

ANNUAL REPORT 2011 - 2012

Hydro S & S



A VIEW OF OUR STALL AT PLAST INDIA 2012

Board of Directors**V. SRINIVASAN****MURALI VENKATRAMAN, Vice-Chairman****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

G 34, Addl. Jejuri Industrial Area, Jejuri, Tal. Purandar, Pune - 412 303

RS No. 15/15, Vazhudavur Road, Kurumbapet, Puducherry - 605 009

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

Registrar & Share Transfer Agent

M/s. Integrated Enterprises (India) Limited
2nd Floor, Kences Towers,
No. 1, Ramakrishna Street,
North Usman Road,
T. Nagar, Chennai - 600 017.
Telephone : 91-44-28140801 - 03
Fax : 91-44-28142479
E-mail : corpserv@integratedindia.in

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FIVE - YEAR FINANCIAL DATA

(₹ in Millions)

For the Year	2011-12	2010-11	2009-10	2008-09	2007-08
Sales : Domestic	1,645.481	1,542.326	1,183.225	1,337.834	1350.876
Exports	1.567	0.427	1.933	0.001	0.154
Operating Profit (PBIDT)	91.004	86.498	71.142	42.958	128.933
Interest	65.561	46.509	47.526	48.298	32.512
Depreciation and amortisation expense	26.794	26.909	25.768	20.565	15.617
Taxation - Current	—	3.200	—	0.660	23.100
- Deferred	(1.600)	(0.600)	(2.000)	(8.235)	4.091
Profit/(Loss) After Tax	0.249	10.480	(0.152)	(18.329)	53.613
As at the end of the Year					
Share Capital	64.072	64.072	64.072	65.104	65.256
Reserves & Surplus	185.090	184.817	178.818	181.636	200.286
Loan Funds	428.816	427.580	353.068	359.649	282.163
Gross Block	513.185	528.565	499.920	490.072	375.900
Net Current Assets	403.818	388.332	305.582	289.992	342.171
Measures of Investment					
Return on Capital Employed (%)	9.47%	9.55%	7.61%	3.69%	20.69%
Return on Equity (%)	0.10%	4.21%	(0.06%)	(7.43%)	20.19%
Earnings per Share (₹)	0.04	1.64	(0.02)	(2.82)	8.22
Dividend Cover (Times)	—	2.73	NA	NA	6.85
Dividend (%)	—	6	NA	NA	12
Book Value of an Equity Share	38.89	38.85	37.91	37.90	40.70
Of Performance					
- Profitability (%)					
Profit/(Loss) before Tax (%)	(0.09%)	0.94%	(0.20%)	(2.19%)	6.93%
Profit/(Loss) after Tax (%)	0.02%	0.75%	(0.01%)	(1.55%)	4.60%
- Capital Turnover (times)	2.43	2.28	1.99	2.21	2.47
- Stock Turnover (times)	9.03	7.32	7.66	8.43	6.44
- Working Capital Turnover (times)	4.08	3.97	3.88	4.61	3.95
Of Financial Status					
- Debt-Equity Ratio (times)	0.40:1	0.53:1	0.55:1	0.57:1	0.19:1
- Current Ratio	1.08:1	1.18:1	1.24:1	1.21:1	1.26:1
- Fixed Assets to Shareholders' Funds (times)	1.19:1	1.28:1	1.29:1	1.33:1	0.88:1

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

Your Directors hereby present their 28th Annual Report alongwith Audited Statement of Accounts of the Company for the year ended March 31, 2012.

FINANCIAL RESULTS

(₹ in Lacs)

Particulars	Year Ended March 31, 2012		Year Ended March 31, 2011	
Revenue from Operations				
Gross		16,539.48		15,468.06
Net of Excise Duty		15,010.03		14,011.62
Other Income		14.36		12.14
Profit before Finance Costs & Depreciation and amortisation expense		910.04		864.98
Finance Costs		655.61		465.09
Profit before Depreciation and amortisation expense		254.43		399.89
Depreciation and amortisation expense		267.94		269.09
Profit / (Loss) before Tax		(13.51)		130.80
Taxation - Current Tax	—		32.00	
- Deferred Tax	(16.00)		(6.00)	
		(16.00)		26.00
Profit after Tax		2.49		104.80
Balance brought forward		102.32		144.84
Profit available for Appropriation		104.80		249.64
Appropriations:				
Transfers to				
General Reserve	—		100.00	
Special General Reserve	—		2.50	
Proposed Dividend				
On Equity Shares	—		38.44	
Tax on distributable profits	—		6.38	
		—		147.32
Surplus carried forward		104.80		102.32
		104.80		249.64

