



Sundram Fasteners Limited



ANNUAL REPORT

**for the year ended
31st March 2004**

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 R RAMAKRISHNAN

SECRETARY

Sri V G JAGANATHAN

BANKERS

UNITED BANK OF INDIA
STATE BANK OF MYSORE
STANDARD CHARTERED BANK LTD
HDFC BANK LTD
ICICI BANK LTD
CANARA BANK

AUDITORS

M/s SUNDARAM & SRINIVASAN
Chartered Accountants 23 C P Ramaswamy Road
Alwarpet Chennai 600 018

REGISTERED OFFICE

98A Dr Radhakrishnan Salai, Mylapore, Chennai 600 004
Telephone : 044 - 28478500 Fax : 044 - 28478510
Website : www.sundram.com

FACTORIES (In India)

Padi Chingleput District, Chennai 600 050, Tamil Nadu
Harita, Dharmapuri District, Hosur 635 109, Tamil Nadu
Krishnapuram, Virudhunagar District, Aviyur 626 160, Tamil Nadu
Bonthapally Village, Medak District, Andhra Pradesh 502 313
Korkadu Village, Nettapakkam Commune, Bahur Taluk 605110
Pondicherry
Mittamandagapet Village 605 106, Villupuram District, Tamil Nadu
47/2A Poonamalle High Road, Vellappanchavadi 600 077,
Tamil Nadu
SIPCOT Industrial Estate, Gummidipoondi 601 201, Tamil Nadu

FACTORIES

(Outside India - through subsidiaries)

Sundram Fasteners (Zhejiang) Limited, China
No 1 Sundram Road, Wuyuan Town,
Haiyan county, Jiaying city, Zhejiang Province, China 314 300
Cramlington Precision Forge Limited, UK
Unit 8, Atley Way, North Nelson Ind. Estate
Cramlington, United Kingdom NE23 9WA
RBI Autoparts Sdn. Bhd., Malaysia
No 7, Jalan Teras 2, Kawasan Industri Teras, 43300 Balakong,
Selangor, Malaysia

Sundram Fasteners Limited

FINANCIAL HIGHLIGHTS

Particulars	2003-04	2002-03	2001-02	2000-01	1999-00	1998-99	1997-98	1996-97	1995-96	1994-95
Operating results - Rs lakhs										
Sales	77,429	51,943	43,317	42,421	43,191	34,396	32,618	34,686	30,309	23,967
EBIDT	10,223	8,536	6,712	6,565	7,654	5,777	5,707	6,430	5,681	4,262
Interest	(552)	610	1,297	1,672	1,408	1,467	1,892	2,133	1,443	950
EBDT	10,776	7,926	5,415	4,893	6,246	4,310	3,815	4,297	4,238	3,312
Depreciation	1,977	1,299	1,322	1,195	1,115	1,026	952	762	551	373
EBIT	8,246	7,237	5,390	5,370	6,539	4,751	4,755	5,668	5,130	3,889
Profit before tax	8,798	6,627	4,093	3,698	5,131	3,284	2,863	3,535	3,687	2,939
Tax	3,008	2,088	1,172	820	869	330	310	330	650	680
Profit after tax	5,790	4,539	2,921	2,878	4,262	2,954	2,553	3,205	3,037	2,259
Financial status - Rs lakhs										
Net fixed assets	25,867	19,535	18,424	17,442	17,600	16,094	14,661	14,086	10,432	6,938
Investments	2,021	3,369	3,341	3,292	3,288	301	258	257	257	256
Net current assets	22,039	12,443	11,887	12,556	11,091	9,360	9,278	9,579	8,561	6,386
Share capital	1,051	1,021	1,021	1,021	1,021	1,021	1,021	1,021	1,021	511
Reserves and surplus	22,241	20,309	17,153#	18,935	16,848	13,833	11,675	9,671	7,023	4,992
Net worth	23,292	21,330	18,174	19,956	17,870	14,855	12,696	10,692	8,044	5,503
Loan funds	21,754	9,504	11,734	13,334	14,110	10,901	11,501	13,230	11,206	8,077
Deferred Tax Liability	4,881	3,906	3,744	-	-	-	-	-	-	-
Total capital employed	49,927	34,740	33,652	33,290	31,980	25,756	24,197	23,922	19,250	13,580
Performance parameters - %										
EBIDT to Sales	13.2	16.4	15.5	15.5	17.7	16.8	17.5	18.5	18.7	17.8
EBIT to Sales	10.6	13.9	12.4	12.7	15.1	13.8	14.6	16.3	16.9	16.2
PBT to Sales	11.4	12.8	9.4	8.7	11.9	9.5	8.8	10.2	12.2	12.3
EBIDT/Average capital employed [ROCE]	24.1	25.0	20.1	20.1	26.5	23.1	23.7	29.8	34.6	36.2
EBIT / Average capital employed	19.5	21.2	16.1	16.5	22.7	19.0	19.8	26.3	31.3	33.1
PAT/Avg net worth	26.0	23.0	15.3	15.2	26.0	21.4	21.8	34.2	44.8	50.2
Bonus issue	-	-	-	-	-	-	-	-	1:1	-
Earnings per share -Rs	5.51*	44.43	28.59	28.17	41.73	28.92	25.00	31.38	29.73	44.22
Dividend per share-Rs	1.40*	12.00	10.00	7.00	11.00	7.00	5.00	5.00	5.00	5.00
Dividend payout ratio	25.41	27.01	34.98	24.85	26.36	24.20	20.00	15.93	16.82	11.31
Book value per share-Rs	22.16*	208.91	177.92	195.38	174.94	145.41	124.28	104.66	78.75	107.73
Market value per share-Rs	87.05*	362	236	215	550	350	346	615	645	1,025

