



HINDUJA FOUNDRIES LIMITED

Annual Report

(For The Eighteen Months Period Ended March 31, 2016)



HINDUJA GROUP



HINDUJA FOUNDRIES

A tradition of leadership

One of the earliest jobbing foundries established in independent India, Hinduja Foundries (formerly Ennore Foundries) has been partnering the Indian auto industry during the past five decades of growth.

Being the largest producer of cylinder blocks and heads in the country and becoming specialists in the manufacture of high-end castings, Hinduja Foundries has led with trendsetting steps in design, development and production by introducing advanced engineering tools for development and high level automation for reliability and repeatability.

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General Information

Board of Directors

Dheeraj G Hinduja	Chairman
Dr C Bhaktavatsala Rao	Vice Chairman
T Anantha Narayanan	
D J Balaji Rao	
Bhumika Batra	
Mohana Srinivasan	
Sridharan Kesavan	
Sridhar Venkiteswaran	
Sudhanshu K Tripathi	
Vijay Vaid	
A R Chandrasekharan	Executive Director

Chief Executive Officer

D M Reddy

Chief Financial Officer

K R Ravishankar

Company Secretary

S Venkatasubramanian

Bankers

Bank of Baroda
DBS Bank Limited
State Bank of India
Yes Bank

Auditors

B S R and Company
10, Mahatma Gandhi Road
Nungambakkam
Chennai 600 034

Registered Office

Kathivakkam High Road
Ennore, Chennai 600 057

Corporate Office

477-482, Anna Salai, Khivraj Complex II
7th Floor, Nandanam, Chennai - 600 035

Plant Locations

Ennore, Chennai 600 057

Plot K - 2, SIPCOT Industrial Estate
Arneri Village, Sriperumbudur 602 105

Report of the Directors

To

THE MEMBERS:

Your Directors present the Fifty-Fifth (55th) Annual Report together with the Audited Financials of your Company for the 18 months period ended March 31, 2016.

FINANCIAL RESULTS

(₹ In Lakhs)

PARTICULARS	Eighteen Months Period ended March 31, 2016	Eighteen Months Period ended September 30, 2014
Profit / (Loss) before Depreciation and Taxation	(31,837.53)	(19,019.26)
Less : Depreciation	7,587.65	7,224.56
Less: Provision for Taxation	-	-
Profit / (Loss) after Taxation	(39,425.18)	(26,243.82)
Add : Balance brought forward from previous year	(64,963.05)	(38,719.23)
Add : Adjustment on account of depreciation	(279.36)	-
Balance carried to Balance Sheet	(1,04,667.59)	(64,963.05)
Basic and Diluted Earnings Per Share of face value of ₹ 10/- each. (in ₹)	(59.45)	(65.07)

BUSINESS OPERATIONS

During the period under review, your Company's net sales were ₹ 84,232 Lakhs compared to the net sales of ₹ 99,679 Lakhs for the eighteen months period ended September 30, 2014. The operations resulted in a loss of ₹ 39,425 Lakhs for the period under review compared to a loss of ₹ 26,244 Lakhs in respect of the previous eighteen months period.

The Company continued to face numerous challenges due to negative growth of the OEM market for some period, uncertain power scenario and sharp decline in the price of end products. The Sriperumbudur Unit (SPU) ramp-up with debottlenecking of capacity constraints and stabilization of production processes was slowed down.

MATERIAL CHANGES AND COMMITMENTS

Your Directors confirm that there are no material changes and commitments affecting the financial position of the Company which have occurred

between the end of the financial year of the Company and the date of this report.

DIVIDEND

In view of loss for the period under review, no dividend has been recommended by the Board of Directors (Board).

TECHNOLOGY UPGRADATION/MODERNIZATION

The Company has invested substantially in energy efficient technologies and has implemented various processes which minimize waste. Commissioning of various equipment such as Maus Fettling Machine, Vent Drilling Machine and the improved material handling of cores has resulted in reduction of wastage, improved productivity and fewer breakages.

Capacity was added in the machine shop to handle more castings in finished form thereby increasing value addition and becoming a more preferred supplier of castings as the OEMs get ready to assemble components.

