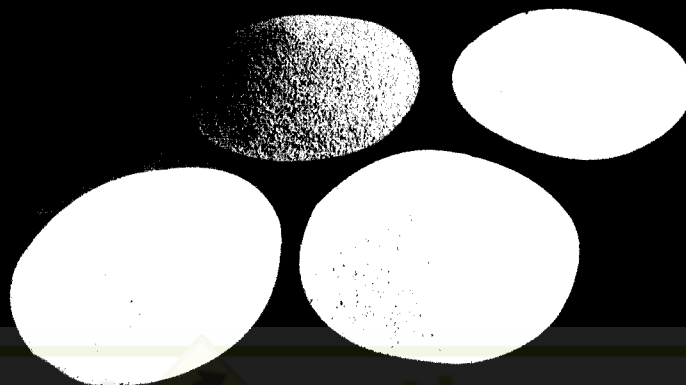


Hydro S & S

Annual Report
2002-2003



Report Junction.com

Date: 04.07.2003

Dear Shareholder,

Sub: Appointment of Registrar & Transfer Agent

As the Shareholders may be aware, hitherto the physical share work such as transfer of shares, payment of dividend, change of address etc. were being handled in-house by the Company at its office at Dhun Building, 827, Anna Salai, Chennai : 600 002. The work related to electronic form of shares is handled by our Registrars, M/s. Integrated Enterprises (India) Limited.

The Securities & Exchange Board of India (SEBI), vide its Circular No. D&CC/FITTC/ Cir – 15/2002 dated December 27, 2002 had directed all the Listed companies to appoint a common agency for both physical and electronic form of shares, i.e. either in-house by the company or by a SEBI registered R&T Agent.

Accordingly, the company had appointed M/s. Integrated Enterprises (India) Limited as its Registrar & Transfer Agent.

With immediate effect, the shareholders are hereby requested to send all their communication to the following address:

M/s. Integrated Enterprises (India) Limited,
Unit: M/s. Hydro S & S Industries Limited,
Kences Enclave, IInd Floor,
No. 1, Ramakrishna Street, T. Nagar,
Chennai : 600 017
Telephone No. 044 – 2814 0801 / 02 / 03
Fax No. 044 – 2814 2479
E mail sureshbabu@iepindia.com

Your co-operation in this regard is solicited.

Thanking you,

Hydro S&S Industries Limited**Board of Directors**

V. SRINIVASAN
MURALI VENKATRAMAN
K.D. PARAKH
BABULAL M. VARMA
V. THIRUPATHI
NARAYAN SETHURAMON
S.K.SUBRAMANYAN

Chairman**Vice-Chairman****Director****Director****Director****Managing Director****Director (Fin. & Admn.) & Co. Secy.****Works :**

15C, SIPCOT Indl.Complex
 Pudukkottai : 622 002

RS No. 38/1, Sedarapet Village
 Villianur Commune, Pondicherry : 605 111

RS 15/15, Vazhudavur Road
 Kurumbapet, Pondicherry : 605 009

Registered Office

Dhun Building, III Floor,
 827, Anna Salai, Chennai : 600 002
 Telephone : (044) 2852 17 36 / 2852 02 92
 Fax : (044) 2852 04 20
 E-mail : info@hssil.com

Auditors

M/s. P. Srinivasan & Co.,
 Chartered Accountants,
 Chennai : 600 017

Bankers

Canara Bank, Chennai - 600 002
 State Bank of India, Chennai - 600 001
 The Karnataka Bank Limited, Chennai - 600 002

Share Transfer Agents

M/s. Integrated Enterprises (India) Ltd.,
 Kences Enclave, IInd Floor,
 No. 1, Ramakrishna Street, T. Nagar, Chennai : 600 017
 Telephone : (044) 2814 08 01 / 02 / 03
 Fax : (044) 2814 24 79
 E-mail : sureshbabu@iepindia.com

