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Sundram Fasteners Limited

ANNUAL REPORT

for the year ended
31st March 2002

Sundram Fasteners Limited

BOARD OF DIRECTORS	Sri SURESH KRISHNA *Chairman & Managing Director* Sri K RAMESH Sri VENU SRINIVASAN Sri V NARAYANAN Sri R SRINIVASAN Sri S L NARAYANAN
SECRETARY	Sri V G JAGANATHAN
BANKERS	UNITED BANK OF INDIA STATE BANK OF MYSORE STANDARD CHARTERED GRINDLAYS BANK LTD HDFC 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 Telephone : 044 - 8521870 Fax : 044 - 8549781 Website : www.sundram.com
FACTORIES	Padi Chennai 600 050 Chengulpat District 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 605 106 Villupuram District
SHARE REGISTRY	98A III Floor Dr Radhakrishnan Salai Chennai 600 004 Telephone : 044 - 8521870 Fax : 044 - 8549781 E-Mail : csn@corp.sfl.co.in

FINANCIAL HIGHLIGHTS

Particulars	2001-2002	2000-2001	1999-2000	1998-99	1997-98	1996-97	1995-96	1994-95	1993-94	1992-93
Operating results - Rs lakhs										
Sales	**43,317**	42,421	43,191	34,396	32,618	34,686	30,309	23,967	17,390	14,408
PBIDT	**6,712**	6,565	7,654	5,777	5,707	6,430	5,681	4,262	2,428	2,135
Interest	**1,297**	1,672	1,408	1,467	1,892	2,133	1,443	950	947	1,007
PBIDT	**5,415**	4,893	6,246	4,310	3,815	4,297	4,238	3,312	1,481	1,128
Depreciation	**1,322**	1,195	1,115	1,026	952	762	551	373	343	487
PBIT	**5,390**	5,370	6,539	4,751	4,755	5,668	5,130	3,889	2,085	1,648
Profit before tax	**4,093**	3,698	5,131	3,284	2,863	3,535	3,687	2,939	1,138	641
Tax	**1,172**	820	869	330	310	330	650	680	330	245
Profit after tax	**2,921**	2,878	4,262	2,954	2,553	3,205	3,037	2,259	808	396
Financial status - Rs lakhs										
Net fixed assets	**18,424**	17,442	17,600	16,094	14,661	14,086	10,432	6,938	4,671	3,721
Investments	**3,341**	3,292	3,288	301	258	257	257	256	75	67
Net current assets	**11,887**	12,556	11,091	9,360	9,278	9,579	8,561	6,386	5,198	5,452
Share capital	**1,021**	1,021	1,021	1,021	1,021	1,021	1,021	511	511	511
Reserves and surplus	**17,153***	18,935	16,848	13,833	11,675	9,671	7,023	4,992	2,989	2,380
Net worth	**18,174**	19,956	17,870	14,855	12,696	10,692	8,044	5,503	3,500	2,891
Loan funds	**11,734**	13,334	14,110	10,901	11,501	13,230	11,206	8,077	6,444	6,349
Deferred tax liability	**3,744**	—	—	—	—	—	—	—	—	—
Total capital employed	**33,652**	33,290	31,980	25,756	24,197	23,922	19,250	13,580	9,944	9,240
Performance parameters -%										
PBIDT to Sales	**15.5**	15.5	17.7	16.8	17.5	18.5	18.7	17.8	14.0	14.8
PBIT to Sales	**12.4**	12.7	15.1	13.8	14.6	16.3	16.9	16.2	12.0	11.4
PBT to Sales	**9.4**	8.7	11.9	9.5	8.8	10.2	12.2	12.3	6.5	4.4
PBIDT/Avg cap employed (ROCE)	**20.1**	20.1	26.5	23.1	23.7	29.8	34.6	36.2	25.3	24.8
PBIT/Average capital employed	**16.1**	16.5	22.7	19.0	19.8	26.3	31.3	33.1	21.7	19.2
PAT/Avg net worth	**15.3**	15.2	26.0	21.4	21.8	34.2	44.8	50.2	25.3	14.3
Bonus issue	**—**	—	—	—	—	—	1:1	—	—	—
Earnings per share-Rs	**28.59**	28.17	41.73	28.92	25.00	31.38	29.73	44.22	15.82	7.77
Dividend per share-Rs	**10.00**	7.00	11.00	7.00	5.00	5.00	5.00	5.00	4.00	3.00
Dividend payout ratio	**34.98**	24.85	26.36	24.20	20.00	15.93	16.82	11.31	25.28	38.61
Book value per share-Rs	**177.92**	195.38	174.94	145.41	124.28	104.66	78.75	107.73	68.51	56.59
Market value per share-Rs	**236**	215	550	350	346	615	645	1,025	375	207

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

Note : Ten lacs equal to One Million

REPORT OF THE DIRECTORS TO THE SHAREHOLDERS

The Directors are pleased to present the Thirty-nineth Annual Report together with the audited accounts for the year ended 31st March 2002.

FINANCIAL RESULTS		2001-2002 Rs lakhs		2000-2001 Rs lakhs
Sales – Domestic		**35,143.59**		34,846.60
– Exports		**8,172.95**		7,574.65
		43,316.54		42,421.25
Gross Profit before interest, depreciation, extra-ordinary items and taxes		**6,939.85**		7,071.63
Less : Interest	**1,296.56**		1,672.22	
Depreciation	**1,322.09**	**2,618.65**	1,195.26	2,867.48
Profit before extra-ordinary items and tax		**4,321.20**		4,204.15
Less : Extra-ordinary items - compensation paid to employees under Early Retirement Scheme		**227.99**		506.17
		4,093.21		3,697.98
Less : Provision for taxation including earlier years		**1,172.60**		820.26
Profit after tax		**2,920.61**		2,877.72
Add : Other adjustments		–		86.60
		2,920.61		2,964.32
Add : Balance brought forward		**1,622.59**		1,449.68
		4,543.20		4,414.00
Appropriations				
Interim Dividend		**1,021.57**		–
Tax on Interim Dividend		–		3.37
Proposed Dividend		–		715.10
Provision for tax on Dividend		–		72.94
Transfer to Contingency Reserve		**1,000.00**		1,000.00
Transfer to General Reserve		**1,000.00**		1,000.00
Balance carried forward		**1,521.63**		1,622.59
		4,543.20		4,414.00

PROFITS

Export Sales of Sundram Fasteners Limited, during the year ended March 31, 2002 were higher at Rs 81.73 crores compared to Rs 75.75 crores during the previous year, an increase of over 7.9%, in spite of slowing economies world wide. Exports have contributed significantly to maintain the profits. The Company's focus on exports, even while retaining leadership in the domestic market, has helped in partly insulating the Company from a continuing decline in domestic profitability.

After charging full amount of compensation of Rs 227.99 lakhs (Rs 506.17 lakhs) to employees under Early Retirement Scheme, the profit after tax was Rs 2,920.61 lakhs compared to Rs 2,877.72 lakhs earned during the previous year. The Earning per Share for the year works out to Rs 28.59 as against Rs 28.17 for 2000-2001.

DIVIDEND

The Directors have decided to pay an interim dividend of Rs 10.00 per share for the year as against final dividend of Rs 7.00 per share paid in the previous year. The Directors do not recommend any final dividend for the year 2001-2002.

STATUTORY STATEMENTS

The amount of deposits held by the Company, as at 31st March 2002 was Rs 581.46 lakhs. Deposits which matured during the year were either renewed or repaid on due dates with the exception of 55 deposits amounting to Rs 5.35 lakhs which remained unclaimed. 10 deposits amounting to Rs 0.90 lakhs have since been renewed or repaid.

Statement relating to the subsidiary companies viz. Autolec Industries Limited, Sundram Fasteners Investments Limited, TVS Infotech Limited, Aplomb Investments Limited and TVS International Inc and copies of accounts of these companies are attached pursuant to Section 212 of the Companies Act, 1956.

The information required under Section 217(1)(e) of the Companies Act, 1956, read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 is given in the Annexure to this report.