The particulars required under Rule 8 of the Companies (Accounts) Rules, 2014 on conservation of energy, technology absorption and foreign exchange earnings and outgo to the extent applicable are furnished in **Annexure - A** to this report.

PUBLIC DEPOSITS

The Company has not accepted any fixed deposits from public within the meaning of Section 73 (1) of the Companies Act, 2013 during the period under review.

AUTHORISED CAPITAL

During the period under review, the Company had, with the approval of members, increased its authorized capital from ₹ 550,00,00,000 (Rupees Five Hundred Fifty Crores only) to ₹ 1000,00,00,000 (Rupees One Thousand Crores only).

FUND RAISING

(i) Global Depository Receipts (GDR)

Pursuant to the approval of the members of the Company vide a special resolution passed through postal ballot, the Company had successfully completed an Offering of 11,200

Global Depository Receipts (non - voting) each representing 12,000 Equity Shares of par value of ₹ 10 at an Offering Price of U.S. \$ 5,351.33701 per Global Depository Receipt, aggregating 59,934,974.51 USD, equivalent to ₹ 3,998,400,000

Accordingly, your Company had issued and allotted 134.40 million equity shares of face value of ₹ 10 each at a price of ₹ 29.75 per equity share (including a premium of ₹ 19.75 per share) held by ICICI Bank Limited as the domestic custodian to the order of The Bank Of New York Mellon, Depository, such shares representing the underlying Equity Shares to 11,200 GDRs (non - voting) of an aggregate value of ₹ 3,998.40 million issued to overseas investors.

(ii) Term Loan

During the period under review, the Company has borrowed monies aggregating to ₹ 27,922 Lakhs.

(iii) Repayment

During the period under review, the Company has repaid Loans as follows :

Term loan – ₹ 27,498 Lakhs

Decrease in working capital loans – ₹ 14,222 Lakhs

CORPORATE GOVERNANCE

Your Company is fully compliant with the norms on corporate governance laid out in the notification dated September 2, 2015 of the Securities and Exchange Board of India enacting the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 (“**New Listing Regulations**”) which have replaced the erstwhile Listing Agreement. All the Directors and the senior management personnel have affirmed in writing their compliance with and adherence to the Code of Conduct adopted by the Company. The details of the Code of Conduct are furnished in the Corporate Governance Report attached as **Annexure-B** to this Report. The Chief Executive Officer has given a certificate of compliance with the Code of Conduct which forms part of **Annexure-B**, as required under the New Listing Regulations.

The Statutory Auditors of the Company have examined the requirements of Corporate Governance with reference to the New Listing Regulations and have certified the compliance, as required under the New Listing Regulations. The Certificate in this regard is attached as **Annexure-C** to this Report. Management Discussion and Analysis Report is attached in **Annexure – D**.

The certification by the Chief Executive Officer / Chief Financial Officer (CEO/CFO) as required under the New Listing Regulations is attached as **Annexure-B** to this Report..

MEETINGS OF BOARD OF DIRECTORS

Annual calendar of meetings of the Board/ Committees is finalized well before the beginning of the year after seeking concurrence of all Directors. Attempts are made to ensure that the scheduled meetings are made convenient to attend by the Directors. Where circumstances preclude the Chairman from attending the meeting, he entrusts an Independent Director or a non-executive Director to chair the meeting. Wherever possible, Directors who are not able to attend the meetings physically, participate in the proceedings through video conferencing or other audio visual means. Further, in order to facilitate the smooth functioning of the Company and to address exigent matters, the Board approves resolutions by circulation between two Board meetings.

During the period under review, the Board of Directors met ten times viz. on November 20, 2014, January 27, 2015, February 9, 2015, March 11, 2015, May 13, 2015, August 13, 2015, November 3, 2015, January 13, 2016, January 25, 2016 and February 9, 2016. The time gap between any two Board meetings did not exceed four months.

DIRECTORS

Changes that had taken place in the composition of the Board of Directors of the Company during the period under review and subsequent thereto are given below:

Appointments:

- (i) Mr. Markus Wermers was appointed as Chief Executive Officer with effect from February 1, 2015 and Managing Director with effect from August 13, 2015.

