the equity share capital is held by overseas depository consequent to the Issue of Global Depository Receipts (GDR's) in 2009, promoters would have been able to subscribe only a small portion of the Issue in excess of their rights entitlement (due to the restrictions imposed by the capital market regulations prohibiting promoters holding shares in excess of 75%) in the event of under subscription to the issue. All the above factors prompted the Board of Directors to withdraw the rights issue.

EXTENSION OF FINANCIAL YEAR 2011-12

The Board of Directors of your Company had extended the Financial Year 2011-12 from the current period of 12 months ending March 31, 2012 to 18 months ended September 30, 2012 for the purpose of capital restructuring and obtained special permission of the Deputy Registrar of Companies, Chennai, vide letter dated April 3, 2012 under Section 210(4) of the Companies Act, 1956.

Accordingly, the Accounts for the Financial Year 2011-12 had been prepared for a period of 18 months from 1st April, 2011 to 30th September, 2012.

EXTENSION OF TIME FOR HOLDING THE ANNUAL GENERAL MEETING

The Deputy Registrar of Companies, Chennai, vide letter dated April 4, 2012 has granted extension of time up to December 31, 2012 for holding the Annual General Meeting as per Section 166(1) of the Companies Act, 1956 in view of the fact that the financial year 2011-12 has been extended to September 30,2012 on the grounds of capital restructuring.

CHANGE IN CAPITAL STRUCTURE

With your approval given at the extra-ordinary general meeting held on July 4, 2012, the authorized share capital of the Company was increased from 95,00,00,000 (Rupees Ninty Five Crores only) divided into 5,00,00,000 (Five Crores only) Equity Shares of Rs.10/- each and 45,00,000 (Forty Five Lakhs only) Redeemable Preference Shares of Rs. 100/- each to Rs.550,00,00,000 (Rupees Five Hundred and Fifty Crores only) divided into 20,00,00,000 (Twenty Crores only) Equity Shares of Rs. 10 each and 3,50,00,000 (Three Crores, Fifty Lakhs only) Redeemable Preference Shares of Rs. 100 each.

ISSUE OF 9% REDEEMABLE, NON-CONVERTIBLE, CUMULATIVE PREFERENCE SHARES (RNCCPS) OF RS.100/- EACH

Further, your approval given at the extra-ordinary general meeting held on July 4, 2012, authorizes the Board of Directors and their duly constituted Committee thereof to create, issue / offer, allot and deliver in one or more tranches on a private placement and / or preferential basis not exceeding 3,00,00,000 (Three Crores Only), 9% Redeemable, Non-Convertible, Cumulative Preference Shares of Rs.100 RNCCPS each of an aggregate nominal amount not exceeding Rs. 300,00,00,000 (Rupees Three Hundred Crores only) to the Promoters of the Company.

Accordingly, on September 28, 2012, the Company offered 9%, 150,00,000 RNCCPS of Rs. 100/- each of an aggregate nominal amount of Rs. 150 Crores to Ashok Leyland Limited to be subscribed in two tranches of Rs. 75 Crores each.

Ashok Leyland Limited, had accepted the offer on September 29, 2012 and subscribed to the first tranche/allotment of 75,00,000 RNCCPS of Rs.100/- each of an aggregate nominal value of Rs.75 Crores. With the above allotment of RNCCPS on September 29, 2012, the paid up preference share capital of the Company as at September 30, 2012 increased from Rs.21.66 Crores to Rs. 96.66 Crores.

Subsequently, the Company had, vide its letter dated October 10, 2012 offered another 75,00,000 RNCCPS of Rs.100/- each of an aggregate nominal value of Rs.75 Crores in the second tranche to Ashok Leyland Limited (ALL). Accordingly ALL accepted the offer on October 18, 2012 and subscribed to the second tranche and was allotted the said RNCCPS on October 19, 2012.

CORPORATE GOVERNANCE

Your Company is fully compliant with the Corporate Governance guidelines as laid down in Clause 49 of the Listing Agreement except the fact that in the Audit Committee Meeting held on Februrary 02, 2012, there were two members present but with only one Independent Director of the Committee as against the requirement of two Independent Directors as per Clause 49(II)(B) of the Listing Agreement. The Statutory Auditors of the Company have drawn attention of this fact in their Certificate on Corporate Governance attached in Annexure – C to the Directors' Report. The Company would like to submit that apart from the two directors present at the meeting of the Audit Committee, the said meeting was attended by two other Independent Directors of the Board as invitees thereby upholding the independence of the Audit Committee.

All the Directors (and also the members of the Senior Management of the rank General Managers and above) have confirmed in writing their compliance with and adherence to the Code of Conduct adopted by the Company.

Many of the Corporate Governance Voluntary Guidelines 2009 issued by the Ministry of Corporate Affairs are being followed by the Company. A detailed Report on Corporate Governance together with Certification of the Managing Director and Chief Financial Officer of the Company 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 Statutory Auditors of the Company have examined the contents of the Report on Corporate Governance with reference to Clause 49 of the Listing Agreement and have certified the compliance as required under SEBI guidelines. The said Certificate of the Statutory Auditors 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.

DIRECTORS

Mr. F Sahami, Mr. S Ragothaman and Mr. Jean Brunol retire at the ensuing Annual General Meeting and are eligible for re-appointment. Necessary resolutions are being placed before the shareholders for approval.

COST AUDITORS

The Central Government has mandated industry wise Cost Audit for specific companies falling under specific chapters as per HSN code. In line with the above, since Hinduja Foundries Limited clears its finished goods, being excisable product under Chapter 7325 of the HSN code, cost audit is applicable to the Company with effect from FY 2012-13 onwards. M/s. GEE YES & CO (Firm Registration Number 00044) has been appointed as the Cost Auditors for the FY 2012-13. Necessary declarations have been received from the above Cost Auditors certifying their independence and arm's length relation with the Company and compliance of Section 233B read with Section 224 (3), 224 (I-B) and 226 of the Companies Act, 1956. The Audit Committee of the Board has recommended their appointment for the financial year 2012-13.

AUDITORS

M/s. B S R and Company, Chartered Accountants, Chennai, retire at the close of the ensuing Annual General Meeting and are eligible for re-appointment. The Company has received confirmation from the statutory auditors that their appointment will be within the limits prescribed under Section 224(IB) of the Companies Act, 1956. The Audit Committee of the Board has recommended their re-appointment for the year 2012-13. The necessary resolution is being placed before the shareholders for approval.

AUDITORS' REPORT

As regards observation in paragraph 4 of Auditors' Report, the Statutory Auditors have drawn the attention of the Members to the differences