



## **Sundram Fasteners Limited**

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## **ANNUAL REPORT**

**for the year ended  
31st March 2005**

## Sundram Fasteners Limited

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### 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

### 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  
 Mittamandagapet Village 605 106, Villupuram District, Tamil Nadu  
 47/2A Poonamalle High Road, Vellappanchavadi 600 077, Tamil Nadu  
 C-9, Industrial Estate Ambattur, Chennai 600 058, Tamil Nadu  
 F2, F8, F10, F22, and B32  
 SIPCOT Industrial Estate, Gummidipoondi 601 201, Tamil Nadu  
 Korkadu Village, Nettapakkam Commune, Bahur Taluk 605 110 Pondicherry  
 Bonthapally Village, Medak District, Andhra Pradesh 502 313

### FACTORIES

(In India through subsidiary)

222, 266, 298 and 428 SIDCO Industrial Estate,  
 Ambattur, Chennai - 600 098, Tamil Nadu

### FACTORIES

(Outside India - through subsidiaries)

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

# Sundram Fasteners Limited

## FINANCIAL HIGHLIGHTS

Particulars	2004-05	2003 - 04	2002-03	2001-02	2000-01	1999-00	1998-99	1997-98	1996-97	1995-96
<b>Operating results - Rs lakhs</b>										
Sales	103,724	77,429	51,943	43,317	42,421	43,191	34,396	32,618	34,686	30,309
EBIDT	13,197	10,223	8,536	6,712	6,565	7,654	5,777	5,707	6,430	5,681
Interest	586	(552)	610	1,297	1,672	1,408	1,467	1,892	2,133	1,443
EBDT	12,611	10,776	7,926	5,415	4,893	6,246	4,310	3,815	4,297	4,238
Depreciation	2,333	1,977	1,299	1,322	1,195	1,115	1,026	952	762	551
EBIT	10,864	8,246	7,237	5,390	5,370	6,539	4,751	4,755	5,668	5,130
Profit before tax	10,279	8,798	6,627	4,093	3,698	5,131	3,284	2,863	3,535	3,687
Tax	3,339	3,008	2,088	1,172	820	869	330	310	330	650
Profit after tax	6,940	5,790	4,539	2,921	2,878	4,262	2,954	2,553	3,205	3,037
<b>Financial status - Rs lakhs</b>										
Net fixed assets	31,786	25,867	19,535	18,424	17,442	17,600	16,094	14,661	14,086	10,432
Investments	2,160	2,021	3,369	3,341	3,292	3,288	301	258	257	257
Net current assets	31,665	22,039	12,443	11,887	12,556	11,091	9,360	9,278	9,579	8,561
Share capital	1,051	1,051	1,021	1,021	1,021	1,021	1,021	1,021	1,021	1,021
Reserves and surplus	27,148	22,241	20,309	17,153#	18,935	16,848	13,833	11,675	9,671	7,023
Net worth	28,199	23,292	21,330	18,174	19,956	17,870	14,855	12,696	10,692	8,044
Loan funds	32,056	21,754	9,504	11,734	13,334	14,110	10,901	11,501	13,230	11,206
Deferred Tax Liability	5,356	4,881	3,906	3,744	-	-	-	-	-	-
Total capital employed	65,611	49,927	34,740	33,652	33,290	31,980	25,756	24,197	23,922	19,250
<b>Performance parameters - %</b>										
EBIDT to Sales	12.7	13.2	16.4	15.5	15.5	17.7	16.8	17.5	18.5	18.7
EBIT to Sales	10.5	10.6	13.9	12.4	12.7	15.1	13.8	14.6	16.3	16.9
PBT to Sales	9.9	11.4	12.8	9.4	8.7	11.9	9.5	8.8	10.2	12.2
EBIDT/Average capital employed (ROCE)	22.8	24.1	25.0	20.1	20.1	26.5	23.1	23.7	29.8	34.6
EBIT / Average capital employed	18.8	19.5	21.2	16.1	16.5	22.7	19.0	19.8	26.3	31.3
PAT/Avg net worth	27.0	26.0	23.0	15.3	15.2	26.0	21.4	21.8	34.2	44.8
Bonus issue	-	-	-	-	-	-	-	-	-	1:1
Earnings per share - Rs	6.60*	5.51*	44.43	28.59	28.17	41.73	28.92	25.00	31.38	29.73
Dividend per share- Rs	1.70*	1.40*	12.00	10.00	7.00	11.00	7.00	5.00	5.00	5.00
Dividend payout ratio	25.76	25.41	27.01	34.98	24.85	26.36	24.20	20.00	15.93	16.82
Book value per share-Rs	26.83*	22.16*	208.91	177.92	195.38	174.94	145.41	124.28	104.66	78.75
Market value per share-Rs	109.45*	87.05*	362	236	215	550	350	346	615	645

#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 = One Million

Ten Millions = One Crore

## REPORT OF THE DIRECTORS TO THE SHAREHOLDERS

The Directors are pleased to present the Forty Second Annual Report together with the audited accounts for the year ended 31st March 2005.

