

Hydro S & S

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Annual Report

Annual Report
2003-2004



DET NORSKE VERITAS MANAGEMENT SYSTEM CERTIFICATE

Certificate No. CERT-05879-2003-AQ-HOU-IATF

IATF Certificate No. 0016320

Page 1 of 2

This is to certify that the Quality System
of

HYDRO S & S INDUSTRIES LIMITED

at

Dhun Building, 827, Anna Salai, Chennai, 600 002, India

Has been found to conform to Technical Specification:

ISO/TS 16949:2002 Second Edition

having been audited in accordance with the:

Rules for the registration scheme for ISO/TS 16949:2002 - First edition.

This Certificate is valid for the following products/service ranges:

**MANUFACTURE OF REINFORCED THERMOPLASTIC AND THERMOPLASTIC
ELASTOMERIC COMPOUNDS
(EXCLUDE CLAUSE: 7.3 PRODUCT DESIGN)**

Place and date:

Houston, Texas; 01 October 2003

For the Accredited Unit:
DET NORSKE VERITAS CERTIFICATION, INC.
Houston, TX USA

Doug Sutton
Management Representative
Det Norske Veritas Certification, Inc.



This certificate is valid until:

12 July 2006

Initial Certification Date:
24 September 2003

Ramanathan Siveramakrishnan

Ramanathan Siveramakrishnan
Lead Auditor

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

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

Chairman
Vice-Chairman
Director (upto 23.10.2003)
Director
Director
Managing Director
Director (w.e.f. 23.10.2003)
Director (Fin. & Admn.) & Co. Secy.

Works :

15C, SIPCOT Indl.Complex
Pudukkottai : 622 002

RS No. 38/1, Sedarapet Village
Villiyannur 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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Hydro S&S Industries Limited

FIVE-YEAR FINANCIAL DATA

(Rs. in Millions)

	2003-04	2002-03	2001-02	2000-01	1999-00
For the Year					
Sales : Domestic	683.846	546.478	447.058	441.123	415.507
: Exports	6.691	13.565	24.655	31.176	28.313
Operating Profit (PBIDT)	59.058	45.156	44.509	46.010	41.414
Interest	11.687	9.597	11.784	15.076	12.129
Depreciation	13.187	13.140	10.934	10.386	8.668
Taxation - Current	2.650	1.750	1.750	2.100	—
Deferred	2.250	1.682	0.964	-	—
Profit after Tax	29.284	18.987	19.077	18.448	20.901
As at the end of the Year					
Share Capital	65.281	65.281	67.781	70.281	72.781
Reserves & Surplus	132.432	103.148	93.245	106.709	95.890
Loan Funds	128.789	104.485	95.398	99.088	116.845
Gross Block	224.860	221.283	209.986	207.498	198.264
Net Current Assets	222.367	158.700	138.906	125.886	134.340
Measures of Investment					
- Return on Capital Employed (%)	12.99	10.76	12.03	13.07	11.62
- Return on Equity (%)	14.81	11.27	11.85	10.42	12.39
- Earnings Per Share (Rs.)	4.48	2.87	2.82	2.67	3.02
- Dividend Cover (Times)	3.31	2.09	2.92	2.96	3.77
- Dividend (%)	12	12	10	9	8
- Book Value of an equity share (Rs.)	28.94	25.81	24.67	27.12	25.84
Of Performance					
- Profitability (%)					
Profit before Tax (%)	5.76	4.64	5.33	4.35	4.64
Profit after Tax (%)	4.94	3.93	4.67	3.90	4.70
- Capital Turnover (times)	2.11	2.05	1.84	1.71	1.55
- Stock Turnover (times)	9.55	12.02	10.74	11.60	8.37
- Working Capital Turnover (times)	3.10	3.52	3.39	3.75	3.30
Of Financial Status					
- Debt-Equity Ratio (times)	0.10:1	0.13:1	0.16:1	0.20:1	0.31:1
- Current Ratio	1.61:1	1.53:1	1.64:1	1.58:1	1.64:1
- Fixed Assets to Shareholders Funds (times)	0.66:1	0.82:1	0.84:1	0.83:1	0.87:1

Hydro S&S Industries Limited

DIRECTORS' REPORT

PART I - PERFORMANCE / OPERATIONS

Your Directors have pleasure in presenting their Annual Report and the Audited Accounts for the year ended March 31, 2004.

FINANCIAL HIGHLIGHTS

	Rs.in 000's	
	Year Ended March 31, 2004	Year Ended March 31, 2003
Sales Turnover		
Gross	690,537	560,043
Net of Excise Duty	593,133	483,464
Profit before Interest & Depreciation	59,058	45,156
Interest	11,687	9,597
Profit before Depreciation	47,370	35,559
Depreciation	13,186	13,140
Profit before tax	34,185	22,419
Taxation – Current Tax	2,650	1,750
– Deferred Tax	2,250	1,682
Profit after Tax	29,285	18,987
Balance brought forward	5,911	6,009
Profit available for Appropriation	35,196	24,995
Appropriations:		
Transfers:		
To Special General Reserve	750	--
To General Reserve	15,000	10,000
Proposed Dividend		
On Preference Capital	--	250
On Equity Capital @ 12 %	7,831	7,831
Tax on Distributed Profits	1,003	1,003
Balance carried forward	24,584	19,084
	10,612	5,911
	35,196	24,995

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DIVIDEND:

Your Directors are pleased 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 2003-2004

The above dividend together with the distribution-tax thereon, has been provided for in the appropriation out of the profits of the Company.

INCOME TAX

Provision for Income-tax has been made under the Minimum Alternate Tax method (MAT) after considering the benefits available under the Backward Area Scheme.

The additional impact arising out of deferred taxation has also been suitably provided for.

BUSINESS OPERATIONS

During the year under review, the operations of your Company have registered a healthy improvement. The sales turnover registered a growth of 18% and 23% in volume and value respectively, as compared to the last financial year. This has been primarily achieved due to increase in sales of polypropylene compounds to the automobile segment.

The profitability of your Company has also shown improvement over the previous year with the Profit after Tax improving by 54% in spite of the pressure on sales prices and the steady increase in prices of PP resins encountered during the last financial year. The improvement in profitability has been achieved by strong emphasis on cost management and focus on higher value added products. Various Small Group Activities (SGA) have contributed in several areas with specific focus on waste reduction and energy consumption which has helped the Company reduce its operating costs. Your company was also successful in reducing certain maintenance costs.

Your company continues to benefit from its good relationship with major automobile manufacturers, who have sourced significant quantum of materials from us. Your company is closely associating with these organisations for the development and supply of compounds for their new models that are slated for launch during the current fiscal and forthcoming years.

Thermoplastic Elastomer compounds recorded a positive impetus during the year after several applications were approved, both by the automobile and non-automobile customers. Approvals from various other customers are expected for these compounds and the company hopes to substantially grow this business in the years to come.

RESEARCH & DEVELOPMENT

In line with the company's strategy to enter into the manufacture of higher value added products as well as to meet the higher performance requirements of some of the automotive OEM's, the company has invested substantially in new R & D equipment at both its plants, including an entire laboratory pilot plant. These facilities will also help the company provide increased value added services to its customers as well as greatly reduce the time to market for new products.

A detailed write up on the R & D activities undertaken by the Company is set out in Annexure A to this report.

FINANCE

The Rating Agency, M/s. ICRA Limited renewed the "A1" (Highest Safety) certification for the short term working capital requirements of your company for a higher quantum of Rs. 75 million.

Your company has also obtained a FCNRRB Loan to meet its short term working capital requirements at a competitive cost.

To meet the enhanced operational requirements, your company's bankers have increased their working capital limits. During the year, the consortium of lending banks to the company was restructured comprising of State Bank of India (as the leader) and Canara Bank.

Your company is using the ERP package installed during the previous year in all aspects of its operations and benefits have started to be realised with more effective information retrieval aiding quicker decision making.

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.

OUTLOOK

The automotive sector in India is expected to enjoy good growth during the current fiscal also. Your Company is closely involved with all the major automotive companies for their current and future models. Your Company is also working closely with companies manufacturing consumer goods for their projects involving Polypropylene compounds. The increasing purchasing power of the growing Indian Middle Class is translating into greater volumes of products using materials produced by your Company.

EXPANSION

Your Company is embarking on a substantial capacity expansion programme at its Pudukkottai works to meet the growing needs of its automotive customers. It is also proposed to install a 500 kW windmill to reduce the cost of power for the Pudukkottai plant. The estimated cost of both projects combined is around Rs. 65 million and necessary financial closure has been attained. The expansion is slated to be commissioned by September 2004.

INDUSTRIAL RELATIONS AND HUMAN RESOURCES MANAGEMENT

During the year, industrial relations at all the units of the company were cordial.

A number of initiatives were launched during the year involving workmen and supervisors to enhance skill levels. Family visits were also organised to enable family members to understand and appreciate the company's activities and its policies. Employees were deputed to various training programmes aimed at enhancing and improving their work efficiency.

CORPORATE MATTERS

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 detailing out the Company's performance is given in Annexure - D to this Report.

Directors' responsibility statement as required under Section 217 (2A) is furnished as Annexure - E to this Report.

DIRECTORS:

During the year, Mr. K.D. Parakh, one of the Founder Directors of your company resigned from the Board with effect from 23.10.2003. The Board wishes to place on record its appreciation of the valuable services rendered by Mr. Parakh during his tenure in office.

In the casual vacancy caused by the resignation of Mr. K.D. Parakh, Mr. Dinshaw Keku Parakh was co-opted as a Director with effect from 23.10.2003. Mr. Dinshaw Parakh

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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. Murali Venkatraman retires at the ensuing Annual General Meeting and being eligible, offers himself for re-appointment.

The Board has reappointed Mr. Narayan Sethuram as Managing Director for a further period of 5 years with effect from 28th September, 2004, subject to the approval of the shareholders.

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.

STATUTORY INFORMATION

There is no employee, particulars of whom are required to be furnished in terms of Section 217 (2A) of the Companies Act, 1956.

Particulars required under Section 217(1)(e) relating to Energy Conservation, Technology Absorption and Foreign Exchange Earnings and Outgo are furnished in a separate statement annexed to and forming part of this Report as Annexure 'A'. Cash flow statement as required under Clause 32 of the Listing Agreement is annexed.

APPRECIATION

Your Directors acknowledge and appreciate the support and co-operation received from the customers, suppliers, financial institutions, bankers, shareholders and other stakeholders 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

2nd June, 2004

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) Use of motors of a lower capacity, wherever possible
- b) Adding Capacitor banks to improve power factor

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 automotive and appliance sectors. Continuous efforts on cost reduction through value engineering and improvement in the processes are carried out utilising the capabilities within the company as well as accessing external agencies.

These developments have helped the company to reduce the unit costs of several products as well as develop products with very stringent technical specifications.

(iii) Expenditure on R & D

- | | |
|---------------|-------------------|
| (a) Capital | : Rs. 73,47,241/- |
| (b) Recurring | : Rs. 18,57,681/- |
| (c) Total | : Rs. 92,04,922/- |

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

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

Similar development projects work with various other potential customers are currently progressing.

Foreign Exchange Earnings & Outgo

Foreign Exchange Earnings	Rs. 66,91,197/-
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Foreign Exchange Outgo	Rs. 13,47,34,848/-
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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

2nd June, 2004

Hydro S&S Industries Limited

ANNEXURE - B**REPORT ON CORPORATE GOVERNANCE****(As required by Clause 49 of the Listing Agreement of the Stock Exchanges)****1) Company's Philosophy**

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 entrepreneurship along with responsibility thus resulting in building sustainable value and enhancing stakeholder confidence.

2) Board of Directors

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

b) Number of Board Meetings:

Six Board Meetings were held during the year ended 31st March, 2004. These were on 18th April, 2003, 4th July, 2003, 31st July, 2003, 23rd October, 2003, 12th December, 2003 & 28th January, 2004

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)	6	Yes	6	2
2.	Mr. Murali Venkatraman	Vice-Chairman (Non Executive Director) (Promoter)	6	Yes	4	4
3.	Mr. Narayan Sethuramon	Whole-time Director (Managing Director) (Promoter)	6	Yes	1	--
4.	Mr. K.D. Parakh (*)	(Non-Executive Director) (Promoter)	2 (*)	No	7	2 (*)
5.	Mr. Babulal M. Varma	Independent (Non-Executive Director)	5	Yes	4	2
6.	Mr. V. Thirupathi	Independent (Non-Executive Director)	6	Yes	8	2
7.	Mr. Dinshaw Keku Parakh (**)	(Non-Executive Director) (Promoter)	1 (**)	N A	4	--
8.	Mr. S.K. Subramanyan	Whole-time Director (Director (Fin.&Admn.) & Company Secretary)	6	Yes	--	--

(*) Notes:

(*) - Mr. K.D. Parakh ceased to be a Director w.e.f. 23.10.2003.

(**) - Mr. Dinshaw Keku Parakh was appointed as a Director w.e.f. 23.10.2003