



Sundram Fasteners Limited

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ANNUAL REPORT

**for the year ended
31st March 2006**

Sundram Fasteners Limited

BOARD OF DIRECTORS

Sri SURESH KRISHNA
Chairman & Managing Director

Ms ARATHI KRISHNA
Executive Director

Sri K RAMESH

Sri VENU SRINIVASAN

Sri V NARAYANAN

Sri R SRINIVASAN

Sri R RAMAKRISHNAN

Sri C V KARTHIK NARAYANAN

SECRETARY

Sri V G JAGANATHAN

BANKERS

UNITED BANK OF INDIA

STATE BANK OF MYSORE

STANDARD CHARTERED BANK LTD

HDFC BANK LTD

ICICI BANK LTD

CANARA BANK

AUDITORS

M/s SUNDARAM & SRINIVASAN

Chartered Accountants, 23 C P Ramaswamy Road

Alwarpet, Chennai 600 018

REGISTERED OFFICE

98A Dr Radhakrishnan Salai, Mylapore, Chennai 600 004

Telephone : 044 - 28478500 Fax : 044 - 28478510

Website : www.sundram.com

FACTORIES

(In India)

Padi, Chingleput District, Chennai 600 050, Tamil Nadu

Harita, Krishnagiri District, Hosur 635 109, Tamil Nadu

Krishnapuram, Virudhunagar District, Aviyur 626 160, Tamil Nadu

Mittamandagapet Village 605 106, Villupuram District, Tamil Nadu

47/2A Poonamalle High Road, Velappanchavadi 600 077, Tamil Nadu

C-9, Industrial Estate Ambattur, Chennai 600 058, Tamil Nadu

F2, 8, 10, 21, 22, 25, 26 and B32

SIPCOT Industrial Estate, Gummidipoondi 601 201, Tamil Nadu

Korkadu Village, Nettapakkam Commune, Bahur Taluk 605 110 Pondicherry

Bonthapally Village, Medak District, Andhra Pradesh 502 313

FACTORIES

(In India through subsidiaries)

222, 266, 298 and 428 SIDCO Industrial Estate,

Ambattur, Chennai - 600 098, Tamil Nadu

Harita, Krishnagiri District, Hosur 635 109, Tamil Nadu

FACTORIES

(Outside India - through subsidiaries)

Sundram Fasteners (Zhejiang) Limited

No 1 Sundram Road, Wuyuan Town,

Haiyan county, Jiaxing city, Zhejiang Province, China 314 300

Cramlington Precision Forge Limited,

Unit 8, Atley Way, North Nelson Ind. Estate

Cramlington, United Kingdom NE23 9WA

Sundram RBI Sdn. Bhd. (formerly RBI Autoparts Sdn. Bhd.)

No 7, Jalan Teras 2, Kawasan Industri Teras, 43300 Balakong

Selangor, Malaysia

Peiner Umformtechnik GmbH, Woltorfer Str.20-24 D-31224 &

Postfaeh 1649-D-31221, Peine, Germany

Sundram Fasteners Limited

FINANCIAL HIGHLIGHTS

Particulars	2005-06	2004-05	2003-04	2002-03	2001-02	2000-01	1999-00	1998-99	1997-98	1996-97
Operating results - Rs lakhs										
Sales	118,185	103,724	77,429	51,943	43,317	42,421	43,191	34,396	32,618	34,686
EBIDT	15,312	13,197	10,223	8,536	6,712	6,565	7,654	5,777	5,707	6,430
Interest and Exchange loss/(gains)	2,958	586	(552)	610	1,297	1,672	1,408	1,467	1,892	2,133
EBDT	12,354	12,611	10,776	7,926	5,415	4,893	6,246	4,310	3,815	4,297
Depreciation	2,739	2,333	1,977	1,299	1,322	1,195	1,115	1,026	952	762
EBIT	12,573	10,864	8,246	7,237	5,390	5,370	6,539	4,751	4,755	5,668
Profit before tax	9,615	10,279	8,798	6,627	4,093	3,698	5,131	3,284	2,863	3,535
Tax	3,422	3,339	3,008	2,088	1,172	820	869	330	310	330
Profit after tax	6,193	6,940	5,790	4,539	2,921	2,878	4,262	2,954	2,553	3,205
Financial status - Rs lakhs										
Net fixed assets	35,235	31,786	25,867	19,535	18,424	17,442	17,600	16,094	14,661	14,086
Investments	7,215	2,160	2,021	3,369	3,341	3,292	3,288	301	258	257
Net current assets	39,670	31,665	22,039	12,443	11,887	12,556	11,091	9,360	9,278	9,579
Share capital	1,051	1,051	1,051	1,021	1,021	1,021	1,021	1,021	1,021	1,021
Reserves and surplus	31,337	27,148	22,241	20,309	17,153#	18,935	16,848	13,833	11,675	9,671
Net worth	32,387	28,199	23,292	21,330	18,174	19,956	17,870	14,855	12,696	10,692
Loan funds	43,860	32,056	21,754	9,504	11,734	13,334	14,110	10,901	11,501	13,230
Deferred Tax Liability	5,873	5,356	4,881	3,906	3,744	-	-	-	-	-
Total capital employed	82,120	65,611	49,927	34,740	33,652	33,290	31,980	25,756	24,197	23,922
Performance parameters - %										
EBIDT to Sales	13.0	12.7	13.2	16.4	15.5	15.5	17.7	16.8	17.5	18.5
EBIT to Sales	10.6	10.5	10.6	13.9	12.4	12.7	15.1	13.8	14.6	16.3
PBT to Sales	8.1	9.9	11.4	12.8	9.4	8.7	11.9	9.5	8.8	10.2
EBIDT/Average capital employed [ROCE]	20.7	22.8	24.1	25.0	20.1	20.1	26.5	23.1	23.7	29.8
EBIT / Average capital employed	17.0	18.8	19.5	21.2	16.1	16.5	22.7	19.0	19.8	26.3
PAT/Avg net worth	20.4	27.0	26.0	23.0	15.3	15.2	26.0	21.4	21.8	34.2
Bonus issue	-	-	-	-	-	-	-	-	-	-
Earnings per share - Rs	5.92*	6.61*	5.51*	44.43	28.59	28.17	41.73	28.92	25.00	31.38
Dividend per share- Rs	1.70*	1.70*	1.40*	12.00	10.00	7.00	11.00	7.00	5.00	5.00
Dividend payout ratio	28.81	25.76	25.41	27.01	34.98	24.85	26.36	24.20	20.00	15.93
Book value per share-Rs	30.83*	26.83*	22.16*	208.91	177.92	195.38	174.94	145.41	124.28	104.66
Market value per share-Rs	169.30*	109.45*	87.05*	362	236	215	550	350	346	615

After considering transfer of Rs 3,681 Lakhs on account of initial adoption of Deferred Tax Liability

* On face value of Re 1 each

Note: 1 Lakh = Rs.100,000

Ten Lakhs = One Million

Ten Millions = One Crore

REPORT OF THE DIRECTORS TO THE SHAREHOLDERS

The Directors are pleased to present the Forty Third Annual Report together with the audited accounts for the year ended 31st March 2006.

FINANCIAL RESULTS

	Rs lakhs	
	2005-2006	2004-2005
Sales – Domestic (including excise duty)	85,852.71	77,612.38
– Exports	32,332.57	26,111.29
	<u>118,185.28</u>	<u>103,723.67</u>
Gross Profit before interest, depreciation, extra-ordinary items and taxes	15,311.99	13,393.49
Less : Interest	1,701.07	782.61
Exchange Losses/(Gains)	1,257.01	(196.86)
Depreciation	<u>2,738.55</u>	<u>2,332.50</u>
	5,696.63	2,918.25
Profit before extra-ordinary items and tax	9,615.36	10,475.24
Less : Extra-ordinary items - compensation paid to employees under Early Retirement Scheme	–	196.13
	<u>9,615.36</u>	<u>10,279.11</u>
Less : Provision for taxation including earlier years	3,390.51	3,339.48
Profit after tax	6,224.85	6,939.63
Add : Balance brought forward	2,786.25	1,875.46
Add : Transfer from Investment Allowance (Utilised) Account	–	2.91
	<u>9,011.10</u>	<u>8,818.00</u>
Appropriations		
Interim Dividend	893.05	735.45
Tax on Interim Dividend	125.25	98.31
Second Interim Dividend	893.05	1,050.64
Tax on Second Interim Dividend	125.25	147.35
Transfer to General Reserve	4,000.00	4,000.00
Balance carried forward	2,974.50	2,786.25
	<u>9,011.10</u>	<u>8,818.00</u>

PROFITS

Export Sales of the Company, during the year ended 31st March 2006 were higher at Rs 32,332.57 lakhs. Exports have contributed significantly to the profits.

DIVIDEND

The Directors have decided to pay a second interim dividend of Rs 0.85 per share of face value Re 1 each, which together with the interim dividend of Rs 0.85 declared and paid earlier would amount to a total dividend for the year of Rs 1.70 per share of Re 1 each similar to the total dividend of Rs 1.70 per share of Rs 10 each paid in the previous year. Interim dividend disbursed amounted to Rs 893.05 lakhs. Second interim dividend will also absorb a total amount of Rs 893.05 lakhs. The directors do not recommend any final dividend.

AWARDS

Padma Shri Award

Sri Suresh Krishna, Chairman and Managing Director, has been conferred with Padma Shri Award, a high civilian honour, by the Government of India, to coincide with India's 57th Republic Day celebrations.

Sundram Fasteners Limited

ACMA Award

During the year, Krishnapuram Unit and Autolec Division of the Company have received Manufacturing Excellence Awards from Automotive Component Manufacturers Association (ACMA) for 2004-05.

TPM Excellence Award 2005

In recognition of outstanding achievements in modernisation of technologies / approaches of plant maintenance the Metal Form Division of the Company and Fasteners Unit of Pondicherry have been awarded for Excellence in Consistent TPM Commitment from Japan Institute of Plant Maintenance.

SUBSIDIARY COMPANIES

During the year, Sundram Fasteners Limited (SFL) had acquired 100% share capital of Peiner Umformtechnik GmbH, Germany, from Textron Deutschland Beteiligungs GmbH, Germany, thus making it a wholly owned subsidiary of SFL, effective 1st January 2006.

SFL had set up a 100% Export Oriented Unit at Hosur, by investing 76% of the Equity Capital in Sundram Bleistahl Limited. Bleistahl Produktions GmbH and Co KG, Germany holds 24% of the Equity Capital of Sundram Bleistahl Limited.

Aplomb Investments Limited (AIL), a subsidiary of the Company, with effect from 17th January 2006 has been renamed as Upasana Engineering Limited (UEL).

RBI Autoparts Sdn. Bhd., Kuala Lumpur, Malaysia has been renamed as Sundram RBI Sdn. Bhd.

STATUTORY STATEMENTS

The amount of deposits held by the Company as at 31st March 2006 was Rs. 265.48 lakhs. Deposits which matured during the year were either renewed or repaid on due dates with the exception of 12 deposits amounting to Rs. 1.04 lakhs which remained unclaimed.

Statement relating to the subsidiary companies viz. Sundram Fasteners Investments Limited, Upasana Engineering Limited (formerly Aplomb Investments Limited), Sundram Non-Conventional Energy Systems Limited, Sundram Bleistahl Limited, TVS International Inc., Sundram International Inc. Sundram Fasteners (Zhejiang) Limited, Cramlington Precision Forge Limited, Sundram RBI Sdn. Bhd (formerly RBI Autoparts Sdn. Bhd) is attached pursuant to Section 212 of the Companies Act, 1956.

The information required under Section 217(1)(e) of the Companies Act, 1956, read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 is given in the Annexure to this report.

The information required under the provisions of Section 217(2A) of the Companies Act, 1956 and the rules made thereunder, is given in the annexure appended hereto and forms part of this report. In terms of Section 219(1)(b)(iv) of the Act, the Report and Accounts are being sent to the Members excluding the aforesaid annexure. Interested Members may write to the Company Secretary, at the Registered Office of the Company, for obtaining a copy of the said annexure.

CONSOLIDATED FINANCIAL STATEMENTS

As required by Accounting Standard - AS 21 on Consolidated Financial Statements issued by The Institute of Chartered Accountants of India, the audited Consolidated Financial Statements of the Company are attached.

In the context of mandatory requirement to present consolidated accounts, which provides members with a consolidated position of the Company including its subsidiaries and associates, members are being provided with the accounts and reports of the Company treating these as abridged accounts as contemplated under Section 219 of the Companies Act, 1956. The Company has obtained permission from Central Government under Section 212(8) of the Companies Act, 1956 exempting the Company from attaching a copy of the Balance sheet, Profit and Loss account and other documents of the subsidiary companies. The accounts, reports and other documents of the subsidiary companies will be made available to the members upon receipt of a written request from them. These documents will also be made available to the members through

SEBI-EDIFAR website (www.sebiedifar.nic.in). This will help the Company save considerable costs in connection with printing and mailing.

CORPORATE GOVERNANCE

As per Clause 49 of the Listing Agreement with the Stock Exchanges, a separate report on Corporate Governance and Management Discussion and Analysis together with a certificate from the Company's Auditors confirming the compliance of conditions of Corporate Governance is attached to this report.

DIRECTORS' RESPONSIBILITY STATEMENT

The Directors confirm that :

1. in the preparation of annual accounts, the applicable accounting standards have been followed.
2. appropriate accounting policies have been selected and applied consistently, and judgements and estimates that have been made are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit of the Company for that period.
3. proper and sufficient care has been taken for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities.
4. the annual accounts have been prepared on a going concern basis.

DIRECTORS

Ms Arathi Krishna and Sri C V Karthik Narayanan were appointed by the Board of Directors as additional directors and hold office upto the date of the forthcoming Annual General Meeting. Your approval is sought for their appointments.

Sri K Ramesh and Sri R Srinivasan retire from the Board by rotation and being eligible offer themselves for re-appointment.

AUDITORS

The Auditors, M/s Sundaram & Srinivasan, Chartered Accountants, Chennai, retire and are eligible for re-appointment.

INDUSTRIAL RELATIONS

The industrial relations continued to remain congenial during the current year. The Directors thank the employees for their contribution to the progress of the Company.

GENERAL

The Directors wish to thank the Chinese Authorities, Officers of Haiyan County, Jiaxin City, Zhejiang province, Chinese tax and other administrative authorities for the support extended to Sundram Fasteners (Zhejiang) Limited.

The Directors wish to thank One North East, the Regional Development Authority for Cramlington, United Kingdom for the continued support extended to the Subsidiary.

The Directors wish to thank the Company's bankers, State Electricity Boards in Tamil Nadu, Pondicherry and Andhra Pradesh, customers and vendors, for all the assistance rendered by them from time to time.

On behalf of the Board

Chennai
June 17, 2006

SURESH KRISHNA
Chairman & Managing Director

Sundram Fasteners Limited

ANNEXURE TO DIRECTORS' REPORT

INFORMATION AS REQUIRED UNDER SECTION 217(1)(e) OF THE COMPANIES ACT, 1956

A. Conservation of Energy

a. Measures taken:

1. Installation of Fanless cooling tower
2. Variable Frequency Drive for screw compressor
3. Thyristor drive instead of contactor type in Bell furnace
4. Aquatherm in place of thermo pac for Bath heating of phosphating
5. Installation of energy efficient and higher capacity Sintering Furnace

b. Additional Investments and proposals being implemented:

Total investment on the above measures was around Rs. 50 lakhs. The Company has initiated steps to save energy by the adoption of energy saving practices

c. Impact of the above measures:

The above measures have resulted in energy saving in consumption of fuel and power besides improving operational efficiency.

B. Technology Absorption

Research and Development (R & D) :

1. Specific areas in which R & D is carried out by the Company and the benefits derived there from:

The company had set up R & D centre at its Padi facility mainly to focus on Development of new fasteners, development of new processes, support customer in their application requirements, development of new materials etc.

2. Other areas in which R & D is carried out by the Company:

1. Development of

- a) "ALL METAL LOCK" Bolt
- b) Shaft for Turbochargers
- c) Neck rolling process for fasteners
- d) Process to manufacture knurls in forging operation
- e) Cold forging of TAPER on ball pins
- f) Functionally graded compaction of Powder Metal parts
- g) High performance synchronizer hubs

2. Future plan of action:

- a) Development of Torque Tension relationship for different surface treatments on fasteners.
- b) Development of socket thread cap screw with flange
- c) Development of Hex chrome free zinc plating
- d) Development of split die forging
- e) Development of high density powder metal parts
- f) Development of process for hardening of Powder Metal, Cold Extrusion and Hot Forged parts with forced convective cooling.