### FINANCIAL RESULTS

	Rs Lakhs	
	2004-2005	2003-2004
Sales – Domestic (including excise duty)	77,612.38	60,335.75
– Exports	26,111.29	17,093.30
	<u>103,723.67</u>	<u>77,429.05</u>
Gross Profit before interest, depreciation, extra-ordinary items and taxes	13,393.49	10,270.54
Less : Interest (net of exchange differences)	585.75	(552.44)
Depreciation	<u>2,332.50</u>	<u>1,977.15</u>
Profit before extra-ordinary items and tax	10,475.24	8,845.83
Less : Extra-ordinary items - compensation paid to employees under Early Retirement Scheme	196.13	62.20
	<u>10,279.11</u>	<u>8,783.63</u>
Less : Provision for taxation including earlier years	<u>3,339.48</u>	<u>3,008.44</u>
Profit after tax	6,939.63	5,775.19
Add : Balance brought forward	1,875.46	1,744.51
Add : Transfer from Investment Allowance (Utilised) Account	2.91	–
Add : Provision for diminution in value of Investments written back	–	15.12
	<u>8,818.00</u>	<u>7,534.82</u>
<b>Appropriations</b>		
Interim Dividend	735.45	630.39
Tax on Interim Dividend	98.31	80.77
Second Interim Dividend	1,050.64	–
Tax on Second Interim Dividend	147.35	–
Proposed Dividend	–	840.51
Provision for tax on Proposed Dividend	–	107.69
Transfer to General Reserve	4,000.00	4,000.00
Balance carried forward	2,786.25	1,875.46
	<u>8,818.00</u>	<u>7,534.82</u>

### PROFITS

Export Sales of the Company, during the year ended 31st March 2005 were higher at Rs 26,111.29 lakhs. Exports have contributed significantly to the profits.

### DIVIDEND

The Directors have decided to pay a second interim dividend of Re 1.00 per share of face value Re 1 each, which together with the interim dividend of Rs 0.70 declared and paid earlier would amount to a total dividend for the year of Rs 1.70 per share of Re 1 each as against total dividend of Rs 14.00 per share of Rs10 each paid in the previous year. Interim dividend disbursed amounted to Rs 735.45 lakhs. Second Interim dividend will absorb a total amount of Rs 1,050.64 lakhs. The interim dividends and the tax thereon amount to Rs 2,029.55 lakhs. The directors do not recommend any final dividend.

## **Sundram Fasteners Limited**

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### **AWARDS**

During the year, the company's units at Padi and Krishnapuram have received TPM consistency award from JIPM.

The Company has received Supplier Quality Achievement award from Saturn Spring Hill Manufacturing Company, a subsidiary of General Motors for 2003.

### **SUBSIDIARY COMPANIES**

Aplomb Investments Limited (AIL), a subsidiary of the company, has increased its stake in Upasana Engineering Limited (UEL) so as to make UEL a wholly owned subsidiary of AIL. During the year, AIL has also acquired 50.20% of equity share capital of Upasana Components Limited (UCL).

The Hon'ble High Court of Madras vide its order dated 26th April 2005 has sanctioned the scheme of amalgamation of UEL and UCL with AIL from the appointed date viz. 1st April 2004.

Sundram Non - Conventional Energy Systems Limited (SNES) has become a subsidiary of the company consequent to the combined shareholding of Sundram Fasteners Investments Limited and AIL.

### **STATUTORY STATEMENTS**

The amount of deposits held by the Company as at 31st March 2005 was Rs. 343.89 lakhs. Deposits which matured during the year were repaid on due dates with the exception of 26 deposits amounting to Rs. 3.59 lakhs which remained unclaimed. 5 Deposits amounting to Rs.2.12 lakhs have since been repaid.

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, RBI Autoparts Sdn. Bhd. and Sundram Non - Conventional Energy Systems Limited 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, 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 obtain 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 SEBIEDIFAR website ([www.sebiedifar.nic.in](http://www.sebiedifar.nic.in)). This will help the Company save considerable costs in connection with printing and mailing.

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## **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 Venu Srinivasan and Sri R Ramakrishnan 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 the Chinese Authorities, Officers of Haiyan County, Jiaxin City, Zhejiang province, Chinese tax and other administrative authorities for the support extended to Sundram Fasteners (Zhejiang) Limited.

The Directors wish to thank One North East, the Regional Development Authority for Cramlington, United Kingdom for the continued support extended to Cramlington Precision Forge Limited.

