Sundram Fasteners Limited

ANNUAL REPORT

for the year ended
31st March 2012

Sundram Fasteners Limited

BOARD OF DIRECTORS	Sri SURESH KRISHNA, *Chairman & Managing Director* Ms ARATHI KRISHNA, *Joint Managing Director* Ms ARUNDATHI KRISHNA, *Whole-Time 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.)
SENIOR MANAGEMENT	Sri SAMPATHKUMAR MOORTHY, *Executive Director* Sri V G JAGANATHAN, *Executive Director & Secretary*
BANKERS	United Bank of India, State Bank of Mysore, Standard Chartered Bank HDFC Bank Ltd., ICICI Bank Ltd., Canara Bank, DBS Bank Ltd., The Hongkong and Shanghai Banking Corporation Ltd.
AUDITORS	M/s SUNDARAM & SRINIVASAN Chartered Accountants, No. 4, C P Ramaswamy Road, Alwarpet, Chennai 600 018
REGISTERED OFFICE	98A, Dr Radhakrishnan Salai, Mylapore, Chennai 600 004
FACTORIES *(In India)*	Tamil Nadu : Padi, Hosur, Aviyur, Mittamandagapet, Velappanchavadi, Gummidipoondi, SEZ - Mahindra World City Puducherry : Korkadu Andhra Pradesh : Bonthapally Uttarakhand : Rudrapur
FACTORIES *(In India through subsidiaries)*	Tamil Nadu : Ambattur, Hosur
FACTORIES *(Outside India - through subsidiaries)*	Sundram Fasteners (Zhejiang) Limited, China Cramlington Precision Forge Limited, United Kingdom Peiner Umformtechnik GmbH, Germany

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FINANCIAL HIGHLIGHTS

Particulars	2011-12	2010-11	2009-10	2008-09	2007-08	2006-07	2005-06	2004-05	2003-04	2002-03
Operating results - Rs lakhs										
Revenue from Operations	**214,664**	181,072	133,386	126,219	120,592	119,944	106,199	92,955	68,912	45,883
Total Revenue	**216,471**	181,508	133,903	126,748	120,963	120,281	106,396	93,142	69,214	46,174
EBIDT	**31,315**	23,446	17,275	16,562	15,443	16,999	15,373	13,247	10,286	8,633
Interest	**9,220**	3,567	1,742	10,104	1,574	2,793	3,019	635	(489)	707
EBDT	**22,095**	19,879	15,533	6,458	13,869	14,206	12,354	12,612	10,775	7,926
Depreciation	**6,361**	5,454	4,748	4,223	3,423	3,012	2,739	2,333	1,977	1,299
EBIT	**24,954**	17,992	12,527	12,339	12,020	13,987	12,634	10,914	8,309	7,334
Profit before tax	**15,734**	14,425	10,785	2,235	10,446	11,194	9,615	10,279	8,798	6,627
Tax	**4,474**	3,882	3,283	494	3,499	4,008	3,422	3,339	3,008	2,088
Profit after tax	**11,260**	10,543	7,502	1,741	6,947	7,186	6,193	6,940	5,790	4,539
Financial status - Rs lakhs										
Net fixed assets	**71,288**	63,956	57,978	56,798	51,944	40,476	35,235	31,786	25,867	19,535
Investments	**14,263**	14,237	14,239	14,245	13,325	7,276	7,215	2,160	2,021	3,369
Net current assets	**69,596**	60,896	40,726	45,888	39,365	39,955	39,670	31,665	22,039	12,443
Share capital	**2,101**	2,101	2,101	2,101	2,101	2,101	1,051	1,051	1,051	1,021
Reserves and surplus	**61,245**	53,394	45,914	40,621	40,110	35,375	31,337	27,148	22,241	20,309
Net worth	**63,346**	55,495	48,015	42,723	42,211	37,476	32,387	28,199	23,292	21,330
Loan funds	**82,870**	74,961	56,791	66,738	55,507	43,969	43,860	32,056	21,754	9,504
Deferred Tax Liability	**8,931**	8,633	8,137	7,470	6,915	6,261	5,873	5,356	4,881	3,906
Total capital employed	**155,147**	139,089	112,943	116,931	104,633	87,707	82,120	65,611	49,927	34,740
Performance parameters - %										
EBIDT to Revenue from Operations	**14.6**	12.9	13.0	13.1	12.8	14.2	14.5	14.3	14.9	18.8
EBIT to Revenue from Operations	**11.6**	9.9	9.4	9.8	10.0	11.7	11.9	11.7	12.1	16.0
PBT to Revenue from Operations	**7.3**	8.0	8.1	1.8	8.7	9.3	9.1	11.1	12.8	14.4
EBIDT/Average capital employed [ROCE]	**21.3**	18.6	15.0	15.0	16.1	20.0	20.8	22.9	24.3	25.2
EBIT / Average capital employed	**17.0**	14.3	10.9	11.1	12.5	16.5	17.1	18.9	19.6	21.4
PAT/Average net worth	**18.9**	20.4	16.6	4.1	17.4	20.6	20.4	27.0	26.0	23.0
Bonus issue	**–**	–	–	–	–	1:1	–	–	–	–
EPS before extra ordinary items - Rs	**5.36***	5.02*	3.57*	0.83*	3.21*	3.59*	5.92*	6.61*	5.51*	44.43*
EPS after extra ordinary items - Rs	**5.36***	5.02*	3.57*	0.83*	3.31*	3.42*	5.92*	6.61*	5.51*	44.43*
Dividend per share - Rs	**1.40***	1.25*	0.90*	0.50*	0.90*	1.75*@	1.70*	1.70*	1.40*	12.00*
Dividend payout ratio	**26.13**	24.91	25.21	60.36	27.26	25.59	28.81	25.76	25.41	27.01
Book value per share - Rs	**30.15***	26.41*	22.85*	20.33*	20.09*	17.84*	30.83*	26.83*	22.16*	208.91*
Market value per share - Rs	**55.35***	51.05*	51.60*	14.85*	32.35*	63.75*@	169.30*	109.45*	87.05*	362*