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Hydro S&S Industries Limited**FIVE-YEAR FINANCIAL DATA**

(Rs. in Millions)

	2002-03	2001-02	2000-01	1999-00	1998-99
For the Year					
Sales : Domestic	546.478	447.058	441.123	415.507	311.004
: Exports	13.565	24.655	31.176	28.313	3.310
Operating Profit (PBITD)	45.156	44.509	46.010	41.414	33.806
Interest	9.597	11.784	15.076	12.129	13.040
Depreciation	13.140	10.934	10.386	8.668	8.314
Taxation - Current	1.750	1.750	2.100	—	—
Deferred	1.682	0.964	-	—	—
Profit after Tax	18.987	19.077	18.448	20.901	12.452
As at the end of the Year					
Share Capital	65.281	67.781	70.281	72.781	72.781
Reserves & Surplus	103.148	93.245	106.709	95.890	82.821
Loan Funds	104.485	95.398	99.088	116.845	80.137
Gross Block	221.283	209.986	207.498	198.264	161.730
Net Current Assets	158.700	138.906	125.886	134.340	97.569
Measures					
Of Investment					
- Return on Equity (%)	11.27	11.85	10.42	12.39	8.00
- Earnings Per Share (Rs.)	2.87	2.82	2.67	3.02	1.72
- Dividend Cover (Times)	2.15	2.92	2.96	3.77	2.15
- Dividend (%)	12	10	9	8	8
- Book Value of an equity share	25.81	24.67	27.12	25.84	23.84
Of Performance					
- Profitability (%)					
Profit before Tax (%)	4.64	5.33	4.35	4.64	3.96
Profit after Tax (%)	3.93	4.67	3.90	4.70	3.96
- Capital Turnover (times)	1.77	1.60	1.71	1.55	1.33
- Stock Turnover (times)	12.02	10.74	11.60	8.37	15.32
- Working Capital Turnover (times)	3.52	3.39	3.87	3.37	3.25
Of Financial Status					
- Debt-Equity Ratio (times)	0.13:1	0.16:1	0.20:1	0.31:1	0.32:1
- Current Ratio	1.53:1	1.64:1	1.58:1	1.64:1	2.28:1
- Fixed Assets to Shareholders Funds (times)	0.82:1	0.84:1	0.83:1	0.87:1	0.77:1

Hydro S&S Industries Limited**DIRECTORS' REPORT**

Your Directors have pleasure in presenting their Annual Report and the Audited Accounts for the year ended March 31, 2003.

Financial Highlights

Your Company's performance during the year 2002-03 as compared to the previous year is summarised below:

Rs.in 000's

	Year Ended March 31, 2003		Year Ended March 31, 2002	
Sales Turnover				
Gross		560,043		471,713
Net of Excise Duty		483,011		409,116
Profit before Interest & Depreciation		45,156		44,509
Interest		9,597		11,784
Profit before Depreciation		35,559		32,725
Depreciation		13,140		10,934
Profit before tax		22,418		21,791
Taxation - Current Tax		1,750		1,750
- Deferred Tax		1,682		964
Profit after Tax		18,986		19,077
Balance brought forward		6,009		9,108
Profit available for Appropriation		24,995		28,185
Appropriations:				
Transfers:				
To General Reserve	10,000		15,000	
Proposed Dividend				
On Preference Capital @ 16%	250		650	
On Equity Capital @ 12 %	7,831		6,525	
Tax on Distributed Profits	1,003		--	
		19,084		22,175
Balance carried forward		5,911		6,009
		24,995		28,185

Hydro S&S Industries Limited

Dividend:

Your Directors are pleased to recommend for your consideration:

- a) a dividend of 16% amounting to Rs. 250,380/- (pro-rated) on the Preference Share Capital of the Company which was redeemed in November '2002
- b) a dividend of 12% amounting to Rs. 78,30,755/- on the Equity Share Capital of the Company for the year 2002-2003

Operations:

The economic stagnation of the previous year continued in the first half of 2002-03 as well. However, the rebound observed in the economy during the later half of the year under review has provided the much needed momentum to the Manufacturing and Services sector in spite of a severe monsoon deficiency.