#After considering transfer of Rs 3,681 Lakhs on account of initial adoption of Deferred Tax Liability

* On face value of Re 1 each

Note: 1 Lakh = Rs.100,000

Ten Lakhs equal to One Million

REPORT OF THE DIRECTORS TO THE SHAREHOLDERS

The Directors are pleased to present the Forty First Annual Report together with the audited accounts for the year ended 31st March 2004.

AMALGAMATION

During the year, TVS Autolec Limited, Chennai was amalgamated with the Company pursuant to the Order of the Hon'ble High Court of Madras dated 25th March 2004. The said Order was filed with the Registrar of Companies, Chennai, Tamilnadu on 31st March 2004. Accordingly, TVS Autolec Limited was merged with the Company from the appointed date i.e. 1st April 2003. As per the approved Scheme, the shareholders of TVS Autolec Limited would receive 10 equity shares of face value Re 1 each fully paid up in the Company for every 6.4 equity shares of Rs 10 each fully paid up in TVS Autolec Limited. The Board welcome the Shareholders of TVS Autolec to the Company.

Consequent to amalgamation, the accounts for the financial year ended 31st March 2004 are prepared after taking into account the transactions of TVS Autolec Limited in accordance with the Scheme of Amalgamation and therefore the figures given herein and elsewhere in the Annual Report for the year 2003-04 are not comparable with figures for the previous year.

FINANCIAL RESULTS

	2003-2004	Rs lakhs 2002-2003
Sales – Domestic (including excise duty)	60,335.75	42,337.69
– Exports	17,093.30	9,605.63
	77,429.05	51,943.32
Gross Profit before interest, depreciation, extra-ordinary items and taxes	10,270.54	8,550.21
Less : Interest	(552.44)	610.07
Depreciation	1,977.15	1,299.18
	1,424.71	1,909.25
Profit before extra-ordinary items and tax	8,845.83	6,640.96
Less : Extra-ordinary items - compensation paid to employees under Early Retirement Scheme	62.20	14.06
	8,783.63	6,626.90
Less : Provision for taxation including earlier years	3,008.44	2,087.81
Profit after tax	5,775.19	4,539.09
Add : Balance brought forward	1,744.51	1,521.63
Add : Provision for diminution in value of Investments written back	15.12	–
	7,534.82	6,060.72
Appropriations		
Interim Dividend	630.39	–
Tax on Interim Dividend	80.77	–
Proposed Dividend	840.51	1,225.88
Provision for tax on Dividend	107.69	157.07
Transfer to General Reserve	4,000.00	3,000.00
Balance carried forward	1,875.46	1,677.77
	7,534.82	6,060.72

PROFITS

Export Sales of the Company, during the year ended 31st March 2004 were higher at Rs.17,093.30 lakhs. Exports have contributed significantly to the profits.

Sundram Fasteners Limited

The profit after tax for the year after charging full amount of compensation of Rs. 62.20 lakhs to employees under Early Retirement Scheme was Rs.5,790.31 lakhs.

