

Hydro S & S

**Annual Report
2007 - 2008**

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Hydro S&S Industries Limited

Hydro S&S Industries Limited**Board of Directors****V. SRINIVASAN****Chairman****MURALI VENKATRAMAN****Vice-Chairman****BABULAL M. VARMA****Director****V. THIRUPATHI****Director****NARAYAN SETHURAMON****Managing Director****G. BALASUBRAMANYAN****Director****DINSHAW KEKU PARAKH****Director****S.K. SUBRAMANYAN****Director (Fin. & Admn.)****Company Secretary****S.K. SUBRAMANYAN****Works**15C, SIPCOT Indl. Complex
Pudukkottai - 622 002RS No. 38/1, Sedarapet Village
Villiyannur Commune, Puducherry - 605 111RS 15/15, Vazhudavur Road
Kurumbapet, Puducherry - 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 Towers, IInd Floor,
No. 1, Ramakrishna Street, North Usman Road,
T. Nagar, Chennai - 600 017
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FIVE - YEAR FINANCIAL DATA

(Rs. in Millions)

For the Year	2007-08	2006-07	2005-06	2004-05	2003-04
Sales : Domestic	1350.876	1153.099	921.524	816.146	683.846
Exports	0.154	5.432	20.847	7.574	6.691
Operating Profit (PBITD)	128.933	77.596	64.654	35.249	59.058
Interest	32.512	21.642	17.396	12.245	11.687
Depreciation	15.617	14.300	15.890	13.851	13.187
Taxation - Current	23.100	9.300	3.850	0.750	2.650
- Deferred	4.091	3.000	1.350	4.650	2.250
Profit After Tax	53.613	29.353	26.168	3.753	29.284
As at the end of the Year					
Share Capital	65.281	65.281	65.281	65.281	65.281
Reserves & Surplus	200.286	155.834	135.643	118.403	132.432
Loan Funds	282.163	216.541	202.540	200.324	128.789
Gross Block	375.900	312.796	283.277	290.663	224.860
Net Current Assets	342.171	279.168	245.541	230.797	213.534
Measures of Investment					
Return on Capital Employed (%)	20.69%	14.46%	12.08%	5.57%	14.05%
Return on Equity (%)	20.19%	13.28%	13.02%	2.04%	14.81%
Earnings per Share (Rs.)	8.22	4.50	4.01	0.58	4.49
Dividend Cover (Times)	6.85	3.75	3.34	0.48	3.74
Dividend (%)	12	12	12	12	12
Book Value of an Equity Share	40.70	33.88	30.79	28.15	28.94
Of Performance					
- Profitability (%)					
Profit before Tax (%)	6.93%	4.18%	3.89%	1.30%	5.76%
Profit after Tax (%)	4.60%	3.64%	3.24%	0.53%	4.94%
- Capital Turnover (times)					
- Capital Turnover (times)	2.47	2.65	2.34	2.15	2.11
- Stock Turnover (times)					
- Stock Turnover (times)	6.44	9.15	8.17	6.99	9.55
- Working Capital Turnover (times)					
- Working Capital Turnover (times)	3.95	4.15	3.84	3.57	3.23
Of Financial Status					
- Debt-Equity Ratio (times)					
- Debt-Equity Ratio (times)	0.19:1	0.20:1	0.21:1	0.32:1	0.10:1
- Current Ratio					
- Current Ratio	1.26:1	1.37:1	1.32:1	1.37:1	1.53:1
- Fixed Assets to Shareholders' Funds (times)					
- Fixed Assets to Shareholders' Funds (times)	0.88:1	0.84:1	0.83:1	1.00:1	0.69:1

Hydro S&S Industries Limited

DIRECTORS' REPORT**PART I - PERFORMANCE / OPERATIONS**

Your Directors have pleasure in presenting their 24th Annual Report and Audited Statement of Accounts of the Company for the year ended March 31, 2008.

FINANCIAL RESULTS

(Rs.in 000's)

	Year Ended March 31, 2008		Year Ended March 31, 2007	
Income from Operations				
Gross		1,352,846		1,168,186
Net of Excise Duty		1,167,187		1,006,953
Other Income		2,944		7,690
Profit before Interest & Depreciation		128,933		79,639
Interest		32,512		23,685
Profit before Depreciation		96,421		55,954
Depreciation		15,617		14,300
Profit before tax		80,804		41,654
Taxation - Current Tax	23,100		9,300	
- Deferred Tax	4,091	27,191	3,000	12,300
Profit after Tax		53,613		29,354
Balance brought forward		8,698		6,756
Profit available for Appropriation		62,311		36,110
Appropriations:				
Transfers to				
General Reserve	17,500		17,500	
Special General Reserve	1,500		750	
Dividends on Equity Shares:				
Interim Paid @ 5%	3,263		--	
Final Proposed @ 7%	4,568		7,831	
Tax on Distributable Profits	1,331		1,331	
		28,162		27,412
Surplus carried forward		34,149		8,698
		62,311		36,110

Hydro S&S Industries Limited

DIVIDEND

Your Directors recommend for your approval, payment of final Dividend @ 7 % after considering the operating results and outlook for the year. This is in addition to an interim dividend of 5% already paid to the Shareholders in February 2008. The above dividends, together with the distribution-tax / education cess thereon, have been provided for out of the profits of the Company for the year under review.

BUSINESS OPERATIONS

Your Company recorded a 17% growth in Sales value although the volume increase was marginal at 2%. This is primarily due to the completion of the restructuring of the product portfolio initiated last year by total exit from the furniture segment. The Company also exited from other low margin tolling activities & substituted production with other compounds with improved margins.

Your Company has also obtained approvals for supply of compounds required for the new models launched by its customers against stiff competition from both domestic and foreign companies who have set up production facilities in the country. This major achievement has demonstrated your Company's capability to face competition in all aspects.

Through appropriate procurement planning, the cost of PP was controlled at an optimal level and along with other operational interventions, helped in the improvement of margins.

The business of Thermoplastic Elastomer Compounds grew by 20% during the year. Attention is being given to widen the network of customers for these products. Marketing of third party products achieved 100% growth.

RESEARCH AND DEVELOPMENT, TECHNOLOGY ABSORPTION, ENERGY CONSERVATION ETC.

In the year under review , Research and Development successfully developed compounds to meet the stringent

specifications of the OEM's for the various new models launched and under launch. For this purpose, new testing equipments were added in our R & D facilities for In-house test and self certification. This development augurs well for future business in Car and Truck interiors.

Your Company has also initiated work in using new generation Technology in compounding and initial results are encouraging.

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 meet the growing demand for its products in the southern market, the Company doubled the capacity of its existing Puducherry facility.

The Pune facility at Jejuri Industrial Estate is fast nearing completion and the facility is expected to be commissioned shortly.

Steps have been taken for the additional facility in West Bengal to establish infrastructure as appropriate to service the needs of the customers in an efficient manner.

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 under review.

EMPLOYEE STATEMENT

As required under Section 217(2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975, a statement showing names and other particulars of employees of the Company, is annexed in **Annexure - G** to this Report.

DIRECTORS

In accordance with the Articles of Association of the Company, Mr. V.Srinivasan and Mr. Babulal M.Varma, Directors, retire by rotation at the forthcoming Annual General Meeting, and are eligible for re-appointment. The necessary resolutions in this regard are being placed before the Shareholders for their approval.

The Board at their meeting held on 6th September, 2007, appointed Mr.G.Balasubramanyan as an Independent Director of the Company to fill in the casual vacancy in terms of Section 262 of the Companies Act, 1956, holds such office until this Annual General Meeting. The Company has received a notice in writing pursuant to Section 257 of the Companies Act, 1956 from a member of the Company proposing his candidature for the office of Director of the Company liable to retire by rotation.

Mr. G. Balasubramanyan is a practicing Chartered Accountant and Financial Consultant who has been practising for several decades in Chennai. He is an advisor

to several leading Industrial groups. The Company is immensely benefited from his advice on Accountancy, Financial and Taxation matters. The necessary resolution for his appointment is being placed before the Shareholders for their approval.

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 Audit Committee of the Board has recommended their re-appointment. The necessary resolution is being placed before the shareholders for their 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.

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

V. SRINIVASAN
Chairman

Chennai
28th July, 2008

Hydro S&S Industries Limited**ANNEXURE 'A' TO THE DIRECTORS' REPORT****(ii) Expenditure on R & D****(A) CONSERVATION OF ENERGY**

Both the plants have initiated Energy conservation measures.

The new Wind Energy Generator installed during the last year has contributed 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 like superior scratch resistance and Antifogging and processing methodology to reduce line wastages.

(a) Capital	:	Rs. 2,552,537.00
(b) Recurring	:	Rs. 6,199,189.00
Total	:	Rs. 8,751,726.00

(b) Technology Absorption, Adaptation and InnovationStatus of Technology imported

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

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

Foreign Exchange Earnings & Outgo

Foreign Exchange Earnings	Rs.	—
Foreign Exchange Outgo	Rs.	286,585,042.00

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
28th July, 2008

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.

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 Six Non-Executive Directors including the Chairman of the Board. Three of the Six Non-Executive Directors are Independent Directors.

Except 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 2007-08, the Board met five times on 28th April, 2007, 21th July, 2007, 6th September, 2007, 24th October, 2007 and 31st January, 2008.

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, 2008:

Name of the Director	Category	No. of Board Meetings Attended	Attendance at the Last AGM	Membership in other Boards	Committee * Memberships (inclusive of Hydro S & S)
Mr. V. Srinivasan	NI - NE	4	Yes	5	2
Mr. Murali Venkatraman	NI - NE	5	Yes	4	3
Mr. Babulal M. Varma	IN - NE	4	No	3	1
Mr. Narayan Sethuramun	NI - EX	5	Yes	1	—
Mr. V. Thirupathi	IN - NE	5	Yes	7	2
Mr. S.K. Subramanyan	NI - EX	5	Yes	—	—
Mr. Dinshaw K Parakh	NI - NE	4	Yes	3	—
Mr. G.Balasubramanyan **	IN - NE	2	—	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.

** Appointed as Director on the Board to fill up the causal vacancy caused during the year with effect from 6th September, 2007.

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

Hydro S&S Industries Limited

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 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 2007-08, four Audit Committee Meetings were held on 28th April, 2007, 21st July, 2007, 24th October, 2007 and 31st January, 2008. The above meetings were attended by all the Audit Committee Members.

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

4) Remuneration Committee

The Remuneration Committee consists of three Non-Executive Directors, two of whom are 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 / Directors of the company as and when they come for review.

During the financial year 2007-08, three Remuneration Committee Meetings were held on 28th April, 2007, 21st July, 2007 and 24th October, 2007 and the attendance thereat are as follows.

Name of the Director	No. of Meetings	
	Held	Attended
Mr. Babulal M. Varma, Chairman	Three	Three
Mr. V. Thirupathi, Member	Three	Three
Mr. V. Srinivasan, Member	Three	Two

Remuneration of Directors

The compensation of the Whole-Time Directors comprises a fixed component plus commission / incentive. The Whole-Time Directors are not paid Sitting fees for any Board / Committee Meetings attended by them.

The Agreements with the Whole-time Directors are contractual in nature. The agreement may be determined at any time by either party giving six months notice in writing without any cause.

There are no stock options available / issued to any Director of the Company.

Details of Sitting fees paid to Non-Executive Directors are as follows:

Board Meetings	Rs. 2,000/-
Share Transfer and Investor Grievances Committee Meetings	Rs. 2,000/-
Audit Committee Meetings	Rs. 4,000/-
Remuneration Committee Meetings	Rs. 2,000/-

Commission @ 1% of the Net Profit is paid to the Vice-Chairman and to the Managing Director.

The details of the remuneration paid / payable to the Directors for the year 2007-08 together with the shareholding held by the Non Executive Directors as on 31st March, 2008 are as under: