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Sundram Fasteners Limited

ANNUAL REPORT

for the year ended
31st March 1999

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Sundram Fasteners Limited

BOARD OF DIRECTORS	Sri SURESH KRISHNA *Chairman & Managing Director* Sri K RAMESH Sri VENU SRINIVASAN Sri V NARAYANAN Sri R SRINIVASAN
SECRETARY	Sri V G JAGANATHAN
BANKERS	UNITED BANK OF INDIA STATE BANK OF MYSORE ANZ GRINDLAYS BANK LIMITED
AUDITORS	M/s SUNDARAM & SRINIVASAN Chartered Accountants 23 C P Ramaswamy Road Alwarpet Chennai 600 018
REGISTERED OFFICE	98A Dr Radhakrishnan Salai Chennai 600 004
FACTORIES	Padi Chennai 600 050 Harita Hosur 635 109 Dharmapuri District Krishnapuram Aviyur 626 160 Virudhunagar District Bonthapally Village 502 313 Medak District Andhra Pradesh Korkadu Village Nettapakkam Commune Bahur Taluk Pondicherry 605 110 Mittamandagapet Village Villupuram District
SHARE REGISTRY	98A III Floor Dr Radhakrishnan Salai Chennai 600 004

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Sundram Fasteners Limited

FINANCIAL HIGHLIGHTS

Particulars	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99
Operating results - Rs lakhs										
Sales	9,250	10,786	13,705	14,408	17,390	23,967	30,309	34,686	32,618	34,396
PBIDT	1,442	1,518	2,282	2,135	2,428	4,262	5,681	6,430	5,707	5,816
Interest	556	741	870	1,007	947	950	1,443	2,133	1,892	1,506
PBDT	886	777	1,412	1,128	1,481	3,312	4,238	4,297	3,815	4,310
Depreciation	304	387	438	487	343	373	551	762	952	1,026
Profit before tax	582	390	974	641	1,138	2,939	3,687	3,535	2,863	3,284
Tax	92	75	220	245	330	680	650	330	310	330
Profit after tax	490	315	754	396	808	2,259	3,037	3,205	2,553	2,954
Financial status - Rs lakhs										
Net fixed assets	2,891	3,191	3,699	3,721	4,671	6,938	10,432	14,086	14,661	16,094
Investments	20	35	29	67	75	256	257	257	258	301
Net current assets	2,894	4,246	4,228	5,452	5,198	6,386	8,561	9,579	9,278	9,360
Share capital	510	510	510	511	511	511	1,021	1,021	1,021	1,021
Reserves and surplus	1,570	1,746	2,134	2,380	2,989	4,992	7,023	9,671	11,675	13,833
Net worth	2,080	2,256	2,644	2,891	3,500	5,503	8,044	10,692	12,696	14,855
Loan funds	3,725	5,216	5,312	6,349	6,444	8,077	11,206	13,230	11,501	10,901
Total capital employed	5,805	7,472	7,956	9,240	9,944	13,580	19,250	23,922	24,197	25,756
Performance parameters										
PBIDT to Sales - %	15.6	14.1	16.7	14.8	14.0	17.8	18.7	18.5	17.5	16.9
PBIT to Sales - %	12.3	10.5	13.5	11.4	12.0	16.2	16.9	16.3	14.6	13.9
PBT to Sales - %	6.3	3.6	7.1	4.4	6.5	12.3	12.2	10.2	8.8	9.5
PBIDT/Avg cap empld - %	27.2	22.9	29.6	24.8	25.3	36.2	34.6	29.8	23.7	23.3
PAT/Avg net worth - %	25.8	14.5	30.8	14.3	25.3	50.2	44.8	34.2	21.8	21.4
Bonus issue	—	—	—	—	—	—	1:1	—	—	—
Earnings per share-Rs	9.61	6.18	14.78	7.77	15.82	44.22	29.73	31.38	25.00	28.92
Dividend per share-Rs	2.75	2.75	3.00	3.00	4.00	5.00	5.00	5.00	5.00	7.00
Dividend payout ratio	28.62	44.50	20.30	38.61	25.28	11.31	16.82	15.93	20.00	24.20
Book value per share-Rs	40.78	44.22	51.82	56.59	68.51	107.73	78.75	104.66	124.28	145.41
Market value per share-Rs	74	135	300	207	375	1,025	645	615	346	350

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REPORT OF THE DIRECTORS TO THE SHAREHOLDERS

The Directors are pleased to present the Thirty-sixth Annual Report together with the audited accounts for the year ended 31st March 1999.

