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Annual Report

2005 - 06

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Board of Directors	**V. SRINIVASAN**	***Chairman***
	MURALI VENKATRAMAN	***Vice-Chairman***
	BABULAL M. VARMA	***Director***
	V. THIRUPATHI	***Director***
	NARAYAN SETHURAMON	***Managing Director***
	T. DULIP SINGH	***Director***
	DINSHAW KEKU PARAKH	***Director***
	S.K. SUBRAMANYAN	***Director (Fin. & Admn.) & Co.Secy.,***
Audit Committee	**V. THIRUPATHI**	***Chairman***
	BABULAL M. VARMA	***Member***
	MURALI VENKATRAMAN	***Member***
Remuneration Committee	**BABULAL M. VARMA**	***Chairman***
	V. THIRUPATHI	***Member***
	V. SRINIVASAN	***Member***
Investors Grievances Committee	**V. SRINIVASAN**	***Chairman***
	MURALI VENKATRAMAN	***Member***
Compliance Officer	**S.K. SUBRAMANYAN**	

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Works :

15C, SIPCOT Indl.Complex
Pudukkottai : 622 002

RS No. 38/1, Sedarapet Village
Villiyanur 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

State Bank of India, Chennai - 600 001
Canara Bank, Chennai - 600 002

Registrar & 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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FIVE-YEAR FINANCIAL DATA

(Rs. in Millions)

For the Year	2005-06	2004-05	2003-04	2002-03	2001-02
Sales : Domestic	921.524	816.146	683.846	546.478	447.058
Exports	20.847	7.574	6.691	13.565	24.655
Operating Profit (PBIDT)	64.654	34.862	59.058	45.156	44.509
Interest	17.396	11.857	11.687	9.597	11.784
Depreciation	15.890	13.851	13.187	13.140	10.934
Taxation - Current	3.000	0.750	2.650	1.750	1.750
- Fringe Benefit	0.850	—	—	—	—
- Deferred	1.350	4.650	2.250	1.682	0.964
Profit After Tax	26.168	3.753	29.284	18.987	19.077
As at the end of the Year					
Share Capital	65.281	65.281	65.281	65.281	67.781
Reserves & Surplus	135.643	118.403	132.432	103.148	93.245
Loan Funds	202.540	200.324	128.789	104.485	95.398
Gross Block	283.277	290.663	224.860	221.283	209.986
Net Current Assets	254.470	230.797	213.534	158.700	138.906
Measures of Investment					
Return on Capital Employed (%)	11.80%	5.14%	13.32%	10.76%	12.03%
Return on Equity (%)	12.47%	2.04%	15.50%	11.27%	11.85%
Earnings per Share (Rs.)	4.01	0.58	4.49	2.87	2.82
Dividend Cover (Times)	3.34	0.48	3.73	2.39	2.82
Dividend (%)	12	12	12	12	10
Book Value of an equity share	32.16	28.15	28.94	25.81	24.68
Of Performance					
- Profitability (%)					
Profit before Tax (%)	3.89%	1.30%	5.76%	4.64%	5.33%
Profit after Tax (%)	3.24%	0.53%	4.94%	3.93%	4.67%
- Capital Turnover (times)	2.29	2.15	2.11	2.05	1.84
- Stock Turnover (times)	8.17	6.99	9.55	12.02	10.74
- Working Capital Turnover (times)	3.70	3.57	3.23	3.52	3.39
Of Financial Status					
- Debt-Equity Ratio (times)	0.21:1	0.32:1	0.10:1	0.13:1	0.16:1
- Current Ratio	1.37:1	1.37:1	1.53:1	1.53:1	1.64:1
- Fixed Assets to Shareholders' Funds (times)	0.80:1	1.00:1	0.69:1	0.82:1	0.84:1

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DIRECTORS' REPORT

PART I – PERFORMANCE / OPERATIONS

Your Directors present herewith the Annual Report of the Company together with the audited Accounts for the year ended March 31, 2006.

FINANCIAL RESULTS

Rs.in 000's

	Year Ended March 31, 2006		Year Ended March 31, 2005	
Income from Operations				
Gross		950,252		823,743
Net of Excise Duty		814,719		703,362
Profit before Interest & Depreciation		64,654		34,862
Interest		17,396		11,857
Profit before Depreciation		47,258		23,005
Depreciation		15,889		13,851
Profit before tax		31,369		9,153
Taxation - Current Tax	3,000		750	
- FBT	850		—	
- Deferred Tax	1,350	5,200	4,650	5,400
Profit after Tax		26,169		3,753
Balance brought forward		5,166		10,612
Profit available for Appropriation		31,335		14,365
Appropriations:				
Transfers:				
To Special General Reserve	650		250	
To General Reserve	15,000		—	
Proposed Dividend				
On Equity Capital @ 12 %	7,831		7,831	
Tax on Distributed Profits	1,098		1,118	
		24,579		9,199
Balance carried forward		6,756		5,166
		31,335		14,365

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DIVIDEND:

Your Directors have considered the operating results of the year as well as the outlook for the current year and have decided to recommend for your consideration, a dividend of 12% amounting to Rs. 78,30,755/- @ Rs. 1.20 per equity share of the Company for the year 2005-2006. The above dividend together with the distribution tax thereon, have been provided for, in the appropriation out of the profits of the Company.