BUSINESS OPERATIONS

Revenue from operations recorded an increase of 7% over the previous year, though volumes remained flat. The year witnessed a turbulent business environment that moderated growth. The year started with optimism but as it progressed there were challenges with inflation, decelerating growth and worsening investment climate which adversely impacted consumer sentiments. The global economic environment was confronted with geo-political instability, Eurozone crisis, fluctuating global commodity prices etc.

Your Company had to deal with the challenges of a sharp depreciation of the Indian Rupee during the year coupled with a sharp increase in the prices of polypropylene during the last quarter. This has to be viewed in the context of extreme resistance from Customers to price revisions.

The financial statements have been prepared in compliance with the revised Schedule VI guidelines, notified by the Ministry of Corporate Affairs. Therefore, the previous year's figure have been regrouped / recast wherever necessary.

The Pultrusion Division continues to face the challenges of declining prices during the year due to surplus capacity pressures which resulted in a lower performance as compared to the previous year.

Detailed analysis of the Company's performance during the year is provided in Annexure - E to this Report.

DIVIDEND

During the year under review, the operations of the Company were impacted for various reasons as explained under the head 'Business Operations'. In view of the adverse financial results and to conserve resources for future growth, your Directors have not recommended any dividend on the Equity Shares for the year under review.

EXPANSION PLANS

Your Company had embarked on a aggressive market development strategy to increase the share of its business in the automotive segment and we hope to see the benefit of these initiatives in the current year.

With this market dynamics, a capacity balancing needs to be implemented in order to serve the existing customers and new entrants in a much more efficient manner. Hence, your Company had decided to put up a new facility at Manesar in the State of Haryana. This facility will have an initial capacity of 3000 TPA.

ENVIRONMENT, HEALTH AND SAFETY

Your Company is conscious of the importance of environmentally clean and safe operations. Your Company's policy require the conduct of all operations in such a manner so as to ensure safety of all concerned, compliance of statutory and industrial requirements for environment protection and conservation of natural resources to the extent possible.

EMPLOYEE RELATIONS

Various HR initiatives are continuously taken to align the HR policies to the growing requirements of the business. Your Company has a structured induction process at all locations and Management Development Programmes to upgrade skills of Managers. Technical and Safety training programmes are given periodically to workers. Industrial relations remained generally cordial.

PART II - CORPORATE MATTERS

CORPORATE GOVERNANCE

Your Company continues to be committed to Governance aligned with good management practices.

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.

DIRECTORS

Your Directors, Mr.Dinshaw K Parakh and Mr.Narayan Sethuramon retire by rotation at the forthcoming Annual General Meeting of the Company and being eligible, offer themselves for re-appointment.

The term of Office of Mr.S.K.Subramanyan as Whole Time Director [Director (Finance & Administration) & Company Secretary] expires on 30th September 2012. 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.

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.

STATUTORY INFORMATION

The provisions of Section 217(2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975, as amended, are not applicable since there is no employee drawing remuneration more than ₹ 60,00,000/- per annum (full year) or ₹ 5,00,000/-p.m (part of the year).

Particulars required under Section 217(1)(e) of the said Act 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.

All the dividends of the earlier years, which have remained unclaimed, have since been transferred to the Investor Education and Protection Fund at the expiry of the specified period(s) as required under Section 205C of the Companies Act, 1956. Details of dividends remaining unclaimed as on 31.03.2012 are as under :

Year	Date of declaration	No. of Shareholders	Total Unclaimed Dividend (₹)	Due date for transfer to IEPF Account
2004 - 2005	28.09.2005	82	74,304.00	08.10.2012
2005 - 2006	18.09.2006	46	32,040.00	28.09.2013
2006 - 2007	13.09.2007	515	1,60,553.00	20.10.2014
2007 - 2008 (Interim)	31.01.2008	568	41,224.00	08.03.2015
2007 - 2008 (Final)	16.09.2008	569	54,305.70	22.10.2015
2008 - 2009	No Dividend declared	N.A.		
2009 - 2010	No Dividend declared	N.A.		
2010 - 2011	29.09.2011	738	62,827.20	05.11.2018

FIXED DEPOSITS

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

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

Place : Chennai
Date : 4th June, 2012

V.THIRUPATHI
Chairman of the Meeting

MURALI VENKATRAMAN
Vice - Chairman

ANNEXURE - A TO DIRECTORS' REPORT

Information pursuant to Section 217(1)(e) of the Companies Act, 1956, read with Companies (Disclosures of Particulars in the Report of Board of Directors) Rules, 1988.