Report of the Directors

- (ii) Mr. Vijay Vaid was appointed as an Additional Director on March 11, 2015 and based on the declaration of independence received from him as prescribed under Section 149 (7) of the Companies Act, 2013, he has been classified as an Independent Director subject to the approval of the members at the ensuing annual general meeting of the Company.
- (iii) Mr. Sudhanshu K Tripathi and Mr. Sridharan Kesavan were appointed as Additional Directors on August 13, 2015 to hold office till the conclusion of the 55th Annual General Meeting.
- (iv) Dr. C. Bhaktavatsala Rao and Ms. Bhumika Batra were appointed as Additional Directors on November 3, 2015 and based on the declarations of independence received from them as prescribed under Section 149 (7) of the Companies Act, 2013, they have been classified as Independent Directors subject to the approval of the members at the ensuing annual general meeting.
- (v) Mr. A.R. Chandrasekharan was appointed as an Additional Director on May 11, 2016 to hold office till the conclusion of the 55th Annual General meeting. He was also appointed as an Executive Director.

The Independent Directors of the Company have declared that they meet the criteria of independence in terms of Section 149(6) of the Companies Act, 2013 and that there is no change in their status of independence as on date.

We seek your confirmation for appointment of Mr. Vijay Vaid, Dr. C Bhaktavatsala Rao and Ms. Bhumika Batra as Independent Directors for a term of three consecutive years on a non-rotational basis and Mr. Sudhanshu K Tripathi and Mr. Sridharan Kesavan as Directors of the Company, liable to retire by rotation. Your approval is also sought for the appointment of Mr.A.R.Chandrasekharan as Executive Director for a period of 3 years with effect from May 11, 2016.

Resignation :

- (i) Mr. GRV Rajan resigned as a member of the Board and Managing Director of the Company with effect from March 11, 2015.

- (ii) Mr. R Seshasayee resigned from the Board and Chairmanship of the Company on June 12, 2015.
- (iii) Mr. S Ragothaman, an independent Director resigned from the Board on November 18, 2015.
- (iv) Mr. Markus Wermers resigned as a member of the Board and Managing Director of the Company with effect from April 4, 2016.

The Board of Directors wish to place on record their sincere appreciation for the valuable contributions made by Mr.GRV Rajan, Mr.R. Seshasayee, Mr.S. Ragothaman and Mr. Markus Wermers during their tenure as Directors.

The casual vacancies caused by the resignations were not filled-up.

Director retiring by rotation:

In terms of Article 106 of the Articles of Association of the Company, Mr. Dheeraj G Hinduja is liable to retire by rotation at the ensuing Annual General Meeting (AGM) and being eligible, offers himself for re-appointment.

KEY MANAGERIAL PERSONNEL

Mr. D M Reddy was appointed as Chief Executive Officer and Key Managerial Personnel on April 4, 2016.

Mr. D M Reddy, Chief Executive Officer, Mr. K R Ravi Shankar, Chief Financial Officer and Mr. S Venkatasubramanian are the whole-time Key Managerial Personnel of the Company.

COST AUDITORS

As per Section 148 of the Companies Act, 2013, the Company is required to have the audit of its cost records conducted by a Cost Accountant in practice. The Board of Directors of the Company has, on recommendation of the Audit Committee, approved the appointment of M/s. Geeyes & Co. (Firm Registration Number 000044) as the Cost Auditor of the Company to conduct cost audits pertaining to product(s) Steel (Castings) in compliance with the Companies (Cost Records and Audit) Rules, 2014, for the 18 months period ended March 31, 2016. As required under the Companies Act, 2013,

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the remuneration payable to the cost auditor is required to be placed before the members in a general meeting for their ratification. Accordingly, a resolution seeking ratification of the members for the remuneration payable to M/s Geeyes & Co., Cost Auditors is included at Item No. 10 of the Notice convening the Annual General Meeting.

Cost Audit Reports for the financial year ended September 30, 2014 were filed in a timely manner. The Cost Audit Reports for the 18 months period ended March 31, 2016 will be filed with the Ministry of Corporate Affairs in a timely manner.

The Board of Directors, subject to the approval of the Central Government, has appointed M/s. Geeyes & Co. as Cost Auditors for conducting cost audit for the financial year 2016-17.

