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Hydro S & S

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Annual Report

2006 - 07

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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***
	DINSHAW KEKU PARAKH	***Director***
	S.K. SUBRAMANYAN	***Director (Fin. & Admn.)***
Company Secretary	**S.K. SUBRAMANYAN**	

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 : 91-44 2852 17 36 / 2852 02 92
Fax : 91-44 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
HDFC Bank Limited, 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 : 91-44 2814 08 01 / 02 / 03
Fax : 91-44 2814 24 79
E-mail : sureshbabu@iepindia.com

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FIVE-YEAR FINANCIAL DATA

(Rs. in Millions)

For the Year	2006-07	2005-06	2004-05	2003-04	2002-03
Sales : Domestic	1153.099	921.524	816.146	683.846	546.478
Exports	5.432	20.847	7.574	6.691	13.565
Operating Profit (PBIDT)	77.596	64.654	35.249	59.058	45.156
Interest	21.642	17.396	12.245	11.687	9.597
Depreciation	14.300	15.890	13.851	13.187	13.140
Taxation - Current	9.300	3.850	0.750	2.650	1.750
- Deferred	3.000	1.350	4.650	2.250	1.682
Profit After Tax	29.353	26.168	3.753	29.284	18.987
As at the end of the Year					
Share Capital	65.281	65.281	65.281	65.281	65.281
Reserves & Surplus	155.834	135.643	118.403	132.432	103.148
Loan Funds	216.541	202.540	200.324	128.789	104.485
Gross Block	312.796	283.277	290.663	224.860	221.283
Net Current Assets	279.168	245.541	230.797	213.534	158.700
Measures of Investment					
Return on Capital Employed (%)	13.77%	11.80%	5.14%	13.32%	10.76%
Return on Equity (%)	13.28%	13.02%	2.04%	15.50%	11.27%
Earnings per Share (Rs.)	4.50	4.01	0.58	4.49	2.87
Dividend Cover (Times)	3.75	3.34	0.48	3.73	2.39
Dividend (%)	12	12	12	12	12
Book Value of an equity share	33.88	30.79	28.15	28.94	25.81
Of Performance					
- Profitability (%)					
Profit before Tax (%)	4.18%	3.89%	1.30%	5.76%	4.64%
Profit after Tax (%)	3.64%	3.24%	0.53%	4.94%	3.93%
- Capital Turnover (times)	2.65	2.34	2.15	2.11	2.05
- Stock Turnover (times)	9.15	8.17	6.99	9.55	12.02
- Working Capital Turnover (times)	4.15	3.84	3.57	3.23	3.52
Of Financial Status					
- Debt-Equity Ratio (times)	0.20:1	0.21:1	0.32:1	0.10:1	0.13:1
- Current Ratio	1.37:1	1.32:1	1.37:1	1.53:1	1.53:1
- Fixed Assets to Shareholders' Funds (times)	0.84:1	0.83:1	1.00:1	0.69:1	0.82:1

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Hydro S & S

Hydro S & S Industries Limited
Regd. Office : DHUN BUILDING 827, ANNA SALAI, CHENNAI – 600 002.
Phone : 28521736, 28520292

MEMBER ☐ PROXY ☐

HYDAGM07-1097/K00096/200
KRISHNANLAL JONEJA
1/108 VIMAN DARSHAN CO OP HSG SOCI
SAHAR ROAD ANDHERI EAST
MUMBAI
PIN:400069

(Capital Letters)

Note : Please complete the attendance slip and hand it over at the Entrance of the meeting Hall.

ADMISSION SLIP

DATE & TIME

Thursday, the 13th September, 2007
10.00 a.m.

Sathguru Gnanananda Hall,
Narada Gana Sabha
No.314, TTK Road, Alwarpet, Chennai–18.

No. OF SHARES

I hereby record my presence at the **Twenty Third Annual General Meeting** of the Company
Signature of the Member / Proxy

Signature of Member / Proxy

Hydro S & S

Hydro S & S Industries Limited
Regd. Office: DHUN BUILDING
827, ANNA SALAI, CHENNAI – 600 002.
Phone : 28521736, 28520292

FORM OF PROXY

FOLIO No. / CLIENT ID	No. OF SHARES HELD

I/We .....of
(Address)

Being Member(s) of Hydro S&S Industries Limited hereby appoint .....