FINANCIAL RESULTS		1998-99 Rs lakhs		1997-98 Rs lakhs
Sales - Domestic		**28,615.83**		27,924.13
- Exports		**5,780.41**		4,694.11
		34,396.24		32,618.24
Gross profit before interest and depreciation		**5,815.35**		5,707.58
Less : Interest	**1,505.63**		1,891.94	
Depreciation	**1,025.79**	**2,531.42**	952.20	2,844.14
Profit before tax		**3,283.93**		2,863.44
Less : Provision for taxation		**330.00**		310.00
Profit after tax		**2,953.93**		2,553.44
Add : Other adjustments		**186.09**		22.64
		3,140.02		2,576.08
Add : Balance brought forward		**331.43**		317.21
		3,471.45		2,893.29
Appropriations				
Proposed Dividend		**715.10**		510.78
Provision for tax on Dividend		**78.66**		51.08
Transfer to General Reserve		**2,300.00**		2,000.00
Balance carried forward		**377.69**		331.43
		3,471.45		2,893.29

PROFITS

The profit after tax was Rs 2,953.93 lakhs compared to Rs 2,553.44 lakhs earned during the previous year. The Earning per Share for the year works out to Rs 28.92 as against Rs 25.00 for 1997-98.

DIVIDEND

The Directors recommend a dividend of 70% (Rs 7 per Equity Share) absorbing a sum of Rs 715.10 lakhs.

OPERATING PERFORMANCE AND PROSPECTS

Led by an export growth of over 23%, the Company achieved an overall sales growth of over 5% despite adverse conditions in the domestic and overseas markets.

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Exports during the year amounted to Rs 5,780.41 lakhs as against Rs 4,694.11 lakhs in 1997-98. Continuous focus on new products, new markets and customers has enabled the Company to improve export sales in the face of stiff competition and sluggish market conditions. The Company has continued to supply fasteners to Daimler Benz AG, Germany (through Kamax) and Cummins Engine Company Inc., USA and hopes to increase supplies during 1999-2000. The Company continues to supply radiator caps and powder metal parts to General Motors Corporation, USA. The Company has formulated a policy of consciously increasing exports, even while retaining leadership in the domestic market, not only as vehicle for future growth but also for insulating the Company against wide fluctuations in the domestic market.

The growth in the exports has enabled the Company to be a net foreign exchange earner for the second year in succession.

The demand for auto components in the domestic market continued to be sluggish. Slowdown in off-take of all automobiles, other than motor cycles, resulted in lower demand for the Company's products. Major automobile manufacturers exerted continuous pressure on realisations even while demanding better service and just-in-time deliveries. Sales to Original Equipment Manufacturers (OEM) remained stagnant during the year even as sales to major OEMs showed a decline. Aggressive marketing helped the Company to improve its market share in the after-market. The total domestic sales improved by about 3%. Sluggish market conditions resulted in undue difficulties in management of receivables.

Additional manpower costs following a long-term wage agreement applicable to Chennai based employees, increased cost of power due to hike in tariffs and new levies by state government during the year resulted in erosion of margins. Implementation of Total Productive Maintenance programme enabled the Company to effect substantial savings in consumption of Stores & Tools and in reducing expenditure on Repairs & Maintenance.

Better working capital management, repayment of high cost loans and optimum utilisation of resources helped the Company to reduce interest costs during 1998-99. CRISIL has assigned a rating of P1+ to the Company's Commercial Paper programme of Rs 40 crores.

The Company added assets worth over Rs 2,500 lakhs during 1998-99. A major portion of the investments were made in expanding capacities for manufacture of sintered metal components. The additions will enable the Company to widen the range of products.

During the year, the Company entered into a technical collaboration agreement with Dura Automotive Group, USA for the manufacture of Gear shifters and Parking brake assemblies for automobiles. The Company has commenced manufacture of Gear Shifters at Padi. These products will be used in new generation cars.

PROSPECTS

During the first two months of 1999-2000, there is cautious optimism about the impending recovery of the economy. The Company is in a position to take advantage of the improvement. With added emphasis on exports, there will be greater scope for increasing capacity utilisation.

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AWARDS

The Company has won the coveted "GM Supplier of the Year" award for **the third consecutive year** confirming its status as a world class company. The Company is one of the 185 award-winning suppliers from 27 countries recognized by General Motors, USA as "Supplier of the Year" from a supplier base of 30,000 supplier companies. The award recognises supplier companies, worldwide, who exceed specific performance standards in the areas of quality, service, technology and price.

The Company was awarded the prestigious TPM Excellence Award by Japan Institute of Plant Maintenance (JIPM). The Company received the award after a rigorous audit of its plants by the auditors of JIPM. The Company passed the on-site screening and met all the rigid requirements before the award was conferred.

The IMC-Ramakrishna Bajaj National Quality Award Trust conferred "The IMC Juran Quality Medal" on Sri Suresh Krishna in recognition of his continued and sustained commitment to quality as a leader and practitioner.

PROGRESS THROUGH CONTINUOUS IMPROVEMENTS

The Company has implemented Level-1 of "Total Productive Maintenance" programme (TPM) - in consultation with Japan Institute of Plant Maintenance. The programme has helped to improve overall equipment effectiveness and to manufacture products with fewer defects. It has also helped the Company in improving its international competitiveness. There has been a marked improvement in the efficiency of operations and machine-availability. Employee participation in the programme has resulted in better productivity. The Company has taken up implementation of Level-II of the programme. This will help the Company in its drive to becoming a world class organisation in all its operations by the turn of the century.

QS 9000

The quality management systems of all the manufacturing units of the Company have been certified under ISO 9002. The units manufacturing Radiator caps, Cold formed/extruded parts, Precision formed gears and Sintered metal parts have also got their quality management systems certified for conformance to QS 9000. Bureau Veritas Quality International auditors have completed the assessment of quality management systems under QS 9000 in respect of Fasteners Division and have recommended for certification.

SOFTWARE BUSINESS

Sundram Telematics Limited, the telecommunication software development subsidiary, has recorded a turnover of Rs 45.05 lakhs during 1998-99 as against Rs 204.90 lakhs achieved during 1997-98. The Company was developing telecommunication software for use by Lucent Technologies GmbH, Germany. During the year, Lucent Technologies discontinued sourcing software from the Company. The Company is exploring the possibility of exporting software to other clients.

STATUTORY STATEMENTS

The amount of deposits held by the Company, as at 31st March 1999 was Rs 504.99 lakhs. Deposits which matured during the year were either renewed or repaid on due dates with the exception of 118 deposits amounting to Rs 13.02 lakhs which remained unclaimed. 30 deposits amounting to Rs 3.09 lakhs have since been renewed or repaid.

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Statement relating to the subsidiary companies viz. Sundram Fasteners Investments Limited, Aplomb Investments Limited, Sundram Telematics Limited and Sundram Numeric Limited and copies of audited accounts of these companies for the year ended 31st March 1999 are attached to the Balance Sheet pursuant to Section 212 of the Companies Act, 1956.

Particulars regarding conservation of energy, technology absorption and foreign exchange earnings and outgo, pursuant to 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, are given in Annexure-I which forms part of this report.

Particulars as required by Section 217(2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975, are furnished in Annexure-II, forming part of this report.

Y2K COMPLIANCE

Status on Y2K compliance is given in Annexure-III to this report.

DEPOSITORY

The Company has signed an agreement with National Securities Depository Limited for dematerialisation of the Company's shares. This facility is now operational and members are requested to avail the same.

DIRECTORS

Sri Venu Srinivasan retires from the Board and being eligible, offers himself 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 also wish to thank United Bank of India, State Bank of Mysore, ANZ Grindlays Bank Limited, Corporation Bank, Unit Trust of India, Life Insurance Corporation of India, General Insurance Corporation of India and its subsidiaries, Export-Import Bank of India, Army Group Insurance Fund, Andhra Pradesh Industrial Development Corporation Ltd., Andhra Pradesh State Financial Corporation, Tamil Nadu State Electricity Board, customers and vendors, for all the assistance rendered by them from time to time.

On behalf of the Board

Chennai
May 31, 1999

SURESH KRISHNA
Chairman & Managing Director

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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. Modification of control circuits in the Production Equipments and furnaces for ensuring optimal utilisation of energy in these equipments.
2. Arresting air leakages and reducing consumption of compressed air.
3. Reduction of skin temperature of Sintrite and Normalising furnace.
4. Modification of metallurgical processes for the purpose of reduction of total cycle time.
5. Modification of the design of the furnace so as to increase the length of heating zone.

b) Additional investments and proposals being implemented :

Total investment on the above measures was around Rs 30 lakhs. The Company endeavours to save energy by the adoption of energy efficient practices and employment of power saving equipment.

c) Impact of measures at (a) and (b) above :

The above measures have resulted in saving power costs 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) High level of indigenisation of Cold heading quality wire rods and development of new sources of supplies.
   b) Cryogenic Treatment of tools to ensure consistent productivity improvement.
   c) Micro Encapsulated Fastener Development for Domestic Customers.
   d) Development of cost efficient valve seat inserts through revised process.
   e) Development of process for near net shape synchronizer hubs.
   f) Development for in-house manufacture of pre alloyed powders.
   g) Research papers were submitted and accepted for the World Congress for Powder Metal Technology.

2. Future plan of action :
   a) In continuous collaboration with leading research/educational bodies, development of modelling for Finite element analysis is being pursued to understand the metal flow pertaining to fasteners and cold extrusion products.
   b) Introduction of semi solid metal forming technology to get new business.
   c) Developing closed die extruded products like bevel gears.

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d) Development of Experiment to optimise process parameters for all metallurgical processes like Carbonitriding, Sintering etc.

e) Conversion of high density parts like connecting rods and gears for two wheelers through powder metallurgy route.

3. Expenditure on R & D :

The Company is in the process of implementing "Total Productive Maintenance" (TPM) techniques under the guidance of Japan Institute of Plant Maintenance with a view to improve shop floor practices. During the year, the Company incurred expenditure amounting to Rs 221.58 lakhs towards implementation of TPM techniques. The expenditure works out to 0.64% of total turnover.

Technology absorption, adaptation and innovation :

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

a) The Company is in the process of implementing "Total Productive Maintenance" (TPM) techniques under the guidance of Japan Institute of Plant Maintenance. TPM eliminates machine breakdowns and promotes autonomous maintenance of equipments by the workers and brings about improvement in overall equipment effectiveness.

b) Improvements to Total Quality Management Systems.

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

a) TPM is expected to improve productivity and to result in considerable reduction in machine down-time, 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 ISO 9000 certification standards as well as qualifying for conformance to such standards like QS 9000 etc.

C. Foreign Exchange Earnings and Outgo :

1. The Company improved its exports to Rs 5,780.41 lakhs in 1998-99 from Rs 4,694.11 lakhs in 1997-98. All exports of the Company are directed towards the hard currency areas.

2. Total Foreign Exchange used and earned :

a) Foreign Exchange used	Rs 4,729.19 lakhs
b) Foreign Exchange earned	Rs 6,028.44 lakhs

On behalf of the Board

Chennai
May 31, 1999

SURESH KRISHNA
Chairman & Managing Director

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