



Sundram Fasteners Limited

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ANNUAL REPORT

**for the year ended
31st March 2008**

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
 Sri M RAGHUPATHY IAS (Retd.)

SECRETARY

Sri V G JAGANATHAN

BANKERS

UNITED BANK OF INDIA
 STATE BANK OF MYSORE
 STANDARD CHARTERED BANK
 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
 SIPCOT Industrial Estate, Gummidipoondi 601 201, Tamil Nadu
 Korkadu Village, Nettapakkam Commune, Bahur Taluk 605 110, Puducherry
 Bonthapally Village, Medak District, Andhra Pradesh 502 313
 Auto Ancillary SEZ, Mahindra World City, Chingleput-Kanchipuram
 District 603 002, Tamil Nadu
 Pantnagar, Integrated Industrial Estate, Rudrapur,
 Dist. Udham Singh Nagar, Uttarakhand 263 153

FACTORIES

(In India through subsidiaries)

222, 266, 298 and 428 SIDCO Industrial Estate
 Ambattur, Chennai - 600 098, Tamil Nadu
 C9, Industrial Estate, Ambattur, Chennai - 600 058, 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.
 No 7, Jalan Teras 2, Kawasan Industri Teras, 43300 Balakong
 Selangor, Malaysia
 Peiner Umformtechnik GmbH, Woltorfer Str.20-24, D-31224
 Postfach 1649, D-31221, Peine, Germany

Sundram Fasteners Limited

FINANCIAL HIGHLIGHTS

Particulars	2007-08	2006-07	2005-06	2004-05	2003-04	2002-03	2001-02	2000-01	1999-00	1998-99
Operating results - Rs lakhs										
Sales - Net	120,592	119,944	106,199	92,955	68,912	45,883	38,302	37,356	38,001	30,408
EBIDT	15,256	17,178	15,312	13,197	10,223	8,536	6,712	6,565	7,654	5,777
Interest	1,387	2,625	2,958	586	(552)	610	1,297	1,672	1,408	1,467
EBDT	13,869	14,205	12,354	12,611	10,776	7,926	5,415	4,893	6,246	4,310
Depreciation	3,423	3,012	2,739	2,333	1,977	1,299	1,322	1,195	1,115	1,026
EBIT	11,833	13,819	12,573	10,864	8,246	7,237	5,390	5,370	6,539	4,751
Profit before tax	10,446	11,194	9,615	10,279	8,798	6,627	4,093	3,698	5,131	3,284
Tax	3,499	4,008	3,422	3,339	3,008	2,088	1,172	820	869	330
Profit after tax	6,947	7,186	6,193	6,940	5,790	4,539	2,921	2,878	4,262	2,954
Financial status - Rs lakhs										
Net fixed assets	51,944	40,476	35,235	31,786	25,867	19,535	18,424	17,442	17,600	16,094
Investments	13,325	7,276	7,215	2,160	2,021	3,369	3,341	3,292	3,288	301
Net current assets	39,365	39,955	39,670	31,665	22,039	12,443	11,887	12,556	11,091	9,360
Share capital	2,101	2,101	1,051	1,051	1,051	1,021	1,021	1,021	1,021	1,021
Reserves and surplus	40,110	35,375	31,337	27,148	22,241	20,309	17,153#	18,935	16,848	13,833
Net worth	42,211	37,476	32,387	28,199	23,292	21,330	18,174	19,956	17,870	14,855
Loan funds	55,507	43,969	43,860	32,056	21,754	9,504	11,734	13,334	14,110	10,901
Deferred Tax Liability	6,915	6,261	5,873	5,356	4,881	3,906	3,744	-	-	-
Total capital employed	104,633	87,707	82,120	65,611	49,927	34,740	33,652	33,290	31,980	25,756
Performance parameters - %										
EBIDT to Sales	12.7	14.3	14.4	14.2	14.8	18.6	17.5	17.6	20.1	19.0
EBIT to Sales	9.8	11.5	11.8	11.7	12.0	15.8	14.1	14.4	17.2	15.6
PBT to Sales	8.7	9.3	9.1	11.1	12.8	14.4	10.7	9.9	13.5	10.8
EBIDT/Average capital employed [ROCE]	15.9	20.2	20.7	22.8	24.1	25.0	20.1	20.1	26.5	23.1
EBIT / Average capital employed	12.3	16.3	17.0	18.8	19.5	21.2	16.1	16.5	22.7	19.0
PAT/Average net worth	17.4	20.6	20.4	27.0	26.0	23.0	15.3	15.2	26.0	21.4
Bonus issue	-	1:1	-	-	-	-	-	-	-	-
EPS before extra ordinary items - Rs	3.21	3.59	5.92*	6.61*	5.51*	44.43	28.59	28.17	41.73	28.92
EPS after extra ordinary items - Rs	3.31	3.42	5.92*	6.61*	5.51*	44.43	28.59	28.17	41.73	28.92
Dividend per share - Rs	0.9@	1.75*	1.70*	1.70*	1.40*	12.00	10.00	7.00	11.00	7.00
Dividend payout ratio	27.26	25.59	28.81	25.76	25.41	27.01	34.98	24.85	26.36	24.20
Book value per share-Rs	20.09*	17.84*	30.83*	26.83*	22.16*	208.91	177.92	195.38	174.94	145.41
Market value per share-Rs	32.35@	63.75@	169.30*	109.45*	87.05*	362	236	215	550	350

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

* On face value of shares - Re 1 each

Note: 1 Lakh = Rs.100,000

Ten Lakhs = One Million

Ten Millions = One Crore

@ Post Bonus Issue

EBDT for 2006-07 is after considering provision for diminution in value of investments and losses of subsidiaries.

REPORT OF THE DIRECTORS TO THE SHAREHOLDERS

The Directors are pleased to present the Forty Fifth Annual Report together with the audited accounts for the year ended 31st March 2008.

FINANCIAL RESULTS

	Rs lakhs	
	2007-2008	2006-2007
Sales – Domestic (including excise duty)	100,899.14	98,389.83
– Exports	34,191.89	35,825.27
	<u>135,091.03</u>	<u>134,215.10</u>
Gross Profit before interest, depreciation, extra-ordinary items and taxes	15,057.72	17,178.02
Less : Interest	2,702.28	2,446.13
Exchange Losses/(Gains)	(1,314.97)	178.77
Depreciation	<u>3,423.14</u>	<u>3,011.60</u>
	4,810.45	5,636.50
Profit before extra-ordinary items and tax	10,247.27	11,541.52
Less : Extra-ordinary items - Provision for diminution in value of investments and losses of subsidiaries	–	347.96
	<u>10,247.27</u>	<u>11,193.56</u>
Less : Provision for taxation including earlier years	<u>3,498.57</u>	<u>4,007.86</u>
Profit after tax	6,748.70	7,185.70
Add : Balance brought forward	2,570.83	2,974.50
Add : Transfer from Investment Allowance (Utilised) Account	4.35	7.12
Add : Provision no longer required written back	198.50	–
	<u>9,522.38</u>	<u>10,167.32</u>
Appropriations		
Interim Dividend	1,891.16	1,838.62
Tax on Interim Dividend	321.40	257.87
Transfer to General Reserve	5,000.00	5,500.00
Balance carried forward	<u>2,309.82</u>	<u>2,570.83</u>
	<u>9,522.38</u>	<u>10,167.32</u>

PROFITS

Export Sales of the Company, during the year ended 31st March 2008 were at Rs 34,191.89 lakhs. Exports have contributed significantly to the profits.

DIVIDEND

The Directors have decided to pay a Second Interim Dividend of Rs. 0.45 per share of face value Re. 1 each, which together with the Interim Dividend of Rs. 0.45 declared and paid earlier would amount to a total dividend for the year of Rs. 0.90 per share of Re. 1 each on enhanced capital consequent to the issue of bonus shares at

Sundram Fasteners Limited

1 : 1 in the previous year. Interim Dividend disbursed amounted to Rs. 945.58 lakhs. Second Interim Dividend will also absorb a total amount of Rs. 945.58 lakhs. The directors do not recommend any final dividend.

STATUTORY STATEMENTS

There were 7 deposits amounting to Rs 0.55 lakh which remained unclaimed as at the end of the year.

Statement relating to the subsidiary companies viz. Sundram Fasteners Investments Limited, Upasana Engineering Limited, Sundram Non-Conventional Energy Systems Limited, Sundram Bleistahl Limited, Sundram International Inc., Sundram Fasteners (Zhejiang) Limited, Cramlington Precision Forge Limited, Sundram RBI Sdn. Bhd, Peiner Umformtechnik GmbH and PUT Grundstücks GmbH 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 and its subsidiaries 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 this as abridged accounts as contemplated under Section 219 of the Companies Act, 1956. The Company has sought 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

Sri Venu Srinivasan and Sri C V Karthik Narayanan retire from the Board by rotation and being eligible, offer themselves for re-appointment.

Sri M Raghupathy IAS (Retd.) holds office as Additional Director, only up to the date of the forthcoming Annual General Meeting of the Company, but is eligible for re-appointment. The Company has received a notice in writing from a member under Section 257 of the Companies Act, 1956, proposing the candidature of Sri M Raghupathy IAS (Retd.) for the office of Director of the Company.

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, Puducherry and Andhra Pradesh, customers and vendors, for all the assistance rendered by them from time to time.

On behalf of the Board

Chennai
June 6, 2008

SURESH KRISHNA
Chairman & Managing Director

Sundram Fasteners Limited

ANNEXURE I TO DIRECTORS' REPORT

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

A. Conservation of Energy

a. Measures taken:

1. Replacement of Electrical Ovens with LPG fired ovens
2. Ceramic Fibre insulation of Heat Treatment furnace
3. Introduction of waste heat recovery system in furnace
4. Introduction of Fanless cooling tower
5. Introduction of Methanol based system in place of Endo Generation
6. Optimisation of motor capacity in fume exhaust system

b. Additional Investments and proposals being implemented:

The Company continues to adopt energy efficient practices in its operations and implement proposals arising out of regular energy audits.

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 therefrom:

- a) Development of two piece assembly nuts
- b) Development of Ball Stud through welding technique
- c) Development of Neck Rolling for Engine Fasteners
- d) Development of Point Screws
- e) Development of Powder Metal Synchroniser Hubs in place of wrought hubs
- f) Conversion of Powder Metal products to sinter hardening instead of two step processes of Sintering and Hardening

2. Future plan of action:

- a) Development of stainless steel, micro alloy and aerospace fasteners
- b) Development of anti-rust packing
- c) Development of functionally graded powder metal parts
- d) Usage of Finite Element Analysis in Cold Extrusion process to optimise process parameters
- e) Surface densification of power metal parts.

3. Expenditure on Research & Development:

The Company has incurred expenditure amounting to Rs 268.81 lakhs (Capital expenditure – Nil. Revenue expenditure – Rs 268.81 lakhs) towards Research and Development. The Expenditure on Research and Development as a percentage of turnover - 0.22%.

Technology absorption, adaptation and innovation:

1. Efforts, in brief, made towards technology absorption, adaptation and innovation:
 - a) The Company's collaboration with Japan Institute of Plant Maintenance for implementation of Total Productive Maintenance (TPM) continued this year. Achievement and Maintenance of excellence are non-stop activities, more so in a dynamic business environment.
 - b) The Company has retained the accreditation of its quality systems being in line with ISO 9001-2000. All the major factories of the Company have obtained accreditation to the latest ISO/TS 16949-2002 standards. Audits have been completed in some of the factories for renewal of certificates.
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 to meet the stringent standards stipulated by customers.

C. Foreign Exchange Earnings and Outgo:

1. Exports Sales during the year under review were Rs 341.92 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 29,976.77 lakhs
 - b) Foreign Exchange earned Rs 35,626.31 lakhs

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

On behalf of the Board

Chennai
June 6, 2008

SURESH KRISHNA
Chairman & Managing Director

Sundram Fasteners Limited

MANAGEMENT DISCUSSION AND ANALYSIS

Business Overview

Indian gross domestic product is estimated to have grown by 9% approx. during 2007-08 after reaching a growth of 9.7% in the previous year. Manufacturing sector witnessed a slow-down while performance of agricultural sector improved. Indian automotive sector showed a mixed trend. Sales of medium and heavy commercial vehicles declined despite a sharp increase in sales of buses on account of a slump in the sales of goods carriers. Sales of two and three wheelers and tractors also declined. Light commercial vehicles, cars, utility vehicles and multipurpose vehicles grew impressively. The following table shows sales data of the industry :

(In Nos)

Automobile Sales Trends			
Category	Total Sales		Variance
Year	2007-08	2006-07	%
Medium & Heavy Commercial Vehicles	293,094	294,438	- 0.5
Light Commercial Vehicles	252,722	223,210	13.2
Total Commercial Vehicles	545,816	517,648	5.4
Passenger Cars	1,413,395	1,269,153	11.4
Utility Vehicles	249,863	224,602	11.2
Multipurpose Vehicles	101,781	84,421	20.6
Total Passenger Vehicles	1,765,039	1,578,176	11.8
Scooters	1,075,591	976,358	10.2
Motorcycles	6,544,482	7,099,551	- 7.8
Mopeds	431,983	393,436	9.8
Electric two wheelers	16,391	7,341	123.3
Total Two Wheelers	8,068,447	8,476,686	- 4.8
Three Wheelers	505,938	547,805	- 7.6
Tractors	346,501	352,827	- 1.8
Grand Total	11,281,741	11,473,142	- 5.1

(Sources: SIAM/TMA)

Global trends in automobile sales showed a decline except in a few emerging markets. Sales in world's largest market viz. USA plummeted on account of steep increase in oil prices and general slow down of the economy accentuated by sub-prime crisis in the banking industry. The lack of growth in the Indian automotive industry may be attributed to the economic sluggishness and the increase in interest rates. In the face of a difficult market passing through tighter regulatory and liquidity constraints and high delinquency levels in consumer financing, banks were reluctant to extend financing facilities except at high costs. Availability and cost of finance play a vital role in the sales of the automotive industry all over the world. Improved efficiency of Indian Railways, lower cost of movement by rail, lower availability of cargo and high operating costs of trucks have led to lower demand for medium and heavy commercial vehicles in India. Indian automotive component industry has been affected by the developments in the Indian and global markets.

Increased cost of steel of all varieties and forms has been a cause for concern for the Company and its subsidiaries. Cost of inputs rose continuously, touching new highs. Availability and quality of steel also caused concern from time to time. Consequently, the Company had to resort to higher imports, resulting in a high level of raw material inventory and additional investment in working capital.

Domestic Sales

The Company achieved a small growth in the volume of sales despite a fall in the production of many major OEMs. The Company has been able to maintain or improve its market share with all its major customers. Aftermarket sales improved as compared with earlier years. Sharp increases in material costs resulted in competition from sub-standard and cheap spurious parts. There has also been loss of business on account of cheaper imports from China.

Sales (net of excise) in the domestic market increased from Rs 841.18 crores to Rs 864.00 crores, a marginal increase of 2.70%. No price increases could be obtained from customers to compensate for increased costs due to difficult market conditions.

Exports

The Company continued to follow its long term policy of giving high priority to export sales. The share of export sales fell to around 28.4% of sales from 30% in the previous year. Exports during the year under review dropped from Rs 358.25 crores to Rs 341.92 crores. Viewed in the backdrop of a major decline in the US markets and a 10% rise in the value of the rupee, export performance may be considered satisfactory.

The Company is making all out efforts to increase the volume of business with existing customers and to develop new products for them, besides development of new customers. The Company is making some progress in achieving greater geographic spread of its exports. The Company has made a beginning in leveraging the overseas subsidiaries for obtaining contacts with customers in the markets in which they are present. The new project for hubs and shafts commissioned during 2007-08 will enable the Company to increase exports substantially from 2009-10 onwards.

The Company has added Bosch, GE Transportation, General Motors (Brazil and Mexico), Ingersol Rand, International Trucks and Scania to its list of international customers.

Financial Performance

Stagnant domestic sales, drop in export realisations, strident increase in cost of steel, sharp increase in freight rates caused by increased prices of petro-products and higher employee costs on account of new projects commissioned during the year resulted in lower profits during the year. In view of difficult and competitive market conditions, the Company has not been able to pass on the additional costs to customers. The Company has been able to reasonably contain the increase in cost of steel through development of alternate sources of supply and by improving the product mix.

Steady rise in cost of rupee borrowings, capital expenditure on new projects commissioned during the year and higher inventories of raw material on account of increasing imports due to non-availability of steel resulted in increase in interest costs. Continuous adoption of Total Productive Maintenance (TPM) practices helped the Company achieve a reasonable control over other expenses.

Profit before tax (PBT) was lower at Rs 102.47 crores as against Rs 111.94 crores in the previous year.