* 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 Ninth Annual Report together with the audited accounts for the year ended 31st March 2012.

FINANCIAL RESULTS

		Rs lakhs
	2011-12	2010-11
Revenue from Operations	**214,663.52**	181,071.66
Other Income	**1,807.43**	436.75
Total Revenue	**216,470.95**	181,508.41
Gross Profit before interest, depreciation and taxes	**31,315.75**	23,444.97
Less : Interest	**3,490.26**	2,697.79
Exchange Losses/(Gains)	**5,729.74**	868.95
Depreciation	**6,361.31**	5,453.72
	15,581.31	9,020.46
Profit before taxes	**15,734.45**	14,424.51
Less : Provision for tax	**4,474.58**	3,881.94
Profit after tax	**11,259.87**	10,542.57
Add : Balance brought forward	**3,418.72**	2,939.21
Balance available for appropriation	**14,678.59**	13,481.78
Appropriations		
Interim Dividends	**2,941.80**	2,626.61
Tax on Interim Dividends	**467.05**	436.45
Transfer to General Reserve	**5,000.00**	7,000.00
Balance carried forward	**6,269.74**	3,418.72
	14,678.59	13,481.78

SALES & PROFITS

The Company recorded total Net Sales and other income of Rs.2164.71 Crores for the year ended March 31, 2012 as against Rs 1815.08 Crores achieved during the previous year. The export sale was at Rs 645.88 Crores as against Rs 479.35 Crores in the previous year. The Profit after tax was higher at Rs 112.60 Crores as against Rs 105.43 Crores in the previous year.

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

DIVIDEND

The Directors have decided to pay as Second Interim Dividend of Re 0.80 per Share of face value of Re 1 each, which together with the Interim Dividend of Re 0.60 declared and paid earlier would amount to a total dividend for the year of Rs 1.40 per share of Re 1 each. Dividend disbursed amounted to Rs 1260.77 lakhs. Second Interim Dividend will absorb a total amount of Rs 1681.03 lakhs. The Directors do not recommend any final dividend.

CONSOLIDATED FINANCIAL STATEMENTS / STATUTORY STATEMENTS

As required by Accounting Standard - AS 21 on Consolidated Financial Statements, the audited Consolidated Financial Statements of the Company and its Subsidiaries are attached.

As per Section 212 of the Companies Act, 1956, the Company is required to attach the Directors' Report, Balance Sheet and Profit and Loss Account of subsidiaries. The Central Government has granted general exemption from complying with Section 212 of the Companies Act, 1956 to all companies vide Notification No. 5/12/2007-CL-III dated February 8, 2011. Accordingly the Company has presented in this Report, the consolidated financial statements of the holding company and all its subsidiaries, duly audited by the Statutory Auditors. The Company has also disclosed in the Consolidated Balance sheet the information required to be provided as per the aforesaid notification dated February 8, 2011. The company will make available the audited annual accounts and related information of its subsidiaries, upon request by any of its shareholders. The annual accounts of the subsidiary companies will also be kept for inspection, by any member at the Registered Office of the Company and its subsidiary companies.

The Company has not accepted any deposits, within the meaning of Section 58-A of the Companies Act, 1956 read with the Companies (Acceptance of Deposits) Rules, 1975 made thereunder.

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, read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules 1988, 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.

COST AUDITOR

Pursuant to Section 233(B)(2) of the Companies Act, 1956, the Board of Directors on the recommendation of the Audit Committee, appointed Sri P Raju Iyer, a Cost Accountant, as Cost Auditor of the Company for the Financial year ended 31st March 2012.

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 judgments 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 K Ramesh, Director and Sri R Srinivasan, Director 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, Andhra Pradesh and Uttarakhand, customers and vendors, for all the assistance rendered by them from time to time.

On behalf of the Board

Chennai
May 28, 2012

SURESH KRISHNA
Chairman & Managing Director

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. Optimising compressed air consumption and elimination of leaks.
2. Replacement of old reciprocating compressors with energy efficient screw compressors with variable frequency drive.
3. Introduction of variable frequency drive for forging machines.
4. Redesign of heat treatment pre wash tank with low wattage heaters.
5. Replacement of High wattage MH lamps with CFL lamps.

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 fully dense powder metal HSS components.
   b) Development of HSS powders.
   c) Development of higher size Turbo Charger Shafts for Marine / Heavy Engine applications.
   d) Development of heat resistant steel fasteners.

2. Future plan of action:
   a) Development of stainless steel powders.
   b) Development of HSS powders.
   c) Establishment of manganese phosphate coating.
   d) Establishment of GEOMET coating.

3. The Company had entered into a technical collaboration agreement with Hitachi, Japan for the manufacture of tappets. The Company has fully absorbed the technology and has been manufacturing tappets at its factory at Hosur.

4. Expenditure on Research & Development:

   The Company has incurred expenditure amounting to Rs 1188.13 lakhs (Capital expenditure - Rs 76.61 lakhs and Revenue expenditure - Rs 1111.52 lakhs) towards Research and Development. The Expenditure on Research & Development as a percentage of turnover - 0.55%.

   Technology absorption, adaptation and innovation:

   1. Efforts, in brief, made towards technology absorption, adaptation and innovation:
      a) The Company has been continuing its efforts towards ongoing implementation and stabilisation of the methodologies of Total Productive Maintenance (TPM).
      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.

   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 64,588.01 Lakhs. All exports of the Company are directed towards the hard currency areas.

2. Total Foreign Exchange used and earned:
   a) Foreign Exchange used — Rs 46,676 Lakhs
   b) Foreign Exchange earned — Rs 64,910 Lakhs

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

On behalf of the Board

Chennai
May 28, 2012

SURESH KRISHNA
Chairman & Managing Director

MANAGEMENT DISCUSSION AND ANALYSIS

Business Overview

Indian gross domestic product and the Index of Industrial Production registered a growth of 7% (8.6%) and 2.8% (8.2%) respectively during the financial year 2011-12, reflecting a slower growth of the Indian economy than in the previous year.

The global economy grew very slowly with emerging economies registering a slow growth. The US economy showed better signs of growth; however various indices of the US economy fluctuated erratically making it difficult to arrive at a define conclusion that economic recovery is under way. The European economies have been stressed due to financial crisis in a number of countries in the Euro zone with no immediate solution in sight.

During 2011-12, the automotive sector showed a decent growth. The following table shows the production trend of the industry :

Category	Motor Vehicle Production (in nos)		
Segment / Sub-segment	**2011-12**	**2010-11**	**% Growth**
I Passenger Vehicles (PVs)			
Passenger Cars	**25,13,990**	24,53,097	2.48
Utility Vehicles (UVs)	**3,72,648**	3,13,142	19.00
Vans	**2,36,890**	2,16,533	9.40
Total Passenger Vehicles (PVs)	**31,23,528**	29,82,772	4.72
II Commercial Vehicles (CVs)			
M & HCVs			
Passenger Carriers	**53,340**	54,390	-1.93
Goods Carriers	**3,29,937**	2,91,428	13.21
Total M & HCVs	**3,83,277**	3,45,818	11.08
LCVs			
Passenger Carriers	**51,038**	44,795	13.94
Goods Carriers	**4,77,259**	3,70,122	28.95
Total LCVs	**5,28,297**	4,14,917	27.33
Total Commercial Vehicles	**9,11,574**	7,60,735	19.83
III Three Wheelers			
Passenger Carriers	**7,67,173**	6,96,984	10.07
Goods Carriers	**1,10,538**	1,02,569	7.77
Total Three Wheelers	**8,77,711**	7,99,553	9.78
IV Two Wheelers			
Scooter / Scooteretee	**26,60,916**	21,34,585	24.66
Motor cycle / step-throughs	**1,20,06,950**	1,05,10,189	14.24
Mopeds	**7,85,753**	7,04,575	11.52
Total Two Wheelers	**1,54,53,619**	1,33,49,349	15.76
V Tractors	**6,39,896**	5,48,397	16.68
Grand Total	**2,10,06,328**	1,84,40,806	13.91

The domestic market showed a record growth in the first half of the financial year. During the third quarter, there was a slow down. The fourth quarter witnessed a recovery in sales. There has been a perceptible shift in the type of production of Medium and Heavy commercial vehicles to large and multi-axle vehicles. In the case of Light commercial vehicles, there has been a shift to smaller vehicles with low haulage capacities. Sales of cars, utility vehicles, MPV, LCVs and two-wheelers grew due to introduction of new models and entry of new manufacturers. Increase in disposable incomes and need for personal transportation combined with availability of finance contributed to growth of passenger vehicles.

There was an improvement in the sales of passenger cars during 2011 in the US and contraction in Europe. In the overseas markets, the CV industry has continued to struggle, with sales remaining at lower than peak levels. Growth levels in sales of passenger cars may remain muted during 2012 due to high levels of unemployment, increase in gasoline prices and volatile consumer confidence.

Domestic Sales

Domestic sales increased to Rs. 1451 crores from Rs. 1294 crores, a growth of 12%. Demand from automotive OEMs fluctuated throughout the year. Aftermarket sales also showed growth as confidence levels of dealers improved resulting in higher off-take and stocking. Upsurge in petrol prices resulted in a shift towards diesel powered vehicles.

Exports

The US markets showed signs of recovery and the confidence levels of the Company's customers improved perceptibly. European markets continued to be sluggish. Exports from all the major units showed sizable growth enabling the Company to post record sales of at Rs 646 crores as against Rs 479 crores in the previous year, an increase of 35%. Export sales were around 30% of the overall sales revenues. The Company's push for adding new products and new customers is expected to result in further improvement in exports in the near future. Volatility in exchange rates and slow recovery in demand from European customers are causes for concern.

Financial Performance

Improved market conditions resulted in higher sales in all the units of the Company. Raw material prices increased steadily during the first half of the year. Input costs rose across the board, especially of petroleum based products. Non-availability of power due to scheduled power-cuts up to 40%, power holidays and unscheduled power outages forced the Company to purchase power and resort to self generation at higher costs. Wages increased as dearness allowance increased in line with the cost of living index. High levels of inflation had a direct impact on wage costs. The Company continued to be under pressure due to rising manufacturing costs. Freight rates also increased in line with increase in cost of diesel and other inputs related to the transportation industry.

The Company continues to adopt Total Productive Maintenance (TPM) practices in order to achieve a reasonable control over other operating expenses.

During the year, PBIDT (Profit before interest, foreign exchange fluctuation, depreciation and tax) was higher at Rs 313.16 crores as against Rs 234.45 crores in the previous year.

Steady rise in demand for the Company's products resulted in additional investments in working capital. The Company made substantial investments in creation of capacities for new products and additional capacities for manufacture of existing products to meet projected demand from domestic and international customers. These investments resulted in additional interest costs. Tight money policies followed by Reserve Bank of India resulted in steep increase in interest rates on Rupee borrowings and forward premiums in respect of foreign currency borrowings. Interest rates on foreign currency loans were volatile depending on the availability of dollar funds in the market. Financing costs including adverse foreign exchange variations of Rs 57.30 crores (Rs 8.69 crores) increased to 92.20 crores as against Rs 35.67 crores in the previous year. In line with the Accounting Standard AS-11 (dealing with the effects of change in foreign exchange rates) and to ensure the principles of consistency,