.....of
(Name of Proxy)

.....or
(Address of Proxy)

failing him .....of
(Name of Alternate Proxy)

.....as my / our
(Address of Alternate Proxy)

Proxy in my / our absence to attend and vote for me / us and on my / our behalf at the **Twenty Third Annual General Meeting** of the Company to be held at 10.00 a.m on Thursday, the 13th September, 2007 and at any adjournment thereof.

Date ..... Signature ..... Affix Re.1 Revenue Stamp .....

Note : The Proxy Form must be deposited at the Registered Office of the Company not less than 48 hours before the time for holding the meeting.

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DIRECTORS' REPORT

PART I – PERFORMANCE / OPERATIONS

Your Directors have pleasure in presenting their 23rd Annual Report and Audited statement of accounts of the Company for the year ended March 31, 2007.

FINANCIAL RESULTS

Rs.in 000's

	Year Ended March 31, 2007		Year Ended March 31, 2006	
Income from Operations				
Gross		1,168,186		950,252
Net of Excise Duty		1,006,953		814,719
Other Income		7,690		21,033
Profit before Interest & Depreciation		77,596		64,654
Interest		21,642		17,396
Profit before Depreciation		55,954		47,258
Depreciation		14,300		15,889
Profit before tax		41,654		31,369
Taxation - Current Tax	9,300		3,850	
- Deferred Tax	3,000	12,300	1,350	5,200
Profit after Tax		29,353		26,169
Balance brought forward		6,756		5,166
Profit available for Appropriation		36,110		31,335
Appropriations:				
Transfers:				
To Special General Reserve	750		650	
To General Reserve	17,500		15,000	
Proposed Dividend				
On Equity Capital @ 12 %	7,831		7,831	
Tax on Distributed Profits	1,331		1,098	
		27,412		24,579
Balance carried forward		8,698		6,756
		36,110		31,335

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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 2006-2007. 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 year, the company recorded a growth of 23% in value terms and achieved the Rs.100 Crore Net sales revenue milestone. Though the sales growth was reasonable in value terms, it was only very marginally higher than the previous year in volume terms. This was due to the decision of the company to exit from the furniture segment resulting from diminishing margins and also to align the product range to capitalize on the prospects of the automotive sector and the development of new clients in this sector.

In this segment, the passenger car category continued to be the predominant application for your company's products. Thermoplastic Elastomer Compounds performed well with a growth of around 57% during the year under review. Marketing of third party products gained momentum during the first full year of activity with a sales of 152 MTs.

The prices of Polypropylene which is the primary raw material for your company, were very volatile during the year and reached record levels during May'06 to September'06. Though the company pursued price revisions with the customers, due to the time lag in receiving such increases, the margins were under pressure during most of the year. However, careful control of costs and replacement of furniture grades by automotive grades has resulted in better profitability from operations as compared to the previous year.

RESEARCH AND DEVELOPMENT, TECHNOLOGY ABSORPTION, ENERGY CONSERVATION ETC.

During the year under review, Research and Development efforts were channelised mainly to fine tune formulations and on the basis of these, your company's products have been shortlisted for some of the new offerings from the automotive OEMs that are slated for launch during 2007-08. These efforts help to offer compounds with higher performance properties to meet more stringent specifications as well as newer colour variants to achieve better aesthetics.

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.

EXPANSION PLANS

To cater to the increasing demand from existing customers and emerging potential of new entrants in the Pune hub for automotives, your company has decided to put up a new facility at Jejuri Industrial Estate, located approximately 60 kms. from Pune. This facility will have an initial capacity of 6000 TPA which will subsequently be scaled up.

Your company has also been shortlisted as the preferred supplier of Reinforced Thermoplastic Compounds for the "Small Car Project" of M/s. Tata Motors Limited. Your company is evaluating and taking steps to service this new application in an optimal manner.

The Capital expenditure on these projects is expected to be Rs. 15 Crores over the next two years.

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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, and have certified the same, as required under SEBI Guidelines. Such certificate is reproduced in **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.

A Declaration 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.

The Directors' Responsibility Statement as required under Section 217(2AA) of the Companies Act, 1956 is furnished in **Annexure - F** to this Report.

EMPLOYEE RELATIONS

Relations between the employees and the management continued to be cordial during the year. 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

Your Directors inform with regret, the sudden demise of Mr. T. Dulip Singh who was co-opted as an Additional Director by the Members at their Annual General Meeting held on 18th September, 2006. Mr. T. Dulip Singh was an eminent Attorney of Law of Chennai. The Board places on record the valuable services rendered by Mr. T. Dulip Singh during his tenure on the Board.

In accordance with the Articles of Association of the Company, Mr. Murali Venkatraman and Mr. V. Thirupathi, 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.

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 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

Your Directors wish to record appreciation of the continued unstinted support and co-operation from its customers, vendors, bankers and all other stakeholders. Your Company will continue to build and maintain strong links with its business partners.

Your Directors sincerely appreciate the high degree of professionalism, commitment and dedication displayed by employees at all levels. The Directors also place on record their gratitude to the Members for their continued support and confidence.

On behalf of the Board of Directors

V. SRINIVASAN
Chairman

Chennai
21st July, 2007

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ANNEXURE 'A' TO THE DIRECTORS' REPORT

(A) CONSERVATION OF ENERGY

Both the plants have initiated Energy conservation measures.

An additional Wind Energy Generator was installed to meet the additional energy requirements of the Pudukkottai plant.

(B) TECHNOLOGY ABSORPTION

(a) Research and Development (R & D)

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

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

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

(ii) Expenditure on R & D

(a)	Capital	:	—
(b)	Recurring	:	Rs. 34,15,745/-
(c)	Total	:	Rs. 34,15,745/-

(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 customer applications in this category.

Foreign Exchange Earnings & Outgo

Foreign Exchange Earnings Rs. 54,31,722/-
Foreign Exchange Outgo Rs. 16,43,02,126/-

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
21st July, 2007

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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

Hydro S & S Industries Limited believes in adopting Corporate Governance policies as a tool to achieve the corporate goal of enhancing stakeholders' value. The company practises transparency, empowerment with accountability, respect for people and environment, compliance with law and to follow fair business practices with all its stakeholders. These principles being followed since inception, have helped the company to build credibility with all its stakeholders

2) Board of Directors

Composition

The Board of Directors has a mix of Executive and Non-Executive Directors. The Board comprises two Whole-time Directors (the Managing Director and the Executive Director) and five Non-Executive Directors including the Chairman of the Board. Two of the five Non-Executive Directors are Independent Directors.

Except for the two whole-time Directors, all other Directors are liable to retire by rotation as per the Provisions of the Companies Act, 1956.

Board Meetings:

During the year 2006-07, the Board met four times on 21st April, 2006, 26th July, 2006, 31st October, 2006 and 1st February, 2007.

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, 2007:

Name of the Director	Category	Attendance Particulars		Number of other Directorships in Public Companies and Committee Memberships / Chairmanships		
		Board Meetings	Last AGM Held on 18-09-06	Directorships	Committee Memberships	Committee Chairmanships
Mr. V. Srinivasan	Chairman (Non-Executive) (Promoter)	2	Yes	5	2	—
Mr. Murali Venkatraman	Vice-Chairman (Non-Executive) (Promoter)	4	Yes	4	4	—
Mr. Babulal M. Varma	Independent	4	No	3	2	1
Mr. Narayan Sethuramon	Managing Director (Executive) (Promoter)	4	Yes	1	—	—
Mr. V. Thirupathi	Independent	4	Yes	7	3	1
Mr. S.K. Subramanyan	Whole-time Director (Director (Fin. & Admn.) & Co. Secy.	4	Yes	—	—	—
Mr. Dinshaw K Parakh	(Non-Executive) (Promoter)	3	Yes	5	—	—
Mr. T. Dulip Singh (*)	Independent	1	No	13	—	—

(*) Part of the Year. Ceased to be a Director w.e.f. 19.11.2006 owing to his demise.

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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 for their consideration and approval, wherever required. 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, if any
- 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 with any regulatory or statutory provision or listing requirements as well as shareholder services

3) Audit Committee

The Audit Committee was constituted in October, 2001. It now comprises three Non-Executive Directors - two of whom are independent. The Members of the Committee have exposure to finance, accounts, company law and general business practices.

The composition of the Audit Committee is as under:

A) Mr. V. Thirupathi, Chairperson

B) Mr. Babulal M. Varma

C) Mr. Murali Venkatraman

The terms of reference of the Audit Committee include:

a) To review financial statements and pre-publication announcements before submission to the Board.

b) To review the internal audit reports and action taken on the findings

c) To apprise the Board of the impact of accounting policies, accounting standards and legislation as applicable to the company

d) To hold periodical discussion with statutory auditors on the scope and content of audit

e) To review the Company's financial and risk management policies

During the financial year 2006-07, 4 Audit Committee Meetings were held on 21st April, 2006, 26th July, 2006, 31st October, 2006 and 1st February, 2007. The above meetings were attended by all the Audit Committee Members.

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