DIVIDEND

The Directors recommend a final dividend of Re 0.80 per share of face value Re 1 each for the year, which together with the interim dividend of Re 0.60 declared and paid earlier would amount to a total dividend of Rs 1.40 per share of Re 1 each as against final dividend of Rs 12 per share of Rs10 each paid in the previous year. Interim dividend disbursed amounted to Rs 630.39 lakhs. Final dividend will absorb a total amount of Rs 840.51 lakhs.

STATUTORY STATEMENTS

The amount of deposits held by the Company as at 31st March 2004 was Rs 261.05 lakhs. Deposits which matured during the year were repaid on due dates with the exception of 40 deposits amounting to Rs 18.57 lakhs which remained unclaimed. 4 Deposits amounting to Rs 0.34 lakhs have since been repaid.

SUBSIDIARY COMPANIES

During the year, the Company set up its first greenfield venture in China to manufacture high tensile fasteners to cater to domestic market in China as well as international market. The Company is the first Indian engineering industry to set up a manufacturing facility in China. With an initial investment of US \$ 5 million, the manufacturing facility has been set up through a wholly owned subsidiary viz. Sundram Fasteners (Zhejiang) Limited. The facility was formally inaugurated by India's Ambassador to China Mr Nalin Surie in May 2004 and is likely to step up production by August 2004.

The Directors wish to thank the Chinese Authorities, Officers of Haiyan County, Jiaxin City, Zhejiang Province, Chinese tax and other Administrative Authorities for the support extended to the Subsidiary.

In December 2003, the Company acquired the Cramlington Precision Forge facility of Dana Spicer Europe Limited, UK located at Cramlington, UK for a total consideration of US \$ 2.64 million. The facility was acquired through a wholly owned subsidiary viz. Cramlington Precision Forge Limited, Northumberland, UK. The total investment in the facility made by the Company during the year was £ 1.90 million. The Directors wish to thank One North East, the Regional Development Authority for Cramlington, UK for the continued support extended to the Subsidiary.

During the year, TVS Autolec Limited increased its holding in RBI Autoparts Sdn. Bhd., Malaysia from 30% to 70% in February 2004. Consequent to amalgamation of TVS Autolec Limited with the Company, RBI Autoparts Sdn. Bhd., became a subsidiary of the Company. RBI Autoparts Sdn. Bhd. assembles, tests and supplies products to Proton car company in Malaysia.

Statement relating to the subsidiary companies viz. Sundram Fasteners Investments Limited, TVS Infotech Limited, Aplomb Investments Limited, TVS International Inc., Sundram Fasteners (Zhejiang) Limited, Cramlington Precision Forge Limited and RBI Autoparts Sdn. Bhd. is 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 STATEMENTS

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.

In the context of mandatory requirement to present consolidated accounts, which provides members with a consolidated position of the Company including its subsidiaries and associates, members are being provided with the accounts and reports of the Company treating these as abridged accounts as contemplated under Section 219 of the Companies Act, 1956. The Company has made an application to the Central Government under Section 212(8) of the Companies Act, 1956 to seek exemption from attaching a copy of the Balance Sheet, Profit and Loss Account and other documents of the Subsidiary Companies. The accounts, reports and other documents of the subsidiary companies will be made available to the members upon receipt of a written request from them. These documents will also be made available to the members through SEBI-EDIFAR website (www.sebiedifar.nic.in). This will help the Company save considerable costs in connection with printing and mailing.

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; and
4. the annual accounts have been prepared on a going concern basis.

DIRECTORS

Sri R Srinivasan and Sri V Narayanan 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 reappointment.

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 Bank Limited, HDFC Bank Limited, Canara Bank, Citi Bank NA, ABN Amro Bank, HSBC 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 30, 2004

SURESH KRISHNA
Chairman & Managing Director

Sundram Fasteners Limited

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. Installation of energy savers for lighting circuits.
 2. Installation of automatic power factor controllers for increasing overall power factor of the plant.
 3. Increase of machine speed to reduce power cost per piece of product.
 4. Enhancing the productivity of sintering furnaces.
 5. Savings in energy cost by generating power using windmills.
 6. Installation of air flow optimiser.
 7. Heat Treatment performance of furnaces improved through reducing element failure by In House manufacturing and containing quench oil temperature by increasing the quench oil tank volume.
- b) Additional investments and proposals being implemented:
Total investment on the above measures was around Rs 30 lakhs. The Company has initiated steps to save energy by the adoption of energy efficient practices and implementation of the proposals arising out of energy audit.
- c) Impact of the above measures :
The above measures have resulted in energy saving in consumption of fuel and power besides improving operational efficiency.

