

Sundaram-Clayton Limited



47th Annual Report 2009

Sundaram-Clayton Limited**Board of Directors**

VENU SRINIVASAN
Managing Director

SURESH KRISHNA

K. MAHESH

GOPAL SRINIVASAN

T.K. BALAJI

VICE ADMIRAL P.J. JACOB (Retd.)

SURESH KUMAR SHARMA

S. SANTHANAKRISHNAN

V. SUBRAMANIAN

Executive Director

H. LAKSHMANAN

President & Chief Executive Officer
- Automotive Products Division

C.N. PRASAD

President - Die-casting division

P.H. NARAYANAN

Executive Vice President -
Finance & Secretary

V.N. VENKATANATHAN

Audit Committee

VICE ADMIRAL P.J. JACOB (Retd.)
Chairman

T.K. BALAJI

V. SUBRAMANIAN

Investors' Grievance Committee

SURESH KRISHNA
Chairman

VENU SRINIVASAN

K. MAHESH

T.K. BALAJI

Bankers

STATE BANK OF INDIA
Corporate Accounts Group Branch

Greams Dugar
Greams Road
Chennai - 600 006

STATE BANK OF MYSORE
Industrial Finance Branch
Chennai - 600 006

Auditors

SUNDARAM & SRINIVASAN
Chartered Accountants
New No.4 (Old No.23),
Sir C P Ramaswamy Road
Alwarpet, Chennai - 600 018.

Listing of shares with

Madras Stock Exchange Limited
National Stock Exchange of India Limited
Bombay Stock Exchange Limited

Registered Office

"Jayalakshmi Estates"
29 (Old No.8) Haddows Road
Chennai - 600 006
Tel. : 044 - 2827 2233
Fax : 044 - 2825 7121

Share Transfer Department

New No. 22 (Old No. 31),
Railway Colony 3rd Street,
Mehta Nagar, Chennai - 600 029
Tel. : 044 - 2374 1889
044 - 2374 2939
Fax : 044 - 2374 1889
E-mail : kr.raman@scl.co.in

sclshares@gmail.com

investorscomplaintssta@scl.co.in

vnv@scl.co.in

Factory**Chennai**

Padi, Chennai - 600 050
Tel. : 044 - 2625 8212
Fax : 044 - 2625 7177

Mahindra World City
Plot No. AA8, Central Avenue,
Auto Ancilliary SEZ,
Kancheepuram - 603 002
Tel : 044 - 4749 0049

Hosur

Hosur - Thally Road
Belagondapalli
Hosur - 635 114
Tel. : 04347 - 233 445
Fax : 04347 - 233 014

Website:

www.sundaramclayton.com

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FINANCIAL HIGHLIGHTS INCLUDING SELECTED INDICATORS AND RATIOS

Rupees in crores

| Year ended | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|-------|-------|-------|-------|--------|--------|--------|--------|------------------|--------|
| Profit and Loss Account | | | | | | | | | | |
| Sales | 231.8 | 240.6 | 246.8 | 299.1 | 417.4 | 536.3 | 629.3 | 816.2 | 426.9 | 492.4 |
| Other income | 14.6 | 14.6 | 18.3 | 24.2 | 28.4 | 32.5 | 45.3 | 48.6 | 34.5 | 36.3 |
| Total income | 246.4 | 255.2 | 265.1 | 323.3 | 445.8 | 568.8 | 674.6 | 864.8 | 461.4 | 528.7 |
| Gross profit before interest, depreciation and tax (EBITDA) | 38.9 | 34.9 | 41.5 | 59.0 | 82.1 | 101.6 | 141.1 | 176.1 | 73.9 | 60.1 |
| Depreciation | 8.0 | 9.5 | 10.9 | 12.0 | 15.3 | 21.4 | 26.9 | 32.8 | 27.7 | 31.0 |
| Profit before interest & tax | 30.9 | 25.4 | 30.6 | 47.0 | 66.8 | 80.2 | 114.2 | 143.3 | 46.2 | 29.1 |
| Interest | 0.6 | 1.5 | 1.3 | (1.3) | 0.5 | 3.8 | 7.9 | 15.2 | 10.8 | 22.1 |
| Profit before tax | 30.3 | 23.9 | 29.3 | 48.3 | 66.3 | 76.4 | 106.3 | 128.1 | 35.4 | 7.0 |
| Profit after tax | 22.7 | 17.7 | 21.9 | 36.1 | 46.0 | 53.4 | 75.3 | 91.6 | 23.9 | 6.3 |
| Balance Sheet | | | | | | | | | | |
| Net fixed assets | 85.1 | 96.2 | 99.6 | 124.8 | 183.8 | 275.1 | 302.5 | 326.4 | 240.2 | 304.3 |
| Investments | 43.0 | 43.0 | 48.3 | 43.2 | 55.0 | 57.1 | 71.0 | 82.3 | 69.4 | 67.3 |
| Net current assets | 44.7 | 46.2 | 24.5 | 28.1 | 23.3 | 30.4 | 77.4 | 170.6 | 213.7 | 219.0 |
| Total | 172.8 | 185.4 | 172.4 | 196.1 | 262.1 | 362.6 | 450.9 | 579.3 | 523.3 | 590.6 |
| Share capital | 18.9 | 18.9 | 18.9 | 18.9 | 18.9 | 18.9 | 18.9 | 18.9 | 9.5 [#] | 9.5 |
| Reserves & surplus | 122.6 | 134.0 | 135.5 | 158.2 | 187.1 | 221.1 | 270.5 | 325.2 | 226.6 | 221.9 |
| Networth | 141.5 | 152.9 | 154.4 | 177.1 | 206.0 | 240.0 | 289.4 | 344.1 | 236.1 | 231.4 |
| Loan funds | 31.3 | 32.5 | 9.6 | 8.9 | 44.8 | 109.2 | 146.1 | 215.8 | 267.4 | 339.3 |
| Deferred taxation (net) | - | - | 8.4 | 10.1 | 11.3 | 13.4 | 15.4 | 19.4 | 19.8 | 19.9 |
| Total | 172.8 | 185.4 | 172.4 | 196.1 | 262.1 | 362.6 | 450.9 | 579.3 | 523.3 | 590.6 |
| Earnings per share (Rs.) | 11.95 | 9.36 | 11.52 | 19.00 | 24.25 | 28.16 | 39.26 | 48.06 | 12.61 | 3.34 |
| Dividend per share (Rs.) | 3.50 | 3.00 | 6.00 | 6.50 | 8.00 | 9.00 | 12.00 | 17.00 | 8.75 | 2.00 |
| Book value per share (Rs.) | 74.59 | 80.63 | 81.41 | 93.40 | 108.63 | 126.53 | 152.57 | 181.41 | 127.48 | 122.00 |
| Return on capital employed (ROCE) % | 19.9 | 14.2 | 17.1 | 25.5 | 29.2 | 25.7 | 28.1 | 27.8 | 8.3 | 5.2 |
| Return on networth (RONW) % | 16.9 | 12.1 | 14.2 | 21.7 | 24.0 | 23.9 | 28.5 | 28.9 | 8.2 | 2.7 |
| Fixed assets turnover (no. of times) | 3.1 | 2.7 | 2.5 | 2.7 | 2.7 | 2.3 | 2.2 | 2.6 | 1.5 | 1.8 |
| Working capital turnover (no. of times) | 6.2 | 5.3 | 7.0 | 11.4 | 16.2 | 20.0 | 11.7 | 6.6 | 2.2 | 2.3 |
| EBITDA as % of sales | 16.8 | 14.5 | 16.8 | 19.7 | 19.7 | 18.9 | 22.4 | 21.6 | 17.3 | 12.2 |
| EBITDA as % of total income | 15.8 | 13.7 | 15.7 | 18.3 | 18.4 | 17.9 | 20.9 | 20.4 | 16.0 | 11.4 |
| Net profit as % of total income | 9.2 | 7.0 | 8.2 | 11.2 | 10.3 | 9.4 | 11.2 | 10.6 | 5.2 | 1.2 |

ROCE is profit before interest and taxation divided by average networth plus loan funds.

RONW is profit after tax divided by average networth.

Fixed assets turnover is sales divided by average net fixed assets as at the end of the year.

Working capital turnover is sales divided by average net current assets as at the end of the year.

During 2007-08, the face value of share has been reduced from Rs. 10 to Rs. 5 per share in view of de-merger of brakes division of the Company.

Figures from 2007-08 are not comparable with that of previous years' in view of de-merger of the brakes division of the Company.

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Directors' report to the shareholders

The directors herewith present the forty-seventh annual report and the audited accounts for the year ended 31st March 2009.

2. FINANCIAL HIGHLIGHTS

| Details | Rs. in lakhs | |
|---|--------------------------|--------------------------|
| | Year ended 31.03.2009 | Year ended 31.03.2008 |
| Sales and other income | 52,869.87 | 46,141.70 |
| Gross profit before interest and depreciation | 6,008.07 | 7,390.57 |
| Less: Interest – Net | 2,207.17 | 1,080.78 |
| Depreciation | 3,105.06 | 2,774.43 |
| Profit before tax | 695.84 | 3,535.36 |
| Less: Provision for taxation (including deferred tax and fringe benefit tax) | 63.18 | 1,143.34 |
| Profit after tax | 632.66 | 2,392.02 |
| Add: Tax relating to earlier years | - | 155.68 |
| Dividend set off | 56.41 | - |
| | 689.07 | 2,547.70 |
| Surplus brought forward from previous year | 866.64 | 4,123.91 |
| Total | 1,555.71 | 6,671.61 |
| Appropriations: | | |
| Tax relating to earlier years | 2.78 | - |
| First Interim dividend | 189.73 | 384.10 |
| Second Interim dividend | - | 331.93 |
| Proposed final dividend | 189.68 | - |
| Tax on dividend | - | 121.69 |
| Transfer of profit to WABCO-TVS (INDIA) Limited on demerger of the demerged undertaking | - | 3,435.13 |
| Transfer to general reserve | 63.27 | 1,532.12 |
| Surplus in profit and loss account | 1,110.25 | 866.64 |
| | 1,555.71 | 6,671.61 |

3. CHANGE IN STATUS OF THE COMPANY

In terms of the Scheme of arrangement between the Company and M/s WABCO-TVS (India) Limited and their respective shareholders and creditors sanctioned by the Hon'ble High Court of Madras vide its order dated 20th February 2008, the share transfer obligations between promoters of the Company, have since been complied with as envisaged in the said Scheme.

Accordingly, the Indian promoters consisting of M/s T V Sundram Iyengar & Sons Limited (TVS), Southern Roadways Limited, Sundaram Industries Limited and Sundaram Finance Limited acquired 74,30,000 equity shares of Rs.5/- each from the foreign promoter, viz., Clayton Dewandre Holdings Limited (CDH) constituting 39.17% of the paid up share capital of the Company. With this acquisition, Indian promoters' holding in the Company

increased from 40.83% to 80% of the paid up share capital of the Company. Consequently, CDH ceased to be a promoter of the Company effective 3rd June 2009.

TVS and its two subsidiaries presently hold 1,29,00,979 equity shares of Rs.5/- each constituting 68.01% of the paid up share capital of the Company. Thus, the Company has become a subsidiary of TVS effective 3rd June 2009, in terms of Section 4(1)(b) read with Section 4(1)(c) of the Companies Act, 1956 (the Act).

The board recorded its deep appreciation of the association, initially with CDH as early as from 1962 (when the Company was formed) later with American Standard when CDH was subsequently taken over by it. Again the brakes business of American Standard devolved on WABCO, which now owns CDH. The relationship remained very cordial with the overseas promoters throughout for nearly five decades. The board also recorded its deep appreciation of the relationship, which helped the Company to diversify into various areas, such as two wheelers and electronics, besides into washing machine business for some time.

The board recorded with a sense of deep regret that it has become inevitable to part ways with the foreign promoters, and consequently to accept resignation of directors representing them on the board.

4. DIVIDEND

During the year, the board declared an interim dividend of Re.1/- per share (20%) on 1,89,67,584 equity shares of Rs.5/- each. It was paid to the shareholders on 19th December 2008.

The board has recommended a final dividend of Re.1/- per share, i.e 20% for the year ended 31st March 2009, absorbing a sum of Rs. 189.68 lakhs for approval of the shareholders in the ensuing annual general meeting. Hence, the total amount of dividend including the final dividend, if approved, for the year ended 31st March 2009 will aggregate to Rs. 2/- per share (40%).

5. BONUS SHARES

The board has recommended issue of bonus equity shares to the shareholders in the proportion of one equity share of Rs.5/- each for every one equity share of Rs.5/- each held by them by capitalizing an equivalent amount standing to the credit of the general reserve account of the Company for approval of the shareholders in the ensuing annual general meeting. The said bonus shares will be issued and allotted to those shareholders whose names appear in the register of members and in the beneficial ownership position held with the depositories as on the record date to be fixed hereinafter.

6. AMENDMENTS TO MEMORANDUM AND ARTICLES OF ASSOCIATION OF THE COMPANY

The board has approved a proposal for amendments to the capital clause of the memorandum and articles of association of the Company for increase in the authorized share capital from Rs.10 crores to Rs.20 crores. This is subject to approval of the shareholders in the ensuing annual general meeting of the Company in order to accommodate the increase in share capital after the proposed issue of bonus shares.



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With the exit of the foreign promoters, namely WABCO and they ceasing to be one of the principal shareholders of the Company, it has become necessary to amend certain clauses in the Articles of Association of the Company (AoA). In view of this, the board has proposed to alter certain articles in the (AoA) by deleting references to the promoters and their rights, subject to approval of the shareholders in the ensuing annual general meeting.

The board has considered it desirable to delete references to specific sections of the Act, appearing in the existing AoA and instead make references like "subject to the applicable provisions of the Act" or "under the applicable provisions of the Act" etc. wherever the context so requires, subject to approval of the shareholders in the ensuing annual general meeting, in view of the proposed sweeping changes in the existing Act and consequent radical reduction in the number of sections in the said Act.

The board has also approved a proposal to include certain object clauses in the memorandum of association for authorizing the Company to undertake a new business, namely for setting up power plant for generation / distribution of power for captive use as well as for sale to others, subject to the approval of the shareholders of the Company through postal ballot, for which a separate notice together with the relevant papers will be sent individually to all the shareholders for seeking their approval through postal ballot.

The existing Article 110(a) of AoA provides for appointment of not less than six and not more than twelve directors. Considering the expansion and diversification plans of the Company, the board felt it desirable to fix the limit at sixteen so that this would enable the Company to have, if considered necessary, experienced persons in the related fields on the board, where the Company may plan to expand / diversify in the future.

Hence, the board has proposed an amendment to the existing article dealing with limit by fixing the maximum limit at sixteen, subject to the approval of the shareholders in the ensuing annual general meeting and of the Central Government, since any increase beyond the existing limit of twelve provided in the article will require the approval of the Central Government.

7. PERFORMANCE

During the year under review, the medium / heavy commercial vehicles segment recorded a negative growth of 34.7%, while the light commercial vehicle segment also registered a negative growth of 11.6%. Car segment achieved a positive growth of 3.4% and two wheeler segment registered a growth of 4.9%.

Against this backdrop, the die casting division sold 17,633 tonnes of castings against 15,501 tonnes of castings sold in 2007-08, registering a growth of 14%. The Company achieved sales of Rs.49,237 lakhs during 2008-09 as against Rs.42,693 lakhs in 2007-08, registering a growth of 15%.

With the intensification of global financial crisis, the heavy commercial vehicles experienced an unprecedented year with a steep fall in demand during the second half of the year. On export front, North American class 8 trucks market witnessed a negative growth of 2%, while the class 5-7 trucks market witnessed a negative growth of 30%. Similarly, the Europe medium and heavy trucks witnessed a negative growth of 17%.

Against this backdrop, exports sales registered a growth of 19% at Rs.19,745 lakhs against Rs.16,589 lakhs achieved in 2007-08.

8. MANAGEMENT DISCUSSION AND ANALYSIS REPORT

1. Industry Structure and Development

Domestic

During the financial year 2008-09, the GDP growth slowed down considerably from 9% in financial year 2007-08 to 6.7% due to the world-wide economic slowdown in the second half of the year. This affected most businesses and hence industrial production has dropped steeply leading to significant reduction in freight movement. High volatility in oil and commodities' prices, adverse movement of INR with respect to major currencies, high interest rates and poor availability of finance have impacted the demand for all types of vehicles.

Poor liquidity and consequent steep increase in interest rates combined with low consumer confidence, suppressed the demand for vehicles for personal transportation. Despite new launches and discounts by Original Equipment Manufacturers (OEMs), the domestic sales barely managed to stay at previous year levels. However, the exports of Cars and Multi Utility Vehicles (MUVs) registered a growth of 54% driven by demand for fuel efficient small cars in Europe.

The adverse economic conditions mentioned above, muted the demand for two wheelers in India and the domestic sales grew by a mere 2.6% whereas exports registered a healthy growth of 22.5%.

Sales of commercial vehicles were particularly hit and auto majors like Tata Motors Ltd, Ashok Leyland Ltd had cut down their production during the second half of the year. While the stimulus packages of Government of India to revive the economy resulted in recovery of some segments of the automotive industry, the commercial vehicles segment continued to witness the low-demand scenario throughout the year and reported 24% drop in production as can be seen from the following table:

| Category | 2008-09 | 2007-08 | Growth |
|--|-----------|-----------|--------|
| Medium and Heavy Commercial Vehicles (M&HCV) | 192,537 | 294,957 | -34.7% |
| Light Commercial Vehicles (LCV) | 224,589 | 254,049 | -11.6% |
| Cars & MUVs | 1,838,697 | 1,777,583 | 3.4% |
| Three wheelers | 501,030 | 500,660 | 0.1% |
| Two wheelers | 8,418,626 | 8,026,681 | 4.9% |

(Source: SIAM)

Exports

With intensification of global financial crisis and significant slowdown witnessed in world economy, the heavy commercial vehicles experienced an unprecedented year with a steep fall in demand during the second half of the year.

The following table highlights the North American and Europe truck industry production figures in vehicle units.

| Market | Category | 2008-09 | 2007-08 | Growth |
|---------------|-----------------------|---------|---------|--------|
| North America | Class 8 Trucks | 184,086 | 187,555 | -2% |
| North America | Class 5-7 Trucks | 136,658 | 196,131 | -30% |
| Europe | Medium & Heavy trucks | 568,567 | 687,486 | -17% |

(Source: ACT Research)

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Though the production of Class 8 trucks in North America in 2008-09 is lower only by 2% over the previous year, it is important to note that the production during the second half of the year is lower by 32% over first half.

Similar trend was noted in the production levels of Class 5-7 Trucks also. While the annual sales declined by 30% over 2007-08, the production in second half of the year was lower by 42% compared to the second half of the previous year.

The production of heavy trucks in Europe fell by 17% in 2008-09. However, the production recorded a drop of 38% during the second half of the year when compared to corresponding period in previous year.

II. Business outlook and overview

The strains of global economic slowdown are expected to exert pressure on India's GDP during this year and it is expected to grow only by 6% as per the latest RBI notification (28th July, 2009) resulting in continuation of the current conditions of subdued demand. The official figures of inflation are already very low, though the food prices are still at very high level. Lower than average rainfall during the current Khariff season in several parts of our country, could result in lower production of food grains and animal fodder. In this background, the following growth rates are forecasted in the key macro-economic indicators:

| | |
|--------------------------------|--------|
| Services sector | : 8% |
| Agricultural sector | : 2.2% |
| Index of Industrial Production | : 4% |

The growth in domestic automotive industry is expected to slow down further during 2009-10 due to continued recessionary trends. While the passenger car segment is estimated to register a growth of 6%, the two wheeler segment is expected to be flat. The domestic M&HCV segment is expected to decline by 20%.

The sale of Class 8 trucks and class 5-7 in the North American market are expected to decline by 47% and 35% respectively and European heavy truck sale is expected to drop by 45% over 2008.

III. Opportunities & Threats

The Company's products are raw aluminium castings and machined castings for the commercial vehicle, passenger car and two wheeler segments of the automotive industry.

The projected growth of the domestic car industry and the ambitious export programme of OEMs are likely to benefit the Company. New orders that have been received from existing domestic customers will be met during 2009-10.

The Company's sale of products to heavy commercial vehicle industry is estimated to be lower in view of significant decline expected during 2009-10.

Issues of environmental pollution and increasing labour costs in shrinking markets are forcing the Global OEMs and Tier 1 companies to increase sourcing of low technology parts like castings and forgings from low cost countries. The Company is already a preferred source for some major OEMs abroad and this provides additional opportunities for growth. However, many Indian die casting companies and new manufacturers are either setting up new capacities or expanding existing capacities to cater to this new demand, resulting in increased competition for export of castings in the future.

The OEM customers across the world are continuing their pressure on price reduction from their suppliers and our Company also will have to pass on some of the learning curve benefits in the form of annual price reductions. However, the Company's supply contracts provide for periodic price adjustments indexed to the international prices of aluminum and this should offer some protection from volatility of the commodities' prices.

IV. Risks and concerns

Economy

The current global meltdown and credit crisis are negatively impacting the customer and could continue to result in reduced demand for castings during the year, which is expected to affect the business of the Company significantly.

The economic recovery of US and Europe is not expected until 2010 and hence the capacity utilization by the Company is likely to remain low during the current year.

The Indian economy is expected to show a slow recovery during second half of the year. Below normal rainfall will have a significant impact on the recovery of Indian economy.

Consumer interest rates witnessed an upward movement in the second half of 2008-09. Tightening liquidity, non-availability of finance and hardening interest rates would affect vehicle demand, which could impact the Company's sales to OEMs and Tier 1 customer.

Industry specific

The Company caters to the requirements of the automotive industry. The revenue of the Company is significantly dependent on global commercial vehicle industry. The commercial vehicles, due to its strong linkages with the economy, would continue to be impacted by slowdown in economic growth. This would impact Company's sale to commercial vehicle industry. However, the Company has strengthened its position as preferred supplier to less cyclical segments like passenger cars and two wheelers.

Intensity of competition has increased in Indian market due to entry of new players and expansion plans of existing ones. The Company is aware of the increasing competition and is taking measures to remain competitive in the market place.

The Company is developing various new products for new platforms of global customers. These new projects are expected to ramp up during the second half of the current financial year. The global economic slowdown could significantly impact the projections of OEMs for these new platforms. This may have an impact on the Company's new product sales.

Sourcing

Global commodity prices witnessed unprecedented volatility during second half of 2008-09. However, the commodity prices are likely to stabilize as the demand for commodities increases with gradual recovery of global economic situation. No shortage of aluminium is expected.

Forex

The Company's exports constitute 30% of the turnover and imports constitute 73% of material consumption. Further, the Company has foreign currency borrowings in the form of External Commercial Borrowings.



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Movements in exchange rates and volatility in the foreign exchange markets could significantly affect the bottom line. The continued hardening of the Indian Rupee will affect the Company's competitiveness in the export market and profit performance.

Contractual

The stringent specifications and requirements of the automobile industry demands high quality products and strict adherence to manufacturing processes. Quality is, therefore, monitored closely. Although every reasonable precaution is taken, defects may lead to incurring considerable expenses for rework or product recall in rare cases. Appropriate recall and product liability insurance in line with standard industry practice has been taken to minimize the risks. However, the Company may incur premium freights to meet the contractual obligations of on-time delivery.

Capacity utilization

The Company has set up capacities to meet forecasted demand of customers. The capacity utilization is expected to be lower during the current year in view of lower off-take from customers against the projected demand. The Company is working with its customers for increased market share and thus its capacity utilization.

The Company continuously identifies and implements capital productivity improvement projects and freed up capacities are assigned to new projects.

V. Internal control system and their adequacy

The Company has in place adequate internal control system. The documented procedures covering all financial and operating functions are in place. These controls have been designed to provide a reasonable assurance with regard to maintaining of proper controls on accounting, operations monitoring, protecting assets from unauthorized use or losses, compliances with regulations and for ensuring reliability of financial reporting. The Company has continued its efforts to align all its processes and controls with global best practices in these areas as well.

The internal controls are supplemented by an extensive programme of internal audits, review by management and documented policies, guidelines and procedures. The status of the observations made during the internal audit is reviewed by the audit committee of the Board of Directors and concerns if any are reported to the Board.

VI. Operations review

A. Manufacturing

The Company implemented the best practices such as Total Quality Management (TQM), Total Productivity Management (TPM) and Lean Manufacturing in its manufacturing facilities. It also has in place best-in-class practices for safety, pollution control, work environment, water and energy conservation.

Continuous improvement actions are implemented to improve manufacturing quality and productivity in all the manufacturing locations.

To avail of tax benefit for exports, the Company has commenced production at a new manufacturing plant in the Special Economic Zone (SEZ) in Mahindra City in Chennai.

B. Quality

Achieving customer delight by consistently providing products of excellent quality is the prime motto of the Company. This is achieved through state-of-science technology, training, effective quality system, continuous improvement methodology and total employee involvement. Mistake-proofing, process audits, utilization of statistical tools for process optimization and control also contribute towards improving and achieving consistency in product quality.

The quality system is certified for ISO/ TS 16949 requirements.

TQM is a way of life at Sundaram-Clayton Limited. 100% employee involvement has been successfully achieved for the 10th consecutive year.

Employees have completed more than 505 projects by applying statistical tools through Quality Control Circles (QCC) in 2008-09. The average number of suggestions implemented per employee in 2008-09 is 51.

C. Cost management

The Company continues its rigorous focus on its costs through an effective cost management system. Maximizing export benefits, sourcing of raw materials from Free Trade Agreement (FTA) countries, value engineering, reducing process scrap and operational efficiency projects are being pursued for cost reduction and also to insulate from cost escalation. TPM initiatives are deployed Company-wide to achieve reduction in manufacturing cost.

D. Information Technology

The Company uses ERP system (SAP) that integrates all business processes across the Company. During the year, the Company has focused on further consolidation of ERP system. Most of the business transactions between the Company, suppliers and customers are done through ERP.

VII. Human Resource Development

A cordial industrial relations environment prevailed at all the manufacturing units of the Company during the year.

The Company focuses on attracting the best talent and enjoys a good brand image across leading educational institutions and industry. The Company blends successfully mid-career recruitment with internally grown talent.

Career development workshops are conducted to identify high potential employees. A reward and recognition system is in place to motivate and also provide fast track growth for the high potential employees.

Executives are sponsored to overseas and inland universities for developing their competencies to handle new technologies, modern management practices and higher responsibilities. Customised management development programs have been developed with reputed educational institutions to hone the leadership skills of the senior executives.

People are encouraged to take up higher responsibilities and stretch assignments from the very early stages of their career. Periodic job

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rotations help the employees to get a broad perspective to assume leadership roles in future.

As of 31st March 2009, the Company had 2,337 employees on its rolls.

VIII. Environment & Safety

Safety management is integrated with the overall Environment, Health and Safety (EHS) management system. Padi and Hosur plants are certified for OHSAS 18001. The Company has implemented Integrated Management System (IMS) combining ISO 14001 and OHSAS 18001 systems and procedures.

The Company is committed to energy conservation. During the year the following key energy conservation projects have been implemented:

- Introduction of automatic idle timer machine control off
- Optimisation of pump horsepower
- Use of energy efficient lighting system without sacrificing luminosity

- Introduction of thyristor control drives
- Introduction of VFD in PDC machines.
- Power factor improvement
- Optimising furnace power capacity by introducing single pre-heater system
- Introduction of screw compressor in place of reciprocating compressor.

IX. Community development and social responsibility

As a corporate citizen, the Company believes in its social responsibility and has involved itself in several community development activities. With the Company's active support, 'Self-help groups' have been active in villages and various programmes have been undertaken towards economic development of people living below the poverty line. The Company also conducts literacy programmes, medical camps, health check up programmes and nutrition programmes for primary school children and adults periodically.

X. Financial / operational performance

The financial and operational performance for the year 2008-09 as compared to the previous year is furnished in the following table:

| Particulars | Year ended 31 st March 2009 | | Year ended 31 st March 2008 | |
|---------------------------|--|---------------|--|---------------|
| | Rs. in lakhs | % | Rs. in lakhs | % |
| Sales | 49,236.99 | 93.13 | 42,693.28 | 92.53 |
| Other income | 3,632.88 | 6.87 | 3,448.42 | 7.47 |
| Total income | 52,869.87 | 100.00 | 46,141.70 | 100.00 |
| Raw materials consumed | 26,640.99 | 50.39 | 20,120.30 | 43.61 |
| Cost of traded goods sold | 1,033.63 | 1.96 | 1,444.79 | 3.13 |
| Staff cost | 6,024.04 | 11.40 | 5,108.64 | 11.07 |
| Stores and tools consumed | 4,122.02 | 7.80 | 3,807.95 | 8.25 |
| Power and fuel | 2,543.77 | 4.81 | 2,147.40 | 4.65 |
| Repairs and maintenance | 1,720.69 | 3.25 | 1,768.51 | 3.83 |
| Other expenses | 4,776.66 | 9.03 | 4,353.54 | 9.44 |
| Interest - net | 2,207.17 | 4.17 | 1,080.78 | 2.34 |
| Depreciation | 3,105.06 | 5.87 | 2,774.43 | 6.01 |
| Total expenditure | 52,174.03 | 98.68 | 42,606.34 | 92.33 |
| Profit before tax | 695.84 | 1.32 | 3,535.36 | 7.67 |
| Provision for taxation | | | | |
| - Current tax | - | - | 900.00 | 1.95 |
| - Fringe benefit tax | 51.00 | 0.10 | 58.18 | 0.13 |
| - Deferred tax | 12.18 | 0.02 | 185.16 | 0.40 |
| Profit after tax | 632.66 | 1.20 | 2,392.02 | 5.19 |



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XI. Cautionary Statement

Statements in the management discussion and analysis report describing the Company's objectives, projections, estimates and expectations may be "forward looking statements" within the meaning of applicable securities laws and regulations. Actual results could differ materially from those expressed or implied. Important factors that could make a difference to the Company's operations include, among others, economic conditions affecting demand / supply and price conditions in the domestic and overseas markets in which the Company operates, changes in the Government regulations, tax laws and other statutes and incidental factors.

9. AMALGAMATION

During the year under review, the Company on 21st August 2008 acquired the entire paid up capital of M/s Auto (India) Engineering Limited (AIEL) consisting of 50,000 equity shares of Rs.10/- each aggregating to Rs. 5,00,000/-, from another wholly owned subsidiary, namely M/s Anusha Investments Limited (AIL). AIEL became a wholly owned subsidiary of the Company effective 21st August 2008.

Subsequently, the boards of both the Company and AIEL decided to amalgamate AIEL with the Company to achieve synergies in business activities and eliminate duplication of costs of administration since both the companies were pursuing similar objectives. Accordingly, the boards of the respective companies approved a scheme of amalgamation for transferring/vesting all assets, liabilities, duties, rights, obligations of AIEL in the Company from the Appointed date, namely 1st October 2008.

After completing the required legal formalities in terms of section 391-394 of the Companies Act, 1956, the Hon'ble High Court of Madras sanctioned the said Scheme vide its order dated 1st July 2009 and dissolved AIEL in pursuance of the said Scheme. Accordingly, all assets and liabilities, duties, rights and obligations of AIEL stood vested in the Company and AIEL ceased to be a subsidiary of the Company from the effective date, namely 6th July 2009. The entire investment held by the Company amounting Rs.5.01 lakhs stood cancelled and extinguished in accordance with the said Scheme.

10. SUBSIDIARY COMPANIES

A. CLASSIFICATION OF INVESTMENTS

The Company's concentration in automotive related businesses over five decades has enabled it to achieve manufacturing excellence, and earn prestigious TQC and TQM awards. The Company is exploring to diversify in related fields.

In order to have greater focus on automotive related businesses, various alternatives are being examined including hiving off, in a tax efficient manner, the investments made in the last two decades in electronics industry related entities, so that separate focus can be given to them.

Following this approach, in the current year's accounts, investments in such non-auto related fields are specifically distinguished under a separate heading as 'Non-auto related business and investments'.

B. AUTO-RELATED INVESTMENTS

During the year, AIEL, a wholly owned subsidiary of the Company, ceased to be a subsidiary of the Company effective 6th July 2009 consequent to its dissolution in terms of the Scheme of amalgamation sanctioned by the Hon'ble High Court of Madras vide its order dated 1st July 2009.

During the year, M/s.TVS Motor Credit Limited (TVMCL) was promoted by another wholly owned subsidiary, namely M/s.TVS Investments Limited (TVSI) on 5th November 2008. Hence, TVMCL became a subsidiary of the Company in terms of section 4(1)(c) of the Companies Act, 1956 effective 5th November 2008. Subsequently, the name 'TVMCL' was changed to TVS Credit Services Limited (TCSL). As the entire paid up capital of this Company was acquired from TVSI by another body corporate, TCSL ceased to be a subsidiary of TVSI and also as a subsidiary of the Company effective from that date, viz., effective 24th April 2009.

C. NON-AUTO RELATED INVESTMENTS

Subsequently, as part of restructuring of their core and non-core business activities among TVS-E Cluster companies, the shareholding by TVSI and its subsidiaries was rearranged.

D. SUMMARY OF SUBSIDIARIES

As of 31st March 2009, the following are the subsidiaries of the Company:

| S. No. | Name of the Company | Subsidiary of |
|-------------------------------------|------------------------------------|------------------------------------|
| Auto related Investments | | |
| 1. | Anusha Investments Limited | Sundaram-Clayton Limited |
| 2. | Auto (India) Engineering Limited | Sundaram-Clayton Limited |
| 3. | TVS Motor Company Limited | Sundaram-Clayton Limited |
| 4. | Sundaram Auto Components Limited | TVS Motor Company Limited |
| 5. | TVS Motor (Singapore) Pte. Limited | TVS Motor Company Limited |
| 6. | TVS Motor Company (Europe) B.V | TVS Motor Company Limited |
| 7. | PT. TVS Motor Company Indonesia | TVS Motor (Singapore) Pte. Limited |
| Non-auto related investments | | |
| 8. | TVS Investments Limited | Sundaram-Clayton Limited |
| 9. | TVS Electronics Limited | TVS Investments Limited |
| 10. | TVS Finance and Services Limited | Sundaram-Clayton Limited |
| 11. | TVS Credit Services Limited | TVS Investments Limited |
| 12. | Sravanaa Properties Limited | TVS Investments Limited |
| 13. | TVS Capital Funds Limited | TVS Investments Limited |
| 14. | TVS-E Access India Limited | TVS Investments Limited |
| 15. | TVS-E Servicetec Limited | TVS Investments Limited |
| 16. | Tumkur Property Holdings Limited | TVS Electronics Limited |
| 17. | Prime Property Holdings Limited | TVS Electronics Limited |

11. CONSOLIDATED ACCOUNTS

In terms of Accounting Standard 21 prescribed by The Institute of Chartered Accountants of India/Companies (Accounting Standards) Rules, 2006, the accounts of the subsidiaries are consolidated with

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the accounts of the Company and the consolidated accounts form part of this report.

An application in terms of Section 212(8) of the Companies Act, 1956 was made to the Central Government, seeking exemption from attaching the balance sheet and profit and loss account of the subsidiaries alongwith the report of the board of directors and that of the auditors' thereon, with the Company's accounts.

The Central Government vide its letter No.47/602/2009-CL-III dated 3rd August 2009 granted exemption from attaching the audited accounts and reports of the subsidiaries with that of the Company for the year ended 31st March 2009. This would help the Company to save considerable costs in printing and mailing.

As directed by the Central Government, the Company is presenting the consolidated financial statements of each of its subsidiaries duly audited by the statutory auditors.

The annual accounts of the subsidiaries and the related detailed information will be made available, at any point of time, to the investors of both the holding and the subsidiary companies upon seeking such information.

The annual accounts of the subsidiary companies will also be kept for inspection by the members at the registered office of the Company and that of the subsidiary companies concerned during the business hours on any working day.

12. DIRECTORS

During the year under review, Ms Pascale F Rahman resigned from the board effective 8th December 2008. Ms Nadia Meliti was appointed as a director effective 15th December 2008.

Following the completion of the obligations on transfer of shares between promoters, effected in terms of the Scheme of Arrangement between the Company and WABCO-TVS (INDIA) Limited and their respective shareholders and creditors sanctioned by the Hon'ble High Court of Madras vide its order dated 20th February 2008, the directors representing CDH viz., Dr Christian Wiehen, Mr Nikhil Madhukar Varty, Mr Leon Liu and Ms Nadia Meliti resigned effective 19th June 2009. Similarly, Mr D E Udawadia and Mr D D Udeshi also resigned from the board effective 24th June 2009 and 26th June 2009 respectively.

The board wishes to place on record its deep appreciation of the contribution made by Mr D E Udawadia, his association with the Company since 1980s in general and especially the special assistance and help provided by him when the Company offered its shares for the first time to public in 1982.

The board also records the valuable services of Mr D D Udeshi, who has been associated with the Company for a long time, and his significant role in different phases of Company's growth during the last three decades.

The board also records its deep appreciation of services and contributions made by the directors representing CDH viz., M/s. Christian Wiehen, Nikhil Madhukar Varty, Leon Liu and Nadia Meliti. All these directors have made distinct and significant contribution in general for the growth of the Company and more especially in the implementation of the demerger proposal.

The board appointed Mr Suresh Kumar Sharma, Mr S Santhanakrishnan and Mr V Subramanian, as additional directors of the Company in terms of section 260 of the Companies Act, 1956. They are non-executive and independent directors for the purpose of Listing Agreement. They will be eligible to hold office upto the date of the ensuing annual general meeting of the Company and, are eligible for re-appointment, as directors of the Company, in the ensuing general meeting.

M/s. Gopal Srinivasan and Vice Admiral P J Jacob (Retd.), directors will be retiring at this annual general meeting and, being eligible, offer themselves for reappointment.

During the year, Mr Venu Srinivasan was reappointed as managing director of the Company, effective 23rd May 2009 by the board at its meeting held on 27th April 2009 on such terms and conditions to be approved by the shareholders at the ensuing annual general meeting of the Company.

The brief resume of the aforesaid directors to be appointed and reappointed and other connected information have been detailed in the notice convening the annual general meeting of the Company. Appropriate resolutions for their appointment and re-appointment are being placed for approval of the shareholders at the ensuing annual general meeting. The directors recommend their appointment / re-appointment as directors of the Company.

13. AUDITORS

M/s Sundaram & Srinivasan, Chartered Accountants, retire at the ensuing annual general meeting and are eligible for re-appointment.

14. STATUTORY STATEMENTS**Conservation of energy, technology absorption and foreign exchange earnings and outgo**

As per the requirements of 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, the information regarding conservation of energy, technology absorption and foreign exchange earnings and outgo are given in the Annexure I to this report.

Particulars of employees

As required by the provisions of section 217(2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975 as amended, the names and other particulars of the employees are set out in the Annexure II to this report.

However, as per the provisions of section 219(1)(b)(iv) of the Companies Act, 1956, the report and accounts are being sent to all the shareholders of the Company excluding the aforesaid information on employees. Any shareholder interested in obtaining such particulars may write to the Company Secretary at the Registered Office of the Company.

Directors' Responsibility Statement

Pursuant to the requirement of Section 217(2AA) of the Companies Act, 1956 with respect to directors' responsibility statement, it is hereby confirmed: