

Sundram Fasteners Limited

ANNUAL REPORT

for the year ended
31st March 2016

Sundram Fasteners Limited

BOARD OF DIRECTORS

Sri SURESH KRISHNA
Chairman & Managing Director

Ms ARATHI KRISHNA
Joint Managing Director

Ms ARUNDATHI KRISHNA
Deputy Managing Director

Sri K RAMESH
Sri VENU SRINIVASAN
Non-Executive Directors

Sri V NARAYANAN
Sri R SRINIVASAN
Sri R RAMAKRISHNAN
Sri C V KARTHIK NARAYANAN
Sri M RAGHUPATHY IAS (Retd.)
Sri B MUTHURAMAN
Independent Directors

CHIEF FINANCIAL OFFICER

Sri S MEENAKSHISUNDARAM

VICE PRESIDENT - FINANCE & COMPANY SECRETARY

Sri R DILIP KUMAR

REGISTERED OFFICE

98A, VII Floor, 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

BANKERS

State Bank of Mysore
Standard Chartered Bank
HDFC Bank Ltd.
ICICI Bank Ltd.
Canara Bank
The Hongkong and Shanghai Banking Corporation Ltd.

STATUTORY AUDITORS

M/s SUNDARAM & SRINIVASAN
Chartered Accountants,
No. 4, C P Ramaswamy Road,
Alwarpet,
Chennai - 600 018

SECRETARIAL AUDITORS

M/s S KRISHNAMURTHY & CO.,
Company Secretaries,
"Shreshtam", Old No. 17, New No. 16,
Pattammal Street, Mandaveli,
Chennai - 600 028.

COST AUDITOR

Sri P RAJU IYER, 17, (Old No. 8),
Hasthinapuram Main Road,
Nehru Nagar, Chromepet,
Chennai - 600 044.

CONTENTS

Financial Highlights	2
Report of the Board of Directors	3 - 34
Management Discussion and Analysis	35 - 40
Report on Corporate Governance	41 - 59
Independent Auditors' Report to the Shareholders	60 - 65
Balance Sheet	66
Statement of Profit & Loss	67
Cash Flow Statement	68 - 69
Notes to the Financial Statement	70 - 102
Independent Auditors' Report on Consolidated Financial Statement	103 - 107
Consolidated Financial Statement	108 - 111
Notes to the Consolidated Financial Statement	112 - 131

FINANCIAL HIGHLIGHTS

₹ lakhs

Particulars	2015-16	2014-15	2013-14	2012-13	2011-12	2010-11	2009-10	2008-09	2007-08	2006-07
Operating results										
Revenue from Operations	**260,658**	238,577	202,228	206,942	214,664	181,072	133,386	126,219	120,592	119,944
Total Revenue	**264,100**	240,912	207,100	209,572	216,471	181,508	133,903	126,748	120,963	120,281
EBIDT	**41,951**	35,679	30,484	28,363	31,315	23,446	17,275	16,562	15,443	16,999
Interest	**5,998**	8,139	5,858	8,135	9,220	3,567	1,742	10,104	1,574	2,793
EBDT	**35,953**	27,540	24,626	20,228	22,095	19,879	15,533	6,458	13,869	14,206
Depreciation	**9,181**	8,832	7,637	7,162	6,361	5,454	4,748	4,223	3,423	3,012
EBIT	**32,770**	26,847	22,847	21,202	24,954	17,992	12,527	12,339	12,020	13,987
Profit before tax	**22,213**	17,708	15,989	13,066	15,734	14,425	10,785	2,235	10,446	11,194
Tax	**1,096**	4,176	3,900	3,688	4,475	3,882	3,283	494	3,499	4,008
Profit after tax	**21,117**	13,532	12,089	9,506	11,260	10,543	7,502	1,741	6,947	7,186
Financial status										
Net fixed assets	**87,390**	80,980	80,300	72,904	71,288	63,956	57,978	56,798	51,944	40,476
Investments	**29,195**	11,695	12,316	13,202	14,263	14,237	14,239	14,245	13,325	7,276
Net current assets	**51,871**	76,865	59,157	71,863	69,596	60,896	40,726	45,888	39,365	39,955
Share capital	**2,101**	2,101	2,101	2,101	2,101	2,101	2,101	2,101	2,101	2,101
Reserves and surplus	**99,567**	83,795	75,463	67,328	61,245	53,394	45,914	40,621	40,110	35,375
Net worth	**101,668**	85,896	77,564	69,429	63,346	55,495	48,015	42,723	42,211	37,476
Loan funds	**57,969**	75,057	65,108	79,505	82,870	74,961	56,791	66,738	55,507	43,969
Deferred tax liability	**8,819**	8,587	9,101	9,034	8,931	8,633	8,137	7,470	6,915	6,261
Total capital employed	**168,456**	169,540	151,773	157,968	155,147	139,089	112,943	116,931	104,633	87,707
Performance parameters - %										
EBIDT to Revenue from Operations	**16.1**	15.0	15.1	13.7	14.6	12.9	13.0	13.1	12.8	14.2
EBIT to Revenue from Operations	**12.6**	11.3	11.3	10.2	11.6	9.9	9.4	9.8	10.0	11.7
PBT to Revenue from Operations	**8.5**	7.4	7.9	6.3	7.3	8.0	8.1	1.8	8.7	9.3
EBIDT/Average capital employed [ROCE]	**24.8**	22.2	19.7	18.1	21.3	18.6	15.0	15.0	16.1	20.0
EBIT / Average capital employed	**19.4**	16.7	14.8	13.5	17.0	14.3	10.9	11.1	12.5	16.5
PAT/Average net worth	**22.5**	16.6	16.4	14.3	18.9	20.4	16.6	4.1	17.4	20.6
Bonus issue	**–**	–	–	–	–	–	–	–	–	1:1
EPS before extra ordinary items-₹	**10.05**	6.44	5.75	4.52	5.36	5.02	3.57	0.83	3.21	3.59
EPS after extra ordinary items-₹	**10.05**	6.44	5.75	4.52	5.36	5.02	3.57	0.83	3.31	3.42
Dividend per share-₹	**2.15@**	1.75@	1.70@	1.40@	1.40@	1.25@	0.90@	0.50@	0.90@	1.75@
Dividend payout ratio	**21.39**	27.17	29.55	30.95	26.13	24.91	25.21	60.36	27.26	25.59
Book value per share-₹	**48.38**	40.88	36.91	33.04	30.15	26.41	22.85	20.33	20.09	17.84
Market value per share-₹	**170.80@**	174.50@	62.80@	40.50@	55.35@	51.05@	51.60@	14.85@	32.35@	63.75@

Note : 1 Lakh = ₹ 100,000 Ten Lakhs = One Million Ten Millions = One Crore @ Post Bonus Issue

REPORT OF THE BOARD OF DIRECTORS

The Directors are pleased to present the Fifty third Annual Report together with the audited financial statements for the year ended 31st March 2016.

FINANCIAL RESULTS

		₹ lakhs
	2015-16	2014-15
Revenue from Operations	**260,657.91**	238,576.58
Other Income	**3,442.22**	2,335.50
Total Revenue	**264,100.13**	240,912.08
Total expenditure	**222,149.35**	205,233.41
Gross Profit before interest, depreciation and taxes	**41,950.78**	35,678.67
Less: Interest	**2,022.33**	2,137.81
Exchange Losses / (Gains)	**3,975.29**	6,000.79
Depreciation	**9,180.57**	8,831.50
Profit before Exceptional items and taxes	**26,772.59**	18,708.57
Exceptional items	**(4,559.96)**	(1,000.00)
Profit Before Tax	**22,212.63**	17,708.57
Less: Provision for tax	**1,095.98**	4,176.33
Profit after Tax	**21,116.65**	13,532.24
Add: Balance brought forward	**17,318.05**	7,958.04
Balance available for appropriation	**38,434.70**	21,490.28
Appropriations		
Interim Dividends	**4,517.76**	3,677.25
Tax on Interim Dividends	**827.16**	494.98
Transfer to General Reserve	**15,000.00**	–
Balance carried forward	**18,089.78**	17,318.05
	38,434.70	21,490.28

TRANSFER TO RESERVES

The Company has transferred ₹ 15000.00 lakhs to general reserves.

DIVIDEND

The Directors at their meeting held on March 09, 2016, had approved payment of second interim dividend at ₹ 1.30 per share (130%) of face value ₹ 1/- each absorbing a sum of ₹ 32.01 crores (including dividend distribution tax) for the financial year ended March 31, 2016 and the same was paid to the shareholders on 28th March, 2016. The Board had earlier declared first interim dividend of ₹ 0.85 per share (85%) of face of ₹ 1 each absorbing a sum of ₹ 21.44 crores (including dividend distribution tax) for the financial year 2015-2016 and the same was paid on 24th November, 2015. No final dividend has been recommended by the Board of

Directors. Thus, the total dividend paid during the period under review aggregates to ₹ 2.15/- per share amounting to ₹ 53.45 crores (including dividend distribution tax).

CONSOLIDATED FINANCIAL STATEMENTS

The audited Consolidated Financial Statements of the Company prepared in accordance with the Act and the Accounting Standards, also form part of the Annual Report.

Pursuant to the provisions of Section 136 of the Companies Act, 2013, the Company has placed separate audited accounts of its subsidiaries on its website www.sundram.com. The Company will make available the audited annual accounts and associated information of its subsidiaries, upon request by any of its shareholders.

CORPORATE GOVERNANCE

A separate report on Corporate Governance together with a certificate from the Company's auditors confirming the compliance of conditions of Corporate Governance is attached to this report. Management Discussion and Analysis detailing the state of the company's affairs is also attached to this report.

DIRECTORS

The existing composition of the Company's Board is fully in conformity with the applicable provisions of the Companies Act, 2013 and Regulation 17 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (SEBI Listing Regulations, 2015) with regard to independent directors and women directors.

Sri K Ramesh, Director (DIN 00556922) of the company is liable to retire by rotation at the ensuing Annual General Meeting (AGM), and being eligible, offers himself for re-appointment. Necessary resolution for his re-appointment is being placed for approval of the members at the AGM. The board, therefore, recommends his re-appointment as a director of the Company. A brief resume of him and other relevant information have been furnished in the notice convening the AGM.

KEY MANAGERIAL PERSONNEL

Pursuant to Section 203 of the Companies Act, 2013, the following are the whole-time Key Managerial Personnel of the Company:

- Sri Suresh Krishna, Chairman and Managing Director
- Ms Arathi Krishna, Joint Managing Director
- Ms Arundathi Krishna, Deputy Managing Director
- Sri V G Jaganathan, Chief Financial Officer & Company Secretary, till 31st March, 2016
- Sri S Meenakshisundaram, Chief Financial Officer, effective 4th April, 2016
- Sri R Dilip Kumar, Vice President - Finance & Company Secretary, effective 4th April, 2016

STATEMENT ON DECLARATION GIVEN BY INDEPENDENT DIRECTORS UNDER SUB-SECTION (7) OF SECTION 149

All the independent directors have submitted a declaration pursuant to Section 149(7) of the Companies Act, 2013 stating that they meet the criteria of independence as stipulated in Section 149(6).

EXTRACT OF ANNUAL RETURN

An extract of annual return in Form MGT-9 is annexed as **Annexure - I** and forms part of this report.

BOARD MEETINGS

The Company, in consultation with the Directors, prepares and circulates a tentative annual calendar for the meetings of the Board and Board Committees in order to facilitate and assist the Directors to plan their schedules for the meetings.

There were seven Board Meetings during the year ended 31st March 2016, which were on 29th May 2015, 14th August 2015, 2nd November 2015, 18th January 2016, 4th February, 2016, 9th March 2016 and 31st March 2016.

COMMITEES OF THE BOARD

The Board of Directors has the following Committees:

1. Audit Committee
2. Nomination and Remuneration Committee
3. Corporate Social Responsibility Committee
4. Stakeholders' Relationship Committee
5. Finance Committee
6. Strategy Committee

The details of the Committees along with their composition, number of meetings and attendance at the meetings are provided in the Corporate Governance Report.

DIRECTORS' RESPONSIBILITY STATEMENT

The Directors confirm that:

a) in the preparation of annual accounts, the applicable accounting standards had been followed.

b) they had selected appropriate accounting policies and applied them consistently, and made 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 the year ended 31st March 2016.

c) they had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 2013 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities.

d) they had prepared the annual accounts on a going concern basis.

e) they had laid down the internal financial controls to be followed by the company and such internal financial controls are adequate and are operating effectively.

f) they had devised proper systems to ensure compliance with the provisions of all applicable laws and such systems were adequate and operating effectively.

NOMINATION AND REMUNERATION POLICY

(I) Criteria for Determining Qualifications, Positive Attributes & Independence of Director

1. Qualifications of Independent Director:

An independent director shall be a person of eminence, standing and knowledge with significant achievements in business, professions and/or public service or professional practice and desirable to have industry experience in which the company operates. An Independent director shall possess appropriate skills, experience and knowledge in one or more fields of finance, law, management, sales, marketing, administration, research, corporate governance, operations or other disciplines related to the company's business.

2. Positive attributes of Independent Directors:

Nomination and Remuneration Committee shall take into account the following positive attributes while recommending the appointment of independent director.

a) To demonstrate integrity, credibility, trustworthiness, ability to handle conflict constructively, and the willingness to address issues proactively.

b) Continuously update their knowledge and skills with the latest developments in the automobile industry, market conditions and applicable legal provisions.

c) Ability and willingness to devote sufficient time and attention to the Company's business and discharge their responsibilities.

d) Ability to bring an independent judgment to the Board's deliberations especially on issues of strategy, performance, risk management, key appointments and standards of conduct.

e) Ability to develop a good working relationship with other Board members and contribute to the Board's working relationship with the senior management of the Company.

f) To act within their authority, assist in protecting the legitimate interests of the Company, its shareholders and employees

g) Assist the company in implementing the best corporate governance practices.

3. Independence of Independent Directors:

An Independent director should meet the requirements of the Companies Act, 2013 and SEBI Listing Regulations, 2015, concerning independence of directors as may be specified from time to time.

(II) Remuneration Policy for Directors, Key Managerial Personnel and other employees

A. NON-EXECUTIVE DIRECTORS

Sitting Fees

Non-executive Directors will be entitled to sitting fees for attending meetings of the Board and its Committees as may be decided by the Board from time to time within the limits prescribed under the Act. The sitting fees presently paid to the Non -Executive Director is ₹ 50,000/- per meeting of the Board and ₹ 20,000/- per meeting of any Committee of the Board or separate meeting of independent directors thereof.

Reimbursement of expenses

Non-executive Directors will be entitled to reimbursement of expenses incurred in connection with attending the Board meetings, Board Committee meetings, meeting of independent directors, general meetings and in relation to the business of the Company towards hotel accommodation, travelling and other out-of-pocket expenses.

B. MANAGING DIRECTOR, KEY MANAGERIAL PERSONNEL AND OTHER EMPLOYEES

The following will be the guiding factors with respect to remuneration to Managing Director(s), Key Managerial Personnel and other employees.

a) The objective of the policy is directed towards having a compensation philosophy and structure that will reward and retain talent.

b) The Remuneration to Managing Director shall take into account the Company's overall performance, Managing Directors' contribution for the same and trends in the industry in general, in a manner which will ensure and support a high performance culture.

c) As the company does not have any stock options, such instruments do not form part of his remuneration package.

d) The remuneration and commission to be paid to the Managing Director shall be in accordance with the percentage / limits / conditions laid down in the Companies Act, 2013.

e) Remuneration to Key Managerial Personnel and Senior Management personnel will have a balance between fixed and incentive pay reflecting both short and long term performance objectives appropriate to the working of the Company and its goals and objectives. Such remuneration will generally comprise of fixed pay, performance pay, perquisites, provision of car and other work related benefits, Directors & Officers' Liability Insurance Policy (D&O Policy)

f) The Remuneration to the key managerial personnel and other employees will be such as to ensure that the relationship of remuneration to performance is clear and meets appropriate performance benchmarks.

POLICY ON BOARD DIVERSITY

Pursuant to requirements under SEBI Listing Regulations, 2015, the Nomination and Remuneration Committee (NRC) has framed a Policy on Board diversity appropriate to the business requirements of the Company, which *inter-alia* specifies optimum combination of Executive Directors, Non-Executive Directors and Independent Directors, the recommendatory requirement for each of the directors to possess functional diversity and role of NRC to ensure that the Policy on Board diversity is considered while recommending the appointment of new directors on the Board of the Company.

PARTICULARS OF LOANS, GUARANTEES OR INVESTMENTS UNDER SECTION 186 OF THE COMPANIES ACT, 2013

Particulars of loans given, investments made, guarantees given and securities provided along with the purpose for which the loan or guarantee or security is proposed to be utilised by the recipient are provided in the standalone financial statement (Please refer to Note No. 9, 10 and 31 (18)(IV) & (29) to the standalone financial statement).

PARTICULARS OF CONTRACTS OR ARRANGEMENTS WITH RELATED PARTIES (REFERRED TO IN SUB-SECTION (1) OF SECTION 188 OF THE COMPANIES ACT, 2013)

All transactions with related parties were on arms' length basis and were in the ordinary course of business. There was no material related party contract during the year. Form AOC-2 as required under Section 134 (3)(h) is enclosed as **Annexure - II** to this report.

MATERIAL CHANGES AND COMMITMENTS

There were no material changes and commitments, affecting the financial position of the Company, which have occurred between the end of the financial year of the Company to which the financial statements relate and the date of the report.

The Company's joint venture with Bleistahl Produktions GmbH through its subsidiary company is expected to be terminated during the financial year 2016-2017 as the asset purchase and sale agreement and technical collaboration agreement had expired. In view of the above, the name of the subsidiary company - Sundram Bleistahl Limited (i.e. the joint venture company) has been changed to Sundram Precision Components Limited during the year under review.

Upasana Engineering Limited (UEL) is a 100% subsidiary of Sundram Fasteners Limited (SFL), which is a part of TVS Group. T.V Sundram Iyengar & Sons Private Limited and Southern Roadways Limited are the promoters of SFL. As UEL is a wholly-owned subsidiary of SFL, the Board of Directors felt that it would be appropriate to have

the word 'TVS' as a part of its name, which helps easily in identifying the Company as a part of the 'TVS' Group. In view of the above, the name of the subsidiary company - Upasana Engineering Limited has been changed to TVS Upasana Limited during the year under review.

CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION, FOREIGN EXCHANGE EARNINGS AND OUTGO

Information with respect to conservation of energy, technology absorption, foreign exchange earnings and outgo pursuant to Section 134 of the Act read with Companies (Accounts) Rules, 2014 is enclosed as **Annexure - III.**

RISK MANAGEMENT

The Company faces diverse risks in terms of slowdown in economy, input prices, reputation, interest rates, foreign exchange, information systems, etc. The auto component industry has been operating in a challenging environment due to slowdown in the economy in general and in particular automotive industry. The Company manages its risks in the following manner:

a) exercising prudence while incurring capital expenditure or outlays on new projects

b) entering into long term contracts with customers to underwrite the capacities created

c) determination of product prices after engineering studies

d) adoption of a diversified business model in terms of products, market segments, geography and customers to ensure that Company is able to withstand any instability in the entire business eco-system

e) judicious approach to proportionate sourcing of inputs from indigenous and overseas markets in order to take advantage of commodity prices and exchange rate movements

f) analysing credit risks through market feedbacks

g) management of interest rate risks through a combination of loan products, tenor of financing and currency denomination

h) monitoring, reviewing and hedging foreign exchange risks in accordance with the risk management policy

All the above mentioned risks are managed through continuous review of business parameters on a regular basis by the management. Insurable risks are analysed and insurance policies are taken to protect the company's interests. The Board of Directors are also informed periodically of the risks and concerns. Corrective actions and mitigation measures are taken as and when needed.

CORPORATE SOCIAL RESPONSIBILITY (CSR) POLICY AND IMPLEMENTATION

The Company has undertaken activities as per the CSR Policy (available on the Company's website http://www.sundram.com/investors.php and the Annual report on CSR activities is enclosed vide **Annexure - IV** forming part of this report.

BOARD EVALUATION

The Nomination and Remuneration Committee (NRC) has laid down the criteria for performance evaluation of independent directors and other directors, Board of Directors and Committees of the Board of Directors. The criteria for performance evaluation cover the areas relevant to their functioning as independent directors or other directors, member of Board or Committees of the Board.

Evaluation of all Board members is done by the Board, NRC and Independent Directors on an annual basis with specific focus on the performance and effective functioning of the Board and individual directors. During the year, the Board adopted a formal mechanism for evaluating its performance and as well as that of its Committees and individual directors, including the Chairman of the Board. The exercise was carried out through an evaluation process covering various aspects of the Boards' functioning such as composition of the Board and committees, frequency of meetings, administration of meeting, flow of information to the board, experience and competencies, performance of specific duties and obligations, disclosure of information to stakeholders, etc. Separate exercise was carried out to evaluate the performance of individual directors including the Chairman who were evaluated on parameters such as attendance, contribution at the meetings and independent judgement. The directors were satisfied with the evaluation results, which reflected the overall engagement of the Board and its Committees with the Company.

PERFORMANCE AND FINANCIAL POSITION OF EACH OF THE SUBSIDIARIES, ASSOCIATES AND JOINT VENTURE

Report on the performance and financial position of each of the subsidiaries, associates and joint venture companies of the Company is given along with Consolidated Financial Statement in Form AOC-1.

CHANGE IN THE NATURE OF BUSINESS

There was no change in the nature of business of the Company during the financial year.

NAMES OF COMPANIES WHICH HAVE BECOME OR CEASED TO BE COMPANY'S SUBSIDIARIES, JOINT VENTURES OR ASSOCIATE COMPANIES DURING THE YEAR

A new wholly-owned subsidiary Company, Sundram International Limited (SIL) has been formed in United Kingdom. The company's shareholdings in Cramlington Precision Forge Limited, UK and Sundram Fasteners (Zhejiang) Limited, China has been transferred to SIL, UK effective 31st March, 2016.

Windbolt GmbH, Germany has ceased to be an associate of our Company effective November, 2015.

The Company has divested its shareholdings in Peiner Umformtechnik GmbH, TVS Peiner Services, GmbH and PUT Grundstucks GmbH, (Peiner Group), the wholly owned subsidiaries in Germany. Hence, Peiner Group companies have ceased to be subsidiaries of the Company with effect from 30th March, 2016.

Except for the details given above, no other company has become or ceased to be Company's subsidiary, joint venture or associate company during the financial year.

PUBLIC DEPOSITS

During the year, the Company has not accepted any deposits, within the meaning of Section 73 of the Companies Act, 2013 read with Companies (Acceptance of Deposits) Rules, 2014. No amount on account of principal or interest on deposits from public was outstanding as on Balance Sheet date.

REGULATORY / COURT ORDERS

There were no significant and material orders passed by the regulators or courts or tribunals impacting the going concern status of the Company and its future operations.

INTERNAL FINANCIAL CONTROLS

The Company maintains all its financial records in System Applications and Products (SAP) System and all financial transaction flow and approvals are routed through SAP. The Company has in house internal audit team to observe the effective functioning of internal financial controls and verify whether the financial transaction