(A) CONSERVATION OF ENERGY**(a) Energy Conservation measures taken:**

Energy Conservation and efficiency continues to be in focus. Wherever applicable the company has upgraded equipment to more energy efficient type.

Manufacturing was realigned arising from power cuts in Tamil Nadu to improve optimal energy consumption and costs.

(b) Additional measures taken for reduction of consumption of energy:

Efficiency measures introduced in the production lines to improve energy consumption by 10%.

Harmonic filters for 300 KW frequency drives have been installed and this reduces higher harmonics that pollutes the power and reduces the heat losses in the system apart from bringing power factor to close unity in-turn reduces the total current and hence energy loss in the system.

By installing higher capacity cooler, the external cooling water pump was eliminated and gravity flow of water from tank is used in the cooling circuit.

(B) TECHNOLOGY ABSORPTION**(a) Research and Development (R & D):****(i) Specific areas in which R & D carried out by the Company**

The R&D efforts are directed towards meeting the evolving requirements of key industry, the Auto OEM's and appliances. Property enhancements like higher gloss, lower wall thickness, highly stiff and dimensionally stable compounds with low CLTE are the focus to support the customers drive for sleek design and cost reduction.

(ii) Expenditure on R & D (₹ in Lacs)

(a) Capital	—	45.53
(b) Recurring	—	167.98
Total	—	213.51

(b) Technology Absorption, Adaptation and Innovation:

Innovative formulation and blending techniques for manufacturing our compounds have given us openings in moving up the value chain. Good customer response has been the result.

(c) Imported Technology : Not applicable**(C) FOREIGN EXCHANGE EARNINGS & OUTGO (₹ in Lacs)**

Foreign Exchange Earnings	—	73.20
Foreign Exchange Outgo	—	2,982.19

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 forming part of Financial Statements.

For and on behalf of the Board of Directors

Place : Chennai
Date : 4th June, 2012

V.THIRUPATHI
Chairman of the Meeting

MURALI VENKATRAMAN
Vice - Chairman

ANNEXURE - B TO DIRECTORS' REPORT

REPORT ON CORPORATE GOVERNANCE

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

1) **Brief statement on Company's Philosophy on Code of Governance.**

The Company believes in usage of appropriate Corporate Governance policy to achieve the corporate goal of enhancing stakeholder 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 one Whole Time Director (the Executive Director) and Six Non-Executive Directors. Two of the Six 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.

Meetings

During the year 2011-12, the Board met four times on 12th May, 2011, 21st July, 2011, 2nd November, 2011 and 24th January, 2012. The last AGM was held on 29th September, 2011.

The following table gives the details of category of Board of Directors and their attendance at Board Meetings and last AGM and details of Memberships in other Boards and Board Committees as on 31st March, 2012.

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

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

Membership in Executive and Governing Councils are not included.

* As required under the Listing Agreement, Memberships / Chairmanships of only Audit Committee and Share Transfer and Investors' Grievances 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.

Board Procedure

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

Terms of reference

The Audit Committee of the Company functions under the mandate stipulated under Clause 49 of the Listing Agreement and the Companies Act, 1956 which includes reviewing and taking corrective actions as and when required, in consultation with the Internal Auditors.

The Committee's scope includes the following:

- a) Critically examining the Company's Financial Reporting process and disclosure of Financial Information to ensure the adequacy and credibility of the Financial Statements.
- b) Reviewing with Management and Auditors, the Quarterly, Half-yearly and Annual Financial Statements before their submission to the Board.
- c) Reviewing the adequacy of internal control systems, findings of Internal Audit and the actions taken thereof.

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, Chairman
- B) Mr. Murali Venkatraman
- C) Mr. G.Balasubramanyan