The information required under the provisions of Section 217(2A) of the Companies Act, 1956 and the rules made thereunder, is given in the annexure appended hereto and forms part of this report. In terms of Section 219(1) (b)(iv) of the Act, the Report and Accounts are being sent to the Members excluding the aforesaid annexure. Interested Members may write to the Company Secretary, at the Registered Office of the Company, for obtaining a copy of the said annexure.

CONSOLIDATED FINANCIAL STATEMENT

As required by Accounting Standard - AS 21 on 'Consolidated Financial Statements' issued by The Institute of Chartered Accountants of India, the audited Consolidated Financial Statements of the Company and its Subsidiaries are attached.

CORPORATE GOVERNANCE

As per Clause 49 of the Listing Agreement with the Stock Exchanges, a separate report on Corporate Governance and Management Discussion and Analysis together with a certificate from the Company's Auditors confirming the compliance of conditions of Corporate Governance is attached to this report.

DIRECTORS' RESPONSIBILITY STATEMENT

The Directors confirm that :

1. in the preparation of annual accounts, the applicable accounting standards have been followed.
2. appropriate accounting policies have been selected and applied consistently, and judgements and estimates that have been made are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit of the Company for that period.
3. proper and sufficient care has been taken for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities.
4. the annual accounts have been prepared on a going concern basis.

DIRECTORS

Sri V Narayanan and Sri Venu Srinivasan 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 United Bank of India, State Bank of Mysore, Standard Chartered Grindlays Bank Limited, HDFC Bank Limited, Export-Import Bank of India, State Electricity Boards in Tamil Nadu, Pondicherry and Andhra Pradesh, customers and vendors, for all the assistance rendered by them from time to time.

On behalf of the Board

Chennai
June 15, 2002

SURESH KRISHNA
Chairman & Managing Director

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. Re-insulation of hardening furnaces with ceramic fibre for improving heating efficiency.
2. Installation of variable speed drive for production machines in place of mechanical speed vibrator
3. Optimisation of motor ratings for fume exhaust system
4. Replacement with energy efficient lightings in shopfloor and reflectors in office
5. Introduction of temperature controllers in the cooling tower
6. Replacement of V belt drives with flat belt drives for achieving better transmission efficiency
7. Provision of AC drives for Alkali Fume Extraction blowers

b) Additional investments and proposals being implemented :
Total investment on the above measures was around Rs 10 lakhs. The Company initiates steps to save energy by the adoption of energy efficient practices and implementation of the proposals arising out of energy audit.

c) Impact of measures at (a) and (b) above :
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 there from:
   a) Developed in-built monitoring system in thread rolling machineries
   b) Developed and built hydraulic wire cutters with facility for sensing tensile strength
   c) Assembling of carbides into the casing through sub-zero treatment instead of conventional heating.
   d) Introduction of filter press for separation of sludge and water in the treatment of effluent
   e) Introduction of auto dosing mechanism for chemical addition for treatment of effluent.
   f) Development of prealloyed powders as substitution for imports.
   g) Development of low cost valve seat materials for two wheeler applications.
   h) Development of superior corrosion resistance process for Powder Metal parts
   i) Development of sinter brazing technology for joining Powder Metal and Cold Extrusion parts.
   j) Establishment of multistage cold forming operation for shafts.
2. Future plan of action :
   a) In continuous collaboration and interaction with leading research/educational bodies, development of modelling for Finite element analysis is being pursued to observe and understand the metal flow pertaining to fasteners, cold extrusion products and compacting of powder metal parts.
   b) Extending of development of low cost valve seats for four wheelers and diesel vehicles.
   c) Gear profile forming through cold extrusion instead of gear hobbing is envisaged.
3. Expenditure on R & D :

   The Company has incurred expenditure amounting to Rs 116.57 lakhs towards Research and Development (capital expenditure – Rs 99.66 lakhs and recurring expenditure – Rs 16.91 lakhs). The total expenditure works out to 0.27% on 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 and practices 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 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 better to meet the stringent ISO 9000 and QS 9000 standards.

C. Foreign Exchange Earnings and Outgo :

1. The Company improved its exports to Rs 8,172.95 lakhs from Rs 7,574.65 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 5,174.57 lakhs
b) Foreign Exchange earned	Rs 8,732.11 lakhs

The Company continues to maintain record of net foreign exchange earner for the fifth year in succession.

On behalf of the Board

Chennai
June 15, 2002

SURESH KRISHNA
Chairman & Managing Director

MANAGEMENT DISCUSSION AND ANALYSIS

Business Overview

The year 2001-2002 witnessed a decline in the performance in the key sectors of the Indian economy reflecting the worldwide recession. The depressed performance of the economy in general and the domestic automotive sector in particular has caused lower off-take from the commercial vehicle and tractor segments. The motorcar industry also witnessed a low growth. A part of the two-wheeler segment viz. motorcycles performed creditably even as the scooter and moped segments slowed down considerably.

The after-market sales remained stagnant due to sluggish demand, inventory reduction by retail dealers and lack of financial resources with dealers. The earthquake in Gujarat had also affected the market in western India.

The global markets experienced a slow down particularly in the commercial vehicle and tractor segments beginning third quarter of calendar year 2000.

Domestic Sales

The Company's initiatives in new product development and aggressive steps to improve market share resulted in domestic sales of Rs 351.44 crores as against Rs 348.46 crores in the previous year. Margins have been under constant pressure as the Company had to reduce prices to retain / improve market shares. Customer expectations in terms of competitive price, favourable credit terms, quality and delivery at short notice and in small lots are some of the major changes that have occurred in recent years. Changes in production plans at short notice and cancellations of orders after manufacture have become common practice. The Company has been able to meet these challenges due to availability of adequate capacities in-house and establishment of reliable sub-contracting facilities.

Exports

The Company has always followed a policy of increasing its exports not only as a vehicle for growth but also as a medium for insulating its business against wide fluctuations. This long term policy will be pursued vigourously in future years.

Exports during the year under review grew by 7.9% to Rs 81.73 crores as against Rs 75.75 crores in the previous year. Recession in global markets resulted in lower off-take by some of the key customers. Competition from many internationally reputed companies in depressed market conditions have driven prices and volume of supplies down. The Company has been able to improve its sales by higher value added products and earn a reasonable margin. The Company's list of prestigious customers includes General Motors, Delphi Automotive, Cummins Engine Co and Deere and Co - all US based, Daimler Benz and ZF in Germany and Mitsubishi and Komatsu in Japan.

The Company has been striving to improve exports by developing products for new customers and new markets. As a step in this endeavour, the Company has opened a sales office in China. During financial year 2002-2003, Daimler Chrysler, US is a valuable addition to the list of its customers and the Company hopes to add Ford Motor Co, US. Exports to China have commenced in a small way.

Financial Performance

The higher volume and better realisation in exports have contributed significantly in improving performance of the Company in the wake of continuous pressure from the domestic automobile manufacturers for lowering prices. The Company, through focus on sustaining the process of implementing Total Productive Maintenance

(TPM), has achieved good control over operating expenses despite all round increase in costs, notably in the case of wages, power and petro-based consumables besides state levies. The operating profit prior to extra-ordinary expenses was Rs 69.40 crores (Rs 70.71 crores).

Extra-ordinary expenses on account of Early Retirement Scheme amounted to Rs 2.28 crores as against Rs 5.06 crores in the previous year.

There has been a marked reduction in the interest charges at Rs 12.97 crores (Rs 16.72 crores) due to better free cash flow and interest rate management. Depreciation charges amounted to Rs 13.22 crores (Rs 11.95 crores).

The profit before tax was higher at Rs 40.93 crores (Rs 36.98 crores). The provision for taxation was higher at Rs 11.72 crores (Rs 8.20 crores) on account of lower fiscal incentives applicable to the units at Pondicherry on completion of the stipulated period and lower export incentives.

The profit after taxation was Rs 29.21 crores (Rs 28.78 crores).

Capacities and Capital Expenditure

The Company has built-up substantial capacities over the years based on unrealised growth-projections of its customers. On account of prolonged slow down, the capacities have been utilised sub-optimally. The Company is of the opinion that new capacities will not be required in the near term and hence it does not expect to incur substantial capital expenditure over the next few years other than on quality control equipments, replacements and balancing of capacities in certain pockets based on customer requirements. As and when the market situation improves, the Company will be in a position to improve its capacity utilisation. The Company, however, will continue to invest in assets used to cater to the two-wheeler industry.

Human Resources / Industrial Relations

The Company recognises that its human resources are its most valuable assets. It encourages the employees to improve their performance continuously by re-training and multi-skilling. The Company provides them with an environment to participate through suggestion schemes, small group activities, task forces, etc. The employees are also kept fully informed of the challenges in the market place and of the need to effect continuous changes to address customer requirements. The morale, commitment and co-operation of the employees continue to be commendably high.

Industrial relations have always received the highest priority of the management of the Company. "Face to Face" communication style and a nurturing environment encourage growth. The Company's involvement in its people extends beyond the Company's premises. The Company has been investing in the future of employees' children through scholarships, free computer training, summer camps. The Company's motivated employees have produced outstanding results that have won recognition and awards.

The Company's excellent industrial relations have ensured that not a single day has been lost on account of industrial action since its inception in 1966.

During the year under review, the Company entered into wage agreements in respect of its workers at Hosur and Pondicherry valid up to 2003-2004. Wage negotiations in respect of units at Padi and Krishnapuram are in progress.

The Company has felt a compelling need to right-size its work force taking into account market compulsions, technological improvements, investments in new plant and machinery and availability of skills with sub-contractors. The Company introduced an "Early Retirement Scheme" during 2000-2001 and followed up with similar schemes during 2001-2002. The Company has given generous compensation to employees who opted to retire under the scheme. The process of rationalising manpower will continue to receive managerial attention till the Company achieves international benchmarks in productivity.

Cost reduction and TPM

The Company has always been conscious of the need to manufacture its products at the lowest possible cost even while maintaining quality and customer service. In the initial phase this issue was addressed by investment in advanced technology, improving manufacturing systems and practices and in achieving economies of scale. The Company made sizeable investments in creating the infrastructure. After making the investments, attention was centered at improving quality systems in line with ISO 9002 which was useful in upgrading to QS 9000 later.

These efforts addressed the issue of becoming a globally competitive organisation only partially. Cost reduction and benchmarking against international competition became very important. Initially, efforts were directed towards indigenisation of raw materials. These were highly successful as the Company was able to reduce its dependence on imports from 100% to negligible levels.

To be continuously competitive globally, the Company has reorganised its factories into Zones of Autonomous Production and has instituted an organisation structure based on processes rather than functions and departments. The Company has implemented TPM in collaboration with Japan Institute of Plant Maintenance. TPM seek to create:

a) a management system that plans, implements, monitors and continuously improves overall plant effectiveness;

b) processes which assure zero defects, zero breakdowns, zero accidents and zero losses; and

c) employee involvement in continuous improvement programmes.

The Company has been able to achieve visible improvements in production and in reducing costs, the impact of which will be felt much more when market improves.

Hot Forgings Project

The Company has set up a project at Pondicherry for manufacture of small forgings, which will initially seek to cater to the automotive industry, especially two wheelers. Initial investment will be approximately Rs 16 crores of which Rs 7 crores has been spent upto March 31, 2002. The project has commenced trial production with self-generated power and is awaiting regular power connections. With the implementation of latest technology and adoption of TPM techniques at the inception, the project is expected to contribute reasonably to the sales and profits of the Company.

Environment

The Company is committed to protection and upgradation of the environment by adopting safe processes and by eliminating hazardous operations. Most modern effluent treatment facilities have been installed at all the plants. Periodic verification is done internally and by pollution control authorities. All the Company's factories have developed green belts around them. The Company's factory at Krishnapuram is certified under ISO 14000. Efforts are being made to obtain similar certification at other facilities.