B. Technology Absorption

Research and Development (R & D) :

1. Specific areas in which R & D is carried out by the Company and the benefits derived there from:
 - a) Development of Powder Metal Transmission Gear for 2 wheelers.
 - b) Process for higher wear resistance of valve seats for petrol and diesel engines.
 - c) Development of sinter hardening of Powder Metal products and thus avoiding a separate heat treatment cycle.
 - d) Process for producing fully finished cross head valves.
 - e) Design & Commissioning of high tonnage compaction press capable of producing multi level Powder Metal Parts.
 - f) Raw Water consumption reduced by introducing cascade rings in wire phosphating plant.
 - g) Cycle time of Auto Plating plant reduced resulting in increase in output.
 - h) Increase in membrane life of R.O. plant by modifying pickling cycle in plating and phosphating plant.
 - i) Development of Ball pin with Taper shank.
2. Future plan of action:
 - a) Development of high-density Powder Metal parts, Surface Densified and helical Powder Metal Gears.
 - b) Automatic NDT testing of Powder Metal and Cold Extrusion products.
 - c) Cold forming of gear profiles.
 - d) Process for producing fully finished tappets.
 - e) Development of Hex Chrome free coating in yellow.
 - f) Development of Alkaline Zinc Cobalt plating.
 - g) Auto generation of tool design through 3D software using parametric design.
 - h) In House development of machinery for manufacture of fasteners.

- i) Development of U- nuts.
- j) Development of fasteners staked with retainers.
- k) Development of leak testing equipment for radiator caps.

3. Expenditure on R & D :

The Company has incurred revenue expenditure amounting to Rs.154.05 lakhs (Capital expenditure – Rs.38 lakhs and revenue expenditure – Rs.116.05 lakhs) towards Research and Development. The total expenditure works out to 0.20 % on turnover.

Technology absorption, adaptation and innovation :

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

- a) The Company has implemented the first phase of "Total Productive Maintenance" (TPM) techniques and practices under the guidance of Japan Institute of Plant Maintenance. The Company is in the process of implementing second phase of TPM, which will cover all office areas besides factories.
- b) Improvements to Total Quality Management Systems.
- c) Some of the factories of the Company have obtained accreditation according to the latest ISO/TS 16949-2002 standards. Audit is complete in some more factories and issue of final certificate is pending.
- d) The Company has retained the accreditation of its quality systems being in line with ISO 9001 –2000.
- e) The Company has implemented rainwater harvesting in all its factories thereby saving precious water besides saving on costs.
- f) Some of the factories of the Company have obtained ISO 14001 accreditation.

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

- a) TPM is expected to improve productivity and result in considerable reduction in machine downtime, improvement in productivity and cost saving, enabling the Company to gain and retain the competitive edge in the global arena.
- b) Constant updation of the Quality Management Systems has equipped the Company better to meet the stringent ISO 9000 and QS 9000 standards.

C. Foreign Exchange Earnings and Outgo :

- 1. Exports during the year under review grew to Rs 170.93 crores. All exports of the Company are directed towards the hard currency areas.
- 2. Total Foreign Exchange used and earned:

- a) Foreign Exchange used Rs 12,681.91 lakhs
- b) Foreign Exchange earned Rs 18,620.85 lakhs

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

On behalf of the Board

SURESH KRISHNA
Chairman & Managing Director

Chennai
June 30, 2004

Sundram Fasteners Limited

MANAGEMENT DISCUSSION AND ANALYSIS

Amalgamation of TVS Autolec Ltd

The year 2003-04 has been a watershed in the history of the Company with the amalgamation of its subsidiary TVS Autolec Ltd. The Company expects that the amalgamation will result in efficiency and improve overall performance of the Company. *The figures given herein and elsewhere in the Annual Report for the year 2003-04 are not comparable with figures for the previous year.*

Consequent to the amalgamation and allotment of equity shares of the Company to the shareholders of TVS Autolec Ltd., the Company ceased to be a subsidiary of TV Sundram Iyengar & Sons Ltd.

Business Overview

The year 2003-04 witnessed a sizeable improvement in the key sectors of the economy with industrial growth scaling new heights thanks to good monsoons in most parts of India. Better performance of the economy resulted in spectacular recovery in commercial vehicle demand. Motorcar and multi-utility vehicle segments also showed a healthy growth. Growth in motorcycles slowed down. While Scooters and Scooterettes showed some growth, moped sales declined. After many years, demand for tractors staged a strong recovery. With the unanticipated buoyancy in the market, capacity utilisation improved considerably with the earmarking of a major part to meet OEM demand.

The Company achieved a strident growth in volume of sales to OEMs despite continuous pressure on prices exerted by OEMs even as cost of inputs, particularly steel and aluminium rose to unprecedented levels. Availability and quality of steel also caused concern from time to time.

Domestic Sales

The growth in sales of commercial vehicles and cars enabled the Company to increase its net sales in the domestic market to Rs 518.18 crores. With improved over all volumes, the Company was able to maintain its profits despite sizeable price reductions passed on to major customers even in the face of increasing steel prices. The Company has been able to maintain or improve its market share with all its major customers.

After-market sales remained stagnant due to demand constraints and lower capacity allocation.

Exports

The Company continued zealously its policy of increasing the share of export sales so that it can be a globally competitive manufacturer. This will reduce the risk of violent fluctuations arising out of dependence on a few major customers in specific markets. The Company will implement this long-term policy in future years.

Exports during the year under review grew to Rs 170.67 crores. Deflationary / recessionary conditions in global markets led to cost cutting on a massive scale resulting in greater efforts in outsourcing products and services from developing countries. With the partial recovery of some of the major economies across the world, there has been a steady improvement in order book position. Prices have continued to remain depressed because of competitive pressures even as steel prices have been soaring to unprecedented levels. Indian rupee appreciated strongly against US dollar but lost some ground against Euro and Pound Sterling. With preponderance of dollar denominated exports, margins remained under pressure. The Company's prestigious list of customers include General Motors, Daimler Chrysler, Delphi Automotive, Cummins Engine, Caterpillar, Deere and Co, Valeo, Mack Trucks, Case New Holland, Proton, Perkins, Concentric Pumps, Calsonic Kansei, MTU, Deutz Motors, ZF, etc.

Financial Performance

The higher volume of sales, both domestic and exports, has contributed significantly in maintaining the overall profits of the Company despite a sharp hike in steel prices causing a sizeable dent in gross margins.

Non-availability of steel to meet production plans resulted in steep increase in delivery costs to meet customer schedules. Focus on implementing Total Productive Maintenance (TPM) helped the Company achieve a reasonable control over other operating expenses.

Summary of Operating results is given below:

Abridged Profit and loss statement

Rs lakhs

	2003 - 04	2002 - 03	Growth (%)
Net Sales & Operating Income	68,911.58	45,882.69	50.2
Other Income	239.41	194.78	22.9
Total Income	69,150.99	46,077.47	50.1
Total expenditure	58,880.45	37,526.20	56.9
Profit before depreciation, interest and tax (PBDIT)	10,270.54	8,551.27	20.1
Interest	(552.44)	610.07	(190.6)
Depreciation/Amortisation	1,977.15	1,299.18	52.2
Profit before tax (PBT) and before extraordinary item	8,845.83	6,642.02	33.2
Extraordinary item (EOI)	62.20	15.12	311.4
Profit before tax (PBT)	8,783.63	6,626.90	32.5
Current tax	2,520.00	1,930.00	30.6
Deferred tax	417.12	162.83	156.2
Profit after tax (PAT)	5,846.51	4,534.07	28.9
Income Tax - earlier years / provisions written back	(55.82)	5.02	-
Profit for the year available for appropriation	5,790.31	4,539.09	27.6

Key Ratios

	2003 - 04	2002 - 03
PBDIT/Total Revenue	14.9%	18.6%
Raw Material/Total Revenue	42.1%	35.5%
Manufacturing expenses/Total Revenue	45.9%	48.8%
PBIT/Total Revenue	12.0%	15.7%
PBT/Total Revenue	12.7%	14.4%
PAT/Total Revenue	8.5%	9.8%
PAT /Avg. Capital Employed	13.8%	13.1%
RONW (Avg. Net Worth)	26.0%	23.0%
Economic Value Added (EVA) – Rs lakhs	3,528.25	2,992.74
Incremental EVA – Rs lakhs	535.51	1,933.20