3. Expenditure on R & D:

The Company has incurred expenditure amounting to Rs.172.24 lakhs (Capital expenditure – Rs.7.59 lakhs and revenue expenditure – Rs.164.65 lakhs) towards Research and Development.

Technology absorption, adaptation and innovation :

1. Efforts, in brief, made towards technology absorption, adaptation and innovation:

- a) The Company has retained the accreditation of its quality systems being in line with ISO 9001 –2000.
- b) During the year, National Institute of Standards and Technology of the U.S. Department of Commerce granted accreditation to Krishnapuram Unit of the Company for specific test methods in fasteners and metals under its National Voluntary Laboratory Accreditation Program. Similar certification has already been obtained by Padi unit during 1997-98.
- c) The Company's collaboration with Japan Institute of Plant Maintenance for implementation of Total Productive Maintenance (TPM) continued during the year. Achievement and maintenance of excellence are non-stop activities, more so in a dynamic business environment.
- d) During the year, the Company's Factories at Pondicherry and Hosur won the TPM Consistency award, the recognition granted only to factories, which have maintained and improved their operating performance after winning the TPM Excellence Award. The Factories at Padi and Krishnapuram won the same award during 2004-05. The award has been given after stringent audits by internationally renowned consultants.

2. Benefits derived as a result of the above efforts:

- a) TPM is expected to improve productivity and result in considerable reduction in machine downtime, improvement in productivity and cost saving, enabling the Company to gain and retain the competitive edge in the global arena.
- b) Constant updation of the Quality Management Systems has equipped the Company better to meet the stringent ISO 9000 and QS 9000 standards.

C. Foreign Exchange Earnings and Outgo:

1. Exports during the year under review grew to Rs. 323.33 crores. All exports of the Company are directed towards the hard currency areas.
2. Total Foreign Exchange used and earned:

a) Foreign Exchange used	Rs. 23,663.90 lakhs
b) Foreign Exchange earned	Rs. 32,864.76 lakhs

The Company continues to be a net foreign exchange earner for the ninth year in succession.

On behalf of the Board

Chennai
June 17, 2006

SURESH KRISHNA
Chairman & Managing Director

Sundram Fasteners Limited

MANAGEMENT DISCUSSION AND ANALYSIS

Business Overview

Indian gross domestic product has been growing consistently over the past few years. GDP growth during 2005-06 at 8.4% surpassed all expectations. Buoyancy in economic activity has reflected in growth of all sectors of the economy and more particularly in the automotive sector. Sales of the automobile industry recorded the highest levels ever. The following table shows sales data of the industry:

Automobile Sales Trends			(In Nos)
Category	Total Sales		Increase
Year	2005-06	2004-05	%
M&HCVs	221,542	211,980	4.51
LCVs	169,722	136,390	24.44
Total CVs	391,264	348,370	12.31
Passenger Cars	1,052,287	980,849	7.28
Utility Vehicles	199,063	180,865	10.06
MPVs	67,459	66,260	1.81
Total Passenger Vehicles	1,318,809	1,227,974	7.40
Scooters	992,032	983,127	0.91
Motorcycles	6,201,619	5,241,876	18.31
Mopeds	375,922	351,169	7.05
Total Two Wheelers	7,569,573	6,576,172	15.11
Three Wheelers	437,072	374,657	16.66
Tractors	292,877	247,535	18.31
Grand Total	10,009,595	8,774,708	14.07

(Sources: SIAM, TMA)

The increases in volumes have been largely due to consumer demand for new and more efficient products at affordable prices, resulting in many new varieties / models of vehicles being introduced by major manufacturers. The Supreme Court's decision against overloading of vehicles also resulted in improved sales of commercial vehicles.

The presence of multi-national vehicle manufacturers, emphasis on quality of vehicles, value engineering, continuous improvement, low levels of quality defects measured in terms of "parts per million", need to reduce costs and a number of other factors have enabled the Indian auto-component industry to reach a level of maturity in terms of size, outlook, work practices, quality and costs. The growing domestic demand combined with the potential for increasing exports augurs well for Indian auto-component industry. After regulations relating to investments abroad have been simplified, several Indian companies have either acquired or established manufacturing facilities overseas. Such acquisitions have enabled the Indian auto-component companies not only to show-case their manufacturing capabilities but also to establish contacts with new, large, demanding and tech-savvy customers. With appropriate policy initiatives, Indian auto-component industry can take advantage of technical skills and low costs, as outsourcing by international manufacturers from low cost vendors is likely to gain momentum over the next few years. While low costs *per se* may not sustain in the long run, superior technical skills in design, development and manufacture of new products will enable the auto-component companies to move up the value chain. Such a development combined with higher volumes and improved customer service will enable auto-component industry to remain competitive.

Domestic Sales

The Company achieved growth in the volume of sales to OEMs in line with the increase in production of major manufacturers. The Company has been able to maintain or improve its market share with all its top customers.

Aftermarket sales remained in line with the growth in demand. Improvement in quality of vehicles, postponement of repairs due to high cost of spares, better road conditions and restrictions on overloading resulted in replacement demand declining over the past few years. Uncertainties over introduction of Value Added Tax resulted in lower off-take in the early part of the financial year. The Company faced severe competition from other manufacturers and unorganized sector. With raw material costs rising rapidly, cheap spurious parts have mushroomed in the aftermarket.

Sales (net of excise) in the domestic market increased from Rs. 668.44 crores to Rs. 738.66 crores, an increase of 11%. The increase in domestic sales have been mainly due to increased volumes as no price increases could be obtained from customers to compensate for increased costs. Delivery costs increased on account of hike in freight rates consequent to periodic increase in diesel prices.

Exports

The Company continued to follow its policy of increasing the share of export sales. The share of export sales rose to over 30% from 28% in the previous year. The Company's efforts to increase the volume of business with existing customers and to develop of new products for them besides development of new customers have started yielding results. The Company is continuously striving to increase the geographic spread of its exports in order to mitigate risks. The Company has received orders / letters of intent from various customers which will enable the Company to increase its exports sizably. The Company plans to create additional facilities to meet the requirements of customers.

Exports during the year under review grew from Rs. 261.11 crores to Rs. 323.33 crores, a growth of 24%. Prices, however, have continued to remain depressed because of competitive pressures.

The Company's list of customers include ASC, Case New Holland, Caterpillar, Concentric Pumps, Cummins Engine, Daimler Chrysler, Deere and Co, Delphi Automotive, Deutz Motors, General Motors, Holset, Iveco, Mack Trucks, MTU, Perkins, Proton, Streparava, Valeo, ZF, etc. Besides widening the range of products to be supplied to existing customers, the Company hopes to add Bosch, GM Holden, Scania and Volvo to its prestigious list of customers.

Financial Performance

The higher volume of sales, both domestic and exports, has resulted in the Company achieving record levels of operating profit. Cost of inputs rose continuously touching new highs. Availability and quality of steel also caused concern from time to time. Customers have been unwilling to concede even marginal price increases to compensate for increase in costs. Increase in volume of business has partially compensated for reduction in margins. Just in time deliveries, shorter lead times for supply, abrupt changes in product-mix, cancellations of orders after manufacture and switching to lower cost suppliers are some of the common practices now prevalent in the auto industry. All these have resulted in larger investments in working capital.

Steady rise in interest rates (especially the strident increases in US dollar LIBOR), higher net working capital and investments in acquisitions resulted in higher interest costs. Adverse fluctuations in foreign exchange have also added to the cost of borrowing. The natural hedge available through exports has partly softened the impact of such adverse fluctuations. Higher interest costs and adverse exchange variations resulted in Profit Before Tax (PBT) being lower at Rs 96.15 crores as against Rs 102.79 crores in the previous year. Taking into account the higher average level of borrowings and the foreign exchange gains made in earlier years, the overall cost of borrowings including adverse exchange fluctuations remains within reasonable levels when compared with rates charged on rupee loans.