BUSINESS OPERATIONS

During the fiscal year 2005-06, the company recorded a growth of 16% in volume and value terms as compared to the previous year. However, the primary raw material for the company, viz. Polypropylene was subject to extreme volatility in its pricing. The reduction in the Customs duty at the end of the year delayed grant of price increases by OEMs which consequently impacted the margins. The highlights of the operations are discussed in detail in the Management Discussion and Analysis Report annexed as Annexure D to this Report.

The automotive sector continues to remain the primary customer segment for your Company's products. The sale of Thermoplastic Elastomer compounds increased appreciably as compared to the previous year. The arrangement entered into with M/s. Tosaf Compounds Limited, Israel last year started yielding results with contribution to both top and bottom line.

During the year under review, your Company was appointed by ExxonMobil Petroleum & Chemical, BVBA as an authorised distributor in India for their "Santoprene" range of Thermoplastic Elastomers. Field trials are underway to introduce various grades of these compounds into the market.

Long term wage settlement agreements were entered into with workers at both the plant locations.

The Industrial Relations were generally peaceful throughout the year.

RESEARCH AND DEVELOPMENT, TECHNOLOGY ABSORPTION, ENERGY CONSERVATION ETC.

Your Company continues to focus on its Research and Development efforts by allocation of substantial investments to provide increased value added services to its customers. The activities in this area include the development of formulations for newer applications as well as higher performance specifications.

The particulars prescribed by the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 relating to Conservation of Energy, Technology Absorption, Foreign Exchange are furnished in **Annexure - A** to this Report.

PART - II CORPORATE MATTERS

CORPORATE GOVERNANCE

As per the requirement of Clause 49 of the Listing Agreement entered into with the Stock Exchanges, a detailed report on Corporate Governance is set out in Annexure-B to this report.

The statutory Auditors of the Company have examined the Company's compliance in this regard and have certified the same, as required under the SEBI Guidelines. Such Certificate is reproduced as Annexure - C to this Report. A separate Management Discussion and Analysis Report on the Company's performance is given in Annexure-D to this Report.

The declaration given by the Managing Director with regard to compliance of Company's code of conduct by the Board members and senior management personnel is furnished as Annexure E to this report.

Directors' responsibility statement as required under Section 217(2AA) is furnished as Annexure-F to this report.

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Details of Employees

Since there are no employees who come under the purview of Section 217(2A)(b)(ii) read with the Companies (Particulars of Employees) Rules, 1975, such particulars are not provided.

DIRECTORS:

During the year, Mr. T. Dulip Singh was co-opted as an Additional Director with effect from 20.10.2005. Mr. T. Dulip Singh holds office until the ensuing Annual General Meeting and is seeking election as a Director.

In accordance with the Articles of Association of the Company, Mr. Babulal M. Varma and Mr. Dinshaw Keku Parakh, Directors, retire by rotation at the forthcoming Annual General Meeting, and are eligible for re-appointment. The necessary resolutions are being placed before the shareholders for approval.

SECRETARIAL AUDIT:

As directed by Securities and Exchange Board of India (SEBI), Secretarial Audit is being carried out at the specified periodicity by a Practising Company Secretary. The findings of the Secretarial Audit were satisfactory.

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. The Company has received confirmation that their re-appointment will be within the limits prescribed under Section 224 (1B) of the Companies Act, 1956. The Audit Committee of the Board has recommended their re-appointment. The necessary resolution is being placed before the shareholders for approval.

ACKNOWLEDGEMENT

The Directors wish to express their appreciation of the continued co-operation received from the customers, suppliers, bankers, shareholders and other stakeholders during the year.

Your Directors also wish to thank all the employees for their contribution, support and continued co-operation through the year.

On behalf of the Board of Directors

V. SRINIVASAN
Chairman

Chennai
26th July, 2006

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Annexure "A" to Directors' Report

(A) CONSERVATION OF ENERGY

Both the plants have implemented energy saving initiatives leading to cost savings during the year 2005-06. Some of the initiatives relate to:

(a) At the Pudukkottai works, usage of Wind Energy power generated by the Company's Wind mill in the manufacturing process

(b) Elimination of Drier blower and Heater wherever possible

(c) Conversion of certain DC motors into AC motors with AC variable drives resulting in reduction in electricity usage.

(d) Reduction of Duty cycle of Compressor motors

(e) Installation of higher speed pelletiser to match the Extrusion line speed resulting in efficient pelletising.

(f) Consistently achieved high power factors

(B) TECHNOLOGY ABSORPTION

a. Research and Development (R & D)

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

The R&D acvitities of the company are focussed in the areas of technology upgradation, new product development, quality improvement and cost reduction.

Specific efforts are on fine tuning formulations to meet enhanced performance expectations from customers, improving formulation and processing methodology to reduce line wastages.

Sustained and continuous efforts are made in the areas of upgradation of technology and value engineering.

(ii) Expenditure on R & D

(a) Capital : Rs. 5,36,034/-
(b) Recurring : Rs. 32,15,724/-
(c) Total : Rs. 37,51,758/-

(b) Technology Absorption, Adaptation and Innovation

Status of Technology imported

The technology on Thermoplastic Elastomer compounds is being extended to various application areas.

Continuous development work is already on to add new businesses in this category.

Foreign Exchange Earnings & Outgo

Foreign Exchange Earnings Rs. 2,08,47,293/-
Foreign Exchange Outgo Rs. 10,71,76,898/-

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
26th July, 2006

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ANNEXURE B TO THE DIRECTORS' REPORT

REPORT ON CORPORATE GOVERNANCE

The details of compliance of the Company with the requirements of Clause 49 is set out below:

1) Brief statement on company's philosophy on code of governance

The Company endeavours to practice sound corporate governance policies 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 interfaces with it.

The Company will use "Corporate Governance" as a framework to leverage its capabilities and resources to translate opportunities into realities, and to empower every individual within the organisation with dynamism and intrapreneurship along with responsibility thus resulting in building sustainable value and enhancing stakeholder confidence.

2) Board of Directors

Composition

The Board consists of 8 Directors, whose details are given below:

Board Meetings:

During the year 2004-05, the Board met four times on 30th April, 2005, 25th July, 2005, 20th October, 2005 and 25th January, 2006.

The following table gives details of the Directors, attendance of the Directors at the board meetings and at the last annual general meeting, number of memberships held by Directors in Board / Committees of various companies as on 31st March, 2006:

Name of the Director	Category	Attendance Particulars		Number of other Directorships in Public Companies and Committee Memberships / Chairmanships		
		Board Meetings	Last AGM Held on 28-09-05	Directorships	Committee Memberships	Committee Chairmanships
Mr. V. Srinivasan	Chairman (Non-Executive) (Promoter)	2	Yes	5	2	1
Mr. Murali Venkatraman	Vice-Chairman (Non-Executive) (Promoter)	4	Yes	6	4	—
Mr. Babulal M. Varma	Independent	3	No	4	2	1
Mr. Narayan Sethuramon	Managing Director (Executive) (Promoter)	4	Yes	1	—	—
Mr. V. Thirupathi	Independent	4	Yes	9	3	1
Mr. S.K. Subramanyan	Whole-time Director (Director (Fin. & Admn.,) & Co.Secy.,	4	Yes	—	—	—
Mr. Dinshaw K Parakh	(Non-Executive) (Promoter)	4	Yes	5	—	—
Mr. T. Dulip Singh (*)	Independent	1	- N A -	13	—	—

(*) Part of the Year. Appointed as a Director w.e.f. 19.10.2005

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Board Procedure:

The Board met once a quarter and the interval between two meetings was not more than four months.

The Board is presented with information on matters pertaining to working of the company including risk assessment and mitigation procedures. Among others, this includes

- operating plans, capital budgets
- quarterly results of the company
- risks faced and steps taken to mitigate / minimize the risks, if any
- minutes of meeting of audit committee and other committees
- significant developments in the industrial and human relations front
- materially important show cause, demand and penalty notices and prosecutions
- materially relevant defaults in financial obligations to and by the company or substantial non payment for goods sold by the company
- foreign exchange exposure and steps taken by management to limit the risks of adverse exchange rate movement
- details of any joint venture or collaboration agreement
- proposals for diversification, investment, disinvestments and restructuring; and
- non-compliance of any regulatory or statutory provision or listing requirements as well as shareholder services

3) Audit Committee

The company's Audit Committee consists of three Non-Executive Directors - two of them being independent. The composition of the Committee and the qualification of the members of the Committee are in compliance with the requirements of Clause 49 of the Listing Agreement.

During the year 2005-06, the Audit Committee met four times - 29th April, 2005, 25th July, 2005, 20th October, 2005 and 25th January, 2006. The attendance of the Directors are as follows:

Name of the Director		No.of Meetings	
		Held	Attended
Mr. V. Thirupathi	Chairman	Four	Four
Mr. Babulal M. Varma	Member	Four	Three
Mr. Murali Venkatraman	Member	Four	Four

4) Remuneration Committee:

The Remuneration Committee consists of three Non-Executive Directors - two of them being Independent.

The members of the Committee are Mr. Babulal M. Varma (Chairman), Mr. V. Thirupathi and Mr. V. Srinivasan.

The scope / role of the Remuneration Committee is to recommend to the Board of Directors the remuneration payable to the Whole-time Directors of the company as and when they come for review.

Remuneration of Directors

The compensation of the Whole-time Directors comprises of a fixed component plus commission / incentive. The Whole-time Directors are not paid Sitting fees for any board / committee meetings attended by them.

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