The sales turnover during the year in volume terms remained more or less at the same level as in the previous year, but in value terms, recorded a growth of 18% primarily due to increase in sales of polypropylene compounds to the automotive segment.

However, the profitability was adversely affected due to the abnormal rise in basic polypropylene prices which rose about 25% during the last five months of the financial year. Request for price revisions have not yet been realised from all the customers. The pressure on the margins was partially offset by various initiatives within the company through which significant savings were accrued. The continued emphasis on energy consumption had helped to keep check on the energy cost in spite of tariff increases. Further, small group activities were initiated with specific focus on wastage reduction etc. which had a favourable contribution at the end of the year. It was only due to all these initiatives that the company was able to maintain its net profit close to last year's levels.

On the sales front, the company continued to be the major supplier of Polypropylene compounds to M/s. Hyundai Motor India Limited. The company also benefited from the favourable performance of the cars manufactured by M/s. TELCO, Toyota and Maruti.

The company was chosen as the approved supplier of compounds by M/s. Hyundai Motors for its export models and also commenced supply of the same.

Exports during the year declined due to stagnancy and sluggishness observed in the Sri Lankan market. However, your company made an entry into the Bangladesh market with supply of compounds for furniture segment. Further, the company is exploring opportunities from other countries to achieve enhanced business volumes.

The company had its QS 9000 quality certification renewed for both plants during the year.

Thermoplastic Elastomer compounds were established during the year as a viable alternative replacement to certain two wheeler manufacturing companies in their models for certain applications. Similar development work with various other potential customers are on and the benefits of the same are likely to be realised during the year.

Finance

Your company issued Commercial Paper for value of Rs. 50 million and the same was utilised for working capital requirements based on the "A1" (Highest Safety) Certification from Rating agency, M/s. ICRA Limited. The rating agency has since reinstated the above certification for the coming year also.

During the year, the final instalment of Rs. 2.50 million due for redemption was honoured in November 2002 as per the terms of the issue of Preference Shares.

Your company also swapped the higher cost Rupee Term Loan obtained from Industrial Development Bank of India with a FCNRB Loan from State Bank of India and the reduction in interest cost is already reflected in the interest costs for the year.

Your company has been regular in its repayment obligations to the financial institutions under the various agreements. It has also been regular in repaying its obligation to the Government of Tamil Nadu under the Sales Tax Deferral program.

All fixed deposits have been repaid on their respective due dates and the company has no deposits with it as on date.

Continuing emphasis is laid on cost reduction, procurement of raw materials at competitive prices with better negotiation and adequate control over overhead costs for better profitability.

Your company has adopted the various Accounting Standards introduced by the Institute of Chartered Accountants of India during the year and the financial statements have been prepared keeping the above in mind.

Human Resources

During the year, industrial relations at all the units were satisfactory.

Long term wage settlements were signed in two of the plants with the workers in a cordial manner.

A notable feature of the settlements was that a significant component of the wage increase was linked to increased production, productivity, wastage reduction etc. This has also motivated the workers to focus attention to these aspects.

Your company has also launched several initiatives for "Knowledge Development" of its employees such as deputing them to overseas seminars, using company's intranet to disseminate knowledge on various topic and in-house training programmes.

The industrial disputes raised by some workmen which had been reported in last year's annual report were resolved satisfactorily.

As none of the employees were in receipt of remuneration of Rs. 200,000/- per month, Information in terms of Section 217 (2A) of the Companies Act, 1956 read with Companies (Particulars of Employees) Rules 1975 is not applicable.

Information Technology

Your company has invested in the development of IT infrastructure to improve the efficiency of your company's

operations. An ERP Package has been installed and the implementation done. Connectivity links using leased lines and ISDN have been put in place to give on-line connectivity to all plants, Head Office. Your company expects to start reaping the benefits of this investment during the current year.

Appointment of Common Agency for Investor Services

Consequent upon the circular issued by The Securities and Exchange Board of India to all the companies to appoint a Common Agency for handling the share registry functions at a single point, your company has appointed M/s. Integrated Enterprises (India) Limited as their Registrar & Transfer Agent. Shareholders are requested to send their correspondence to the following address.

M/s. Integrated Enterprises (India) Limited

Unit: Hydro S & S Industries Limited

Kences Enclave, IInd Floor,

No. 1, Ramakrishna Street, T. Nagar,

Chennai : 600 017

Phone No. 0091 - 44 - 28140801 / 02 / 03

Fax No. 0091 - 44 - 28142479

Change in Promoters

As reported during the last General Meeting of the shareholders, during the year, Norsk Hydro ASA divested its shareholdings in the company to the Indian Co-Promoters.

Your Directors wish to place on record its deep appreciation the valuable co-operation and guidance provided by M/s. Norsk Hydro ASA during the period of their association with the company.

Directors:

Consequent upon the divestment by M/s. Norsk Hydro ASA, they have withdrawn their representative, Mr. Aage Frohde from the Board with effect from 28th September, 2002. The Board wishes to place on record its appreciation for the valuable services rendered by Mr. Frohde during his tenure in office.

Your Directors appointed Mr. Murali Venkatraman, Director as the Vice-Chairman of the Board and

Hydro S&S Industries Limited

Mr. Narayan Sethuramon, Director (Corporate Affairs) as the Managing Director w.e.f. 28th September, 2002.

With the redemption of the preference shares, M/s. General Insurance Corporation of India have withdrawn their Nominee, Mr. A. Asthana from the Board w.e.f. 21st February, 2003. The Board wishes to place on record appreciation of the valuable services rendered by Mr. Asthana during his tenure in office.

Mr. V. Thirupathi was co-opted as an Additional Director on the Board w.e.f. 24th March, 2003.

In accordance with the Articles of Association of the Company, Mr. Babulal M. Varma retires at the ensuing Annual General Meeting and being eligible, offer himself for re-appointment.

Mr. V. Thirupathi holds office as Additional Director up to the date of the ensuing Annual General Meeting and is seeking election as a Director.

Auditors:

M/s. P. Srinivasan and Co., Chartered Accountants and Auditors of the company hold office until the conclusion of the Annual General Meeting and have given their consent for re-appointment.

Directors' Responsibility Statement Pursuant to Section 217(2aa) of the Companies Act, 1956

The Directors do hereby state in good faith:-

- (a) that in the preparation of the annual accounts, the applicable accounting standards had been followed along with proper explanation relating to material departures;
- (b) that the company had selected such accounting policies and applied them consistently and made judgements and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit or loss of the Company for that period;

(c) that the company had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;

(d) that the company had prepared the annual accounts on a going concern basis.

Corporate Governance Report

The Corporate Governance Report is set out as a separate Annexure to this Report.

Management's Discussion and Analysis Report

The abovesaid report is set out as a separate Annexure to this Report.

Appreciation:

Your Directors acknowledge with gratitude the support and co-operation received from the customers, suppliers, financial institutions and bankers during the year.

Your Directors also wish to place on record their appreciation of the dedication and commitment extended by all employees.

On behalf of the Board of Directors

V. SRINIVASAN

Chairman

Chennai

4th July, 2003

Annexure "A" to the Directors' Report

The Companies (Disclosure of Particulars
in the report of the Board of Directors)
Rules, 1988.