INTERNAL CONTROL:

The Company has an internal control system commensurate with the size, scale and complexity of its operations. Internal control systems comprising of policies and procedures are designed to ensure reliability of financial reporting, timely feedback on achievement of operational and strategic goals, compliance with policies, procedures, applicable laws and regulations and that all assets and resources of the Company are safeguarded against loss from wastage, unauthorised use and removal. The Internal Auditors are an integral part of the internal control mechanism of the Company. To maintain its objective and independence, the Internal Auditors report to the Audit Committee of the Board of Directors.

The internal control system of the Company is supplemented by documented policies, guidelines and procedures. The Internal Auditors monitor and evaluate the efficacy and adequacy of internal control systems in the Company, its compliance with the operating systems, accounting procedures and policies at all locations of the Company and its subsidiaries. Based on the report of the Internal Auditors, process owners undertake corrective action in their respective areas and thereby strengthen the controls. Significant audit observations and corrective actions thereon are presented to the Audit Committee of the Board.

The Audit Committee oversees the adequacy of the internal control systems. The Company reviews its policies, guidelines and procedures of internal control on an ongoing basis in view of the ever changing business environment.

SIGNIFICANT AND MATERIAL ORDERS PASSED BY THE REGULATORS OR COURTS

There are no significant material orders passed by the regulators or courts which would impact the going concern status of the Company and its future operations.

SECRETARIAL AUDIT

Pursuant to provisions of Section 204 of the Companies Act, 2013 read with Rule 9 of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014, your Company engaged the services of Ms. B. Chitra, Company Secretary in Practice, Chennai to conduct the secretarial audit of the Company for the 18 months period ended March 31, 2016.

The Secretarial Audit Report (in Form MR-3) is attached as **Annexure-E** to this Report. The report is unqualified.

STATUTORY AUDITORS

M/s. B S R and Company, Chartered Accountants, retire at the close of this Annual General Meeting and are eligible for re-appointment.

The Company has received a letter from M/s. B S R and Company that they are unwilling to be considered for re-appointment.

In their place, the Company has proposed the appointment of B S R & Co. LLP who are also a member firm of B S R and Affiliates network of firms, registered with ICAI and who have given consent and confirmed their eligibility under Section 139 and 141 of the Companies Act, 2013 read with the Companies (Accounts) Rules, 2014 for appointment as the Auditors of the Company.

The Audit Committee and the Board of Directors have recommended B S R & Co. LLP, a Limited Liability Partnership Firm for appointment as Auditor of the company for a term of 5 years subject to ratification by the members at every Annual General Meeting.

The necessary resolution is being placed before the members for approval.

EXTRACT OF ANNUAL RETURN

As provided under Section 92(3) of the Companies Act, 2013, the details forming part of the extract of the Annual Return in Form MGT-9 are furnished in **Annexure – F**.

DIRECTORS' RESPONSIBILITY STATEMENT

To the best of our knowledge and belief and on the basis of the information and explanations obtained by us, your Directors make the following statements in terms of Section 134(3)(c) of the Companies Act, 2013:

- a) in the preparation of the annual financial statements for the 18 months period ended March 31, 2016, the applicable Accounting Standards had been followed. There are no material departures.
- b) for the 18 months period ended March 31, 2016, such accounting policies as mentioned in the Notes to the financial statements have been applied consistently and judgments and estimates that are reasonable and prudent have been made so as to give a true and fair view of the state of affairs of the Company and of the Profit and Loss and Cash Flow of the Company for the 18 months period ended March 31, 2016.
- c) that proper and sufficient care has been taken for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 2013 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities.
- d) the annual financial statements have been prepared on a going concern basis.
- e) that internal financial controls were followed by the Company and that such internal financial controls are adequate and were operating effectively.
- f) that proper systems to ensure compliance with the provisions of all applicable laws were devised and that such systems were adequate and operating effectively.

REMUNERATION POLICY OF THE COMPANY

The Remuneration policy of the Company comprising the policy followed by the Company on the appointment and remuneration of its Directors, Key Managerial Personnel and Senior Executives including criteria for determining qualifications, positive attributes, independence of a Director and other related matters has been provided in the Corporate Governance Report which is attached as **Annexure-B** to this Report.

