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Hydro S & S

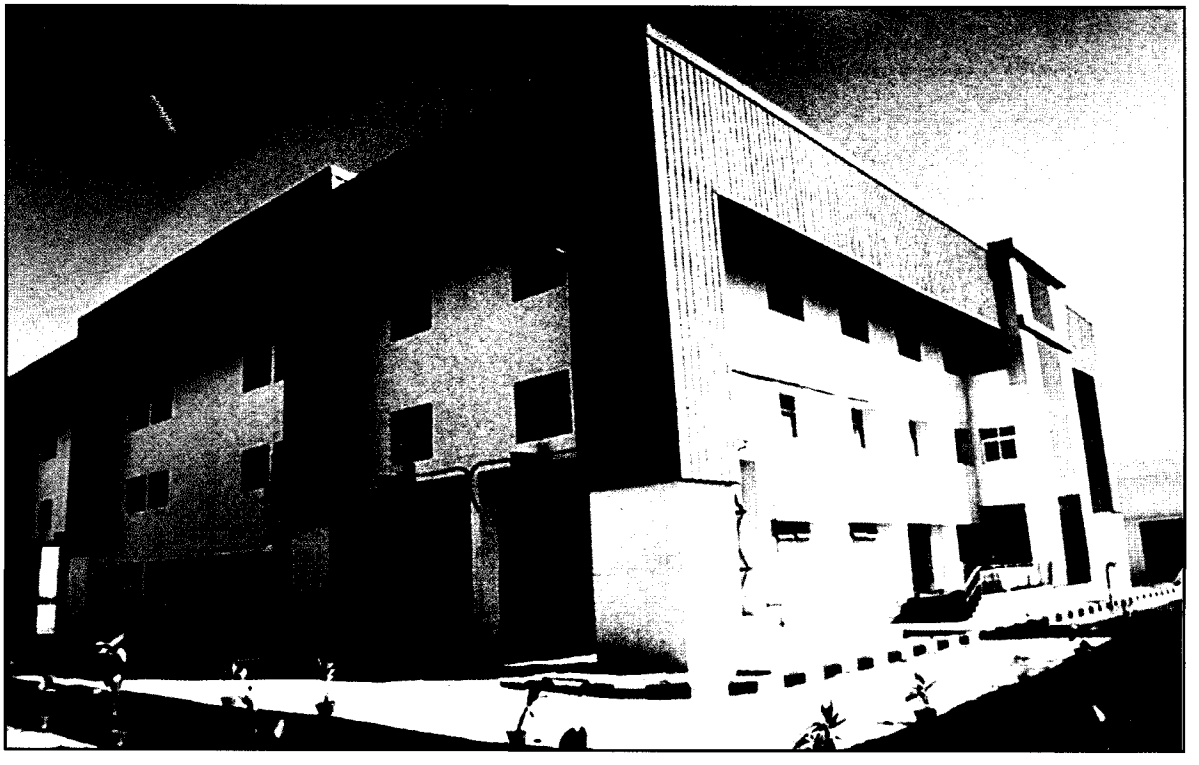
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Annual Report

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Our new manufacturing facility at Jejuri, Pune.



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Board of Directors

V. SRINIVASAN

MURALI VENKATRAMAN, ***Vice-Chairman***

BABULAL M. VARMA

V. THIRUPATHI

NARAYAN SETHURAMON

G. BALASUBRAMANYAN

DINSHAW KEKU PARAKH

S.K. SUBRAMANYAN, ***Director (Finance & Administration)***

Company Secretary **S.K. SUBRAMANYAN**

Works

Plot No. 15C, SIPCOT Indl. Complex, Pudukkottai - 622 002
RS No. 38/1, Sedarapet Industrial Area, Sedarapet, Puducherry - 605 111
RS No. 15/15, Vazhudavur Road, Kurumbapet, Puducherry - 605 009
G 34, Addl. Jejuri Industrial Area, Jejuri, Tal. Purandar, Pune – 412303

Registered Office

Dhun Building, III Floor,
827, Anna Salai, Chennai - 600 002
Telephone : 91-44 28521736 (4 lines)
Fax : 91-44 28520420
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 Towers, IInd Floor,
No. 1, Ramakrishna Street, North Usman Road,
T. Nagar, Chennai - 600 017
Telephone : 91-44 28140801 / 02 / 03
Fax : 91-44 28142479
E-mail : sureshbabu@iepindia.com

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FIVE - YEAR FINANCIAL DATA

(Rs. in Millions)

For the Year	2008-09	2007-08	2006-07	2005-06	2004-05
Sales : Domestic	1,337.835	1350.876	1153.099	921.524	816.146
Exports	—	0.154	5.432	20.847	7.574
Operating Profit (PBIDT)	42.958	128.933	77.596	64.654	35.249
Interest	48.298	32.512	21.642	17.396	12.245
Depreciation	20.565	15.617	14.300	15.890	13.851
Taxation - Current	0.660	23.100	9.300	3.850	0.750
- Deferred	(8.235)	4.091	3.000	1.350	4.650
Profit/(Loss) After Tax	(18.329)	53.613	29.353	26.168	3.753
As at the end of the Year					
Share Capital	65.104	65.256	65.256	65.256	65.256
Reserves & Surplus	181.636	200.286	155.834	135.643	118.403
Loan Funds	359.649	282.163	216.541	202.540	200.324
Gross Block	490.072	375.900	312.796	283.277	290.663
Net Current Assets	289.992	342.171	279.168	245.541	230.797
Measures of Investment					
Return on Capital Employed (%)	3.69%	20.69%	14.46%	12.08%	5.57%
Return on Equity (%)	(7.43%)	20.19%	13.28%	13.02%	2.04%
Earnings per Share (Rs.)	(2.82)	8.22	4.50	4.01	0.58
Dividend Cover (Times)	NA	6.85	3.75	3.34	0.48
Dividend (%)	NA	12	12	12	12
Book Value of an Equity Share	37.90	40.70	33.88	30.79	28.15
Of Performance					
- Profitability (%)					
Profit/(Loss) before Tax (%)	(2.19%)	6.93%	4.18%	3.89%	1.30%
Profit/(Loss) after Tax (%)	(1.55%)	4.60%	3.64%	3.24%	0.53%
- Capital Turnover (times)	2.21	2.47	2.65	2.34	2.15
- Stock Turnover (times)	8.43	6.44	9.15	8.17	6.99
- Working Capital Turnover (times)	4.61	3.95	4.15	3.84	3.57
Of Financial Status					
- Debt-Equity Ratio (times)	0.57:1	0.19:1	0.20:1	0.21:1	0.32:1
- Current Ratio	1.21:1	1.26:1	1.37:1	1.32:1	1.37:1
- Fixed Assets to Shareholders' Funds (times)	1.33:1	0.88:1	0.84:1	0.83:1	1.00:1

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DIRECTORS' REPORT

PART I – PERFORMANCE / OPERATIONS

Your Directors hereby present their 25th Annual Report along with Audited Accounts of the Company for the year ended March 31, 2009.

FINANCIAL RESULTS

(Rs. in 000's)

Particulars	Year Ended March 31, 2009		Year Ended March 31, 2008	
Income from Operations				
Gross		1,337,835		1,352,846
Net of Excise Duty		1,183,322		1,167,187
Other Income		3,572		2,944
Profit before Interest & Depreciation		42,958		128,933
Interest		48,298		32,512
Profit/(Loss) before Depreciation		(5,340)		96,421
Depreciation		20,565		15,617
Profit/(Loss) before tax		(25,904)		80,804
Taxation - Current Tax	660		23,100	
- Deferred Tax (Asset)	(8,235)		4,091	
		(7,575)		27,191
Profit/(Loss) after Tax		(18,329)		53,613
Balance brought forward		34,149		8,698
Profit available for Appropriation		15,820		62,311
Appropriations:				
Transfers to				
General Reserve	—		17,500	
Special General Reserve	—		1,500	
Capital Redemption Reserve	152		—	
Dividends on Equity Shares				
Interim paid	—		3,263	
Final proposed	—		4,568	
Tax on distributable profits	—		1,331	
		152		28,162
Surplus carried forward		15,668		34,149
		15,820		62,311

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BUSINESS OPERATIONS

Inspite of a 8% dip in volume, your Company's net sale for the year increased marginally. It is to be highlighted that the first half of the year saw a 20% growth in volumes. The raw material prices were very volatile increasing to all-time highs during the second quarter but the global meltdown caused them to slump thereafter. However this did not help the industry since they were holding high cost inventories due to sharp reduction in off-take during the second half. Furthermore, during the fourth quarter there was severe shortage of PP copolymers both in the domestic and International markets just when the sales were slightly improving. Operations were also impacted by the substantial power shortages at both Pudukottai and Puducherry resulting in greater use of high cost self generated power.

Your company commissioned the new manufacturing facility at Jejuri near Pune on 8th October 2008. With this expansion, your Company now has adequate capacity at its three manufacturing locations to serve the regional auto hubs in the south, west and north very effectively. Your Company has commenced regular supplies for the NANO car production.

The Pultrusion Division expanded its product portfolio with solutions for new applications. Additional production Infrastructure to offer flexibility of production was also set up.

Marketing of third party products was also impacted by the operating environment.

DIVIDEND

Due to the adverse business environment, the Operations of the Company have resulted in a net loss as explained in detail in the Management's discussion and Analysis Report. In order to conserve resources, your Directors regret that they are unable to recommend any dividend on the Equity Share Capital of the Company for the year under review.

RESEARCH AND DEVELOPMENT, TECHNOLOGY ABSORPTION, ENERGY CONSERVATION ETC.

During the year, the Research & Development successfully evolved compounds for the new models being launched by OEMs. They also focussed on cost reduction and alternate formulations to deal with non-availability of certain grades although these efforts were negated to a large extent in the spikes in the cost of raw materials.

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 and have certified the same, as required under SEBI Guidelines. Such certificate is reproduced in **Annexure – C** to this Report. The Whole Time Director and CFO certification is given in **Annexure – D** to this Report. A separate Management Discussion and Analysis Report on the Company's performance is given in **Annexure – E** to this Report.

A Declaration by Mr.S.K.Subramanyan (Whole Time Director) with regard to compliance of Company's Code of Conduct by the Board Members and Senior Management Personnel is furnished as **Annexure - F** to this Report.

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

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BUY-BACK

In order to optimize the EPS, improve the Return on Equity, provide an exit option to such shareholders who are desirous to do so and to enhance overall shareholders' value, the Board of Directors had approved a buy-back of Equity shares to the extent of 10% of the paid up Equity Share Capital and Free Reserves through the Stock Exchange mechanism.

The Company after obtaining the requisite approvals from the various statutory authorities, commenced the buy-back on 26th February, 2009. As on 31st March 2009, the Company had bought back and extinguished 15,221 Nos of Equity Shares. The Buy-back would be operational until 15th September, 2009 or when the Company completes the buy-back to the limit permitted, whichever is earlier.

EMPLOYEE RELATIONS

Relations between the Employees and the Management continued to be cordial during the year under review.

A fresh Long Term settlement was entered into between the Management and the Workmen of the Pudukottai plant. The settlement provides for incentivisation of savings through waste reduction and improvement in other specific plant related activities.

Since there are no employees who would come under the purview of Section 217(2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975, such particulars are not provided.

DIRECTORS

In line with the Company's philosophy on Corporate Governance, Mr.V.Srinivasan relinquished the position of Chairman of the Board with effect from 29th April, 2009. The Board has decided to elect one of the Independent Directors to chair each meeting of the Board of Directors.

Mr.Narayan Sethuramon relinquished the office of Managing Director with effect from 29th July 2009. He would continue to serve as a Non-Executive Director on the Board subject to retirement by rotation.

In accordance with the Articles of Association of the Company, Mr.Murali Venkatraman, Mr.Dinshaw K. Parakh and Mr. Narayan Sethuramon, Directors retire by rotation at the forthcoming Annual General Meeting of the Company and are eligible for re-appointment.

The term of Office of Mr. S.K. Subramanyan, Director (Finance & Administration) & Company Secretary expires on 30th September 2009. The Board has recommended his re-appointment for a further period of three years.

The necessary resolutions in this regard are being placed before the Shareholders for their approval.

MANAGEMENT

As Shareholders are aware, Mr. Narayan Sethuramon, Managing Director, has opted not to draw remuneration from the Company from 1st December 2007.

Your Directors wish to inform the Shareholders that in view of his increasing other commitments, Mr. Narayan Sethuramon, the Managing Director of the company stepped down from the position at the Board Meeting held on 29th July 2009. He continues as an ordinary Director on the Board.

Mr. Narayan joined the Board of your company on 18th May 1992 and has been actively associated with the executive leadership of the company, first as Director (Corporate Affairs) from July 1998 until 28th September 2002 and subsequently as Managing Director until July 2009. He has played a vital role in increasing the sales of the company from Rs. 23 crores for the year ended March 1997 to Rs.117 crores for the year ended March 2008. He contributed significantly to all the capacity expansions of the Company, diversity of R & D initiatives and implemented several system initiatives in supply chain, IT, production and HR.

The Board has acknowledged the efforts and role played by Mr. Narayan Sethuramon in the growth of the company over the last 15 years and placed on record its appreciation.

In order to strengthen the leadership and management team, the Company has appointed Mr. N.K. Ramaswamy as the Chief Executive Officer of the Company on 4th May 2009. Mr. Ramaswamy is an experienced industry professional with experience of over 20 years. Prior to joining HSSIL, he has been with several prestigious Companies such as GE plastics (SABIC).

At the Board level, Mr. Murali Venkatraman, Vice Chairman, who has been associated with the Company since inception and has also contributed enormously to its growth, will be playing a more active role in the overall leadership of the Company.

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FIXED DEPOSITS

The Company has not accepted any fixed deposits from the public within the meaning of Section 58A of the Companies Act, 1956.

AUDITORS

The Auditors of the Company, M/s. P. Srinivasan and Co., Chartered Accountants, Chennai 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 necessary resolution is being placed before the Shareholders for their approval.

ACKNOWLEDGEMENT

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

The 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.

For and on behalf of the Board of Directors

MURALI VENKATRAMAN
Vice-Chairman

Chennai
29th July, 2009

ANNEXURE - A TO THE DIRECTORS' REPORT

(A) CONSERVATION OF ENERGY

The Company continues to focus on energy efficiency and conservation measures in its lighting and plant operation practices.

(B) TECHNOLOGY ABSORPTION

(a) Research and Development (R & D)

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

Specific efforts are focussed on developing and fine tuning compounds to meet enhanced performance specifications sought by the OEM's for the new models under launch.

Attention also paid to the supply chain to reduce the cost of materials, to step up Import substitution, process flexibility and cycle time Reduction.

(ii) **Expenditure on R & D**

(a) Capital	:	Rs. 64,44,182.00
(b) Recurring	:	Rs. 54,89,645.00
Total	:	**Rs. 1,19,33,827.00**

(b) Technology Absorption, Adaptation and Innovation

Further applications are being implemented using the technology on TPE compounds.

Continuous development work is on to meet the requirements of customers in new model launches

Foreign Exchange Earnings & Outgo

Foreign Exchange Earnings Rs. 9,05,711/-
Foreign Exchange Outgo Rs. 26,81,28,506/-

The Company is taking continuous steps to develop export markets as appropriate to the nature of its products.

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

For and on behalf of the Board of Directors

MURALI VENKATRAMAN
Vice-Chairman

Chennai
29th July, 2009

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ANNEXURE - B TO THE DIRECTORS' REPORT

REPORT ON CORPORATE GOVERNANCE

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

1) Brief statement on company's philosophy on Code of Governance

The Company believes in adopting Corporate Governance policies as a tool to achieve the corporate goal of enhancing stakeholders' value. The cornerstones of this policy include 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.

The Company has adopted a code of conduct for Members of the Board and Senior Management Personnel. All Directors have affirmed in writing their adherence to the above code.

2) Board of Directors

Composition

The Board of Directors currently has a mix of Executive and Non-Executive Directors. The Board comprises of one Whole Time Director (the Executive Director) and Seven Non-Executive Directors. Three of the Seven Non-Executive Directors are Independent Directors.

Except the Executive Director, all other Directors are liable to retire by rotation as per the provisions of the Companies Act, 1956.

Board Meetings

During the year 2008-09, the Board met five times on 28th April, 2008, 28th July, 2008, 16th September, 2008, 31st October, 2008 and 27th January, 2009.

The following table gives the details of Attendance at Board Meetings and last AGM and details of Membership in other Boards and Committee Memberships as on 31st March, 2009:

Name of the Director	Category	No. of Board Meetings Attended	Attendance at the Last AGM	Directorships in other Boards		Committee* Memberships (inclusive of Hydro S & S)	
				Directorships	Chairmanships	Memberships	Chairmanships
Mr. V. Srinivasan	NI - NE	5	Yes	5	4	3	1
Mr. Murali Venkatraman	NI - NE	5	Yes	4	—	3	—
Mr. Babulal M. Varma	IN - NE	4	No	3	—	1	—
Mr. Narayan Sethuramon	NI - EX	5	Yes	1	—	—	—
Mr. V. Thirupathi	IN - NE	5	Yes	8	1	3	2
Mr. S.K. Subramanyan	NI - EX	5	Yes	—	—	—	—
Mr. Dinshaw K Parakh	NI - NE	5	Yes	3	—	—	—
Mr. G.Balasubramanyan	IN - NE	5	Yes	3	—	1	—

NI – Non Independent NE – Non-Executive EX – Executive IN – Independent

* As required under the Listing Agreement, Memberships of only Audit Committee and Share Transfer Committee have been included.

Mr. V. Srinivasan, Mr. Murali Venkatraman and Mr. Narayan Sethuramon are related to one another. None of the other Directors are related to one another.

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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 of 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, Chairman

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 appraise the Board on 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 2008-09, four Audit Committee Meetings were held on 28th April, 2008, 28th July, 2008, 31st October, 2008 and 27th January, 2009. The above meetings were attended by all the Audit Committee Members.

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