I) Conservation of Energy

Energy Conservation measures taken:

- a) Usage of Superior Kerosene oil for running of DG sets
- b) Improved cooling in the line, through modification of water injection nozzles
- c) Adding Capacitor bank to improve power factor
- d) Change of flow of water for cooling through gravity thereby eliminating a pump
- e) Shop floor lighting improved through natural lighting

II) Research and Development and Technology Absorption

a. Research and Development (R & D)

- (i) Specific areas in which R & D carried out by the Company

The Company continues to develop products to meet emerging requirements of the automobile and appliance sector. Continuous efforts on Cost reduction through value engineering and improvement in the processes are carried out wherein it utilises its R & D and other external agencies.

These developments have helped the company to tune formulations to offer to the customer to meet their price targets. It has also resulted in reduction of unit cost.

Improved product performance through formulation improvements, development of new grades to suit customer requirements are the areas of ongoing projects.

(III) Expenditure on R & D

(a) Capital	:	—
(b) Recurring	:	Rs. 194,077/-
(c) Total	:	Rs. 194,077/-

Technology Absorption, Adaptation and Innovation**Status of Technology imported**

Thermoplastic Elastomer compounds was established as a viable alternative to existing materials for certain applications in two wheelers.

Similar development work with various other potential customers are on.

Foreign Exchange Earnings & Outgo

Foreign Exchange Earnings	Rs.1,35,65,521/-
Foreign Exchange Outgo	Rs. 9,61,49,895/-

The details of the above are given in the Notes to the Accounts.

For and on behalf of the Board of Directors

V. SRINIVASAN

Chairman

Chennai

4th July, 2003

Hydro S&S Industries Limited**ANNEXURES TO THE DIRECTORS' REPORT****CORPORATE GOVERNANCE****(As required by Clause 49 of the Listing Agreement of the Stock Exchanges)****1) Company's Philosophy**

The Company endeavours to practice good corporate governance and be a responsible corporate citizen.

The Company firmly believes in the value of professionalism and accountability in its relationships with customers, suppliers, employees, shareholders and every individual who comes in contact with the company.

The Company considers Corporate Governance in its broader perspective is all about creating an outperforming organisation. We believe that the company needs to leverage its capabilities and resources to translate opportunities into realities, to infuse people with vision which sparks dynamism and entrepreneurship resulting in building and sustaining stakeholder confidence.

2) Board of Directors

a) The Board consists of 7 Directors details of whom are given below:

b) Number of Board Meetings:

Five Board Meetings were held during the year ended 31st March, 2003. These were on 22nd June, 2002, 30th July, 2002, 28th September, 2002, 28th October, 2002, 31st January, 2003

Directors' attendance record and directorships held:

Sl. No.	Name of Director	Category of Directorship	No. of Board Meetings Attended	Attendance at last AGM	No. of other directorships	Membership in committees (including HSSIL)
1.	Mr. V. Srinivasan	Chairman (Non-Executive Director) (Promoter)	5	Yes	6	2
2.	Mr. K.D. Parakh	Non-Executive Director (Promoter)	4	Yes	6	3
3.	Mr. Murali Venkatraman	Vice-Chairman (Non Executive Director) (Promoter)	5	Yes	6	4
4.	Mr. Babulal M. Varma	Independent (Non-Executive Director)	4	Yes	5	3
5.	Mr. Narayan Sethuramon	Whole-time Director (Managing Director) (Promoter)	5	Yes	3	Nil
6.	Mr. Aage Frohde	Non-Executive Director	- (*)	No	Nil	Nil
7.	Mr. A. Asthana	Nominee of GIC & (Non-Executive Director)	5 (*)	Yes	Nil	Nil
8.	Mr. V. Thirupathi	Independent (Non-Executive Director)	- (*)	No	8	4
9.	Mr. S.K. Subramanyan	Whole-time Director(Director (Fin.&Admn.) & Company Secretary)	5	Yes	Nil	Nil

(*) Notes:

Mr. Aage Frohde ceased to be a Director w.e.f. 28th September, 2002

Mr. A. Asthana ceased to be a Director w.e.f. 24th February, 2003

Mr. V. Thirupathi was appointed as an Additional director w.e.f. 24th March, 2003