In terms of Rule 5 of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014, the Directors of the Company are entitled to a sitting fee of ₹ 20,000 for every meeting of Board/ Committee attended by them. In the absence of profits, no commission was paid to them. The median remuneration of employees for the same period was ₹ 4 Lakhs. The ratio of median remuneration of employee to the remuneration of Managing Director was 1:30.

The Company had 1647 permanent employees on the rolls of the Company as on March 31, 2016.

The Company has effected increment in general on the remuneration to all employees after a span of three years. The average increase per employee was ₹ 6,750 p.m.

During the period under review, the Company also made a revision of remuneration to the Chief Financial Officer [CFO] and Company Secretary [CS] to reflect the market/industry standards to the extent possible commensurate with the performance of the Company and individual. The above remuneration is as per Remuneration policy of the Company.

RISK MANAGEMENT POLICY

Risks are events, situations or circumstances which may negatively impact the Company's business. Risk management is a structured approach to manage uncertainty. The Company is adopting a formal approach to risk management in such a way that key risks be managed within a unitary framework.

The Company has constituted a Risk Management Committee which met on August 13, 2015 and reviewed that the Company has an appropriate and

Report of the Directors

effective Enterprise Risk Management system with appropriate policies and processes which carries out risk assessment.

The details of Risk Management as practiced by the Company are provided as part of Management Discussion and Analysis Report attached as **Annexure - D** to this Report.

CORPORATE SOCIAL RESPONSIBILITY (CSR) INITIATIVES

Pursuant to Section 135 of the Companies Act, 2013, your Company is not required to constitute Corporate Social Responsibility Committee. However, as part of social initiative, the Company has undertaken a programme known as B.VOC degree(3 year work integrated programme conducted by Tata Institute of Social Sciences approved by AICTE/GOI) in order to enhance the skill of the society to enable them to get employed.

BOARD EVALUATION

Pursuant to the provisions of the Companies Act, 2013 and the New Listing Regulations, Independent Directors at their meeting without the participation of the Non-independent Directors and Management, evaluated the Board's performance, performance of the Chairman and other Non-independent Directors.

The Board subsequently evaluated its own performance, the working of its Committees (Audit, Nomination and Remuneration and Stakeholders Relationship Committee) and Independent Directors (without participation of the relevant Director).

VIGIL MECHANISM/ WHISTLE BLOWER POLICY

Pursuant to Section 177(9) of the Companies Act, 2013 read with Rule 7 of the Companies (Meetings of Board and its Powers) Rules, 2014 and the New Listing Regulations, the Board of Directors had approved the Policy on Vigil Mechanism/ Whistle Blower and the same has been hosted on the website of the Company. This Policy inter alia provides a direct access to the Chairman of the Audit Committee.

Your Company hereby affirms that no Director/ employee has been denied access to the Chairman of the Audit Committee and that no complaints

were received during the year. Brief details about the policy are provided in the Corporate Governance Report attached as **Annexure-B** to this Report.

POLICY ON PREVENTION OF SEXUAL HARASSMENT

The Board of Directors have approved the "Sexual Harassment Policy" in terms of the Sexual Harassment of Women at Workplace (Prevention, Prohibition and Redressal) Act, 2013. The said policy is uploaded on the website of the Company.

During the year under review, there were no complaints received from any regular/contract employee or from any of the outsiders who visited our office for official purpose.

PARTICULARS OF EMPLOYEES AND RELATED DISCLOSURES

Your Company has successfully implemented a voluntary retirement scheme at the Company's unit located at Ennore, Tamilnadu. All employees of the Company's Ductron casting unit located at Hyderabad, Telangana had sought voluntary separation from the Company, which was agreed and implemented. Consequently the unit had to be closed down. Your Company has successfully concluded Long Term Settlement (LTS) with workers at Sriperumbudur (SPU) and Ennore units.

In terms of the provisions of Section 197(12) of the Companies Act, 2013 read with Rules 5(2) and 5(3) of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014, a statement showing the names and other particulars of the employees drawing remuneration in excess of the limits set out in the said Rules are provided in the Annexure forming part of the Annual Report.

Disclosure pertaining to remuneration and other details as required under Section 197(12) of the Act read with Rule 5(1) of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014 are furnished in **Annexure-G**.

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