The Directors wish to thank the Company's bankers, 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, 2005

SURESH KRISHNA  
Chairman & Managing Director

## Sundram Fasteners Limited

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### ANNEXURE 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. Replacement of endo gas generators with methanol system.
3. Installation of energy savings lamp in place of conventional wattage lamps.
4. Enhancement of the productivity of sintering furnaces by multilevel sintering.

###### b) Additional Investments and proposals being implemented:

Total investment on the above measures was around Rs 50 lakhs. The Company has initiated steps to save energy by the adoption of energy saving practices.

###### 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:

Company has set up Research and Development centre at Padi to focus on research efforts on development of fasteners, meeting the application requirements of customers, fine-tuning on existing processes and development of new specification of raw materials.

The R & D centre is equipped with Torque Tension/Vibration Testing Equipments for conducting trials /simulation on various characteristics of fasteners during the phase of development.

Development of precision processes for manufacturing Powder Metal, oil and fuel pump gears.

Development of helical forming of Cold Extruded parts.

Development of non-automotive Powder Metal parts.

###### 2. Future plan of action:

Establishment of facilities in R & D centre for conducting trials for various processes, chemical analysis, fatigue and stress testing of fasteners.

Development of shafts for turbo charger.

Development of Neck Rolling to improve fatigue life of products.

Development of nickel plating for improved salt spray life.

Development of surface densified Powder Metal Gears.

Development of automatic non destructive testing of Powder Metal and Cold Extruded parts.

Development of Precision Forged Car/Truck Bevel Gears through Hot & Warm Forging Route.

Development of Hot & Warm forging connecting rods using micro alloy steels.

###### 3. Expenditure on R & D :

The Company has incurred expenditure amounting to Rs.310.35 lakhs (Capital expenditure – Rs.167.97 lakhs and revenue expenditure – Rs.142.38 lakhs) towards Research and Development. The total expenditure works out to 0.34 % on turnover.

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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 (JIPM). The Company is in the process of implementing second phase of TPM, which will cover all office areas besides factories. The Padi and Krishnapuram units have received TPM consistency award from JIPM. The Company has embarked on the program of "War on Waste" under facilitation from Mckinsey & Co focussing on cost reduction.
  - b) Improvements to Total Quality Management Systems.
  - c) All major 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 14000 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 261.11 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 19,627.18 Lakhs
  - b) Foreign Exchange earned Rs 27,217.24 Lakhs

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

On behalf of the Board

Chennai  
June 30, 2005

SURESH KRISHNA  
Chairman & Managing Director



## Sundram Fasteners Limited

### MANAGEMENT DISCUSSION AND ANALYSIS

#### Business Overview

Indian GDP grew by 6.9% during 2004-05 on top of a growth of 8.5% in the previous year. The growth has been achieved despite a delayed monsoon affecting growth in agriculture and related sectors. The year 2004-05 witnessed a sizeable growth of industrial production. Production of the automobile industry recorded the highest levels ever. The following table shows production data of the industry:

Segment	2004-2005	2003-2004	Growth
Light Commercial Vehicles	138,890	108,917	28%
Buses & Trucks	211,143	166,123	27%
<b>Total Commercial Vehicles</b>	<b>350,033</b>	<b>275,040</b>	<b>27%</b>
Cars	1,027,876	843,235	22%
Multi-Utility Vehicles (MUV)	181,778	146,325	24%
<b>Total cars / MUVs</b>	<b>1,209,654</b>	<b>989,560</b>	<b>22%</b>
Scooters	986,208	935,279	5%
Motor Cycles	5,193,752	4,355,168	19%
Mopeds	346,587	332,294	4%
3-Wheelers	374,414	356,223	5%
<b>Total 2/3 Wheelers</b>	<b>6,900,961</b>	<b>5,978,964</b>	<b>15%</b>
Tractors	248,976	191,633	30%

(Source: ACMA)

With Indian companies gaining stature in the international market as manufacturers of high quality automotive components, the industry has recorded a well-earned growth through a combination of increased domestic and export sales. The overall trend is likely to continue as the economy grows further and domestic vehicle manufacturers in all segments increase their production. Exports may be showing a faster growth on account of the need for international manufacturers to source from low cost vendors cutting across barriers of all kinds.

#### Domestic Sales

The Company achieved a strident growth in the volume of sales to OEMs. The Company has been able to maintain or improve its market share with all its major customers.

Aftermarket sales remained sluggish due to demand constraints and lower capacity allocation. Improvement in quality of vehicles, postponement of repairs due to high cost of spares and better road conditions led to fewer replacements. Uncertainties over introduction of Value Added Tax resulted in lower off-take. Further, the Company faced severe competition from other manufacturers and unorganized sector besides grey market.

Net sales in the domestic market increased from Rs. 518.18 crores to Rs. 668.44 crores, an increase of 29%. The increase in volumes enabled the Company to post record profits despite steep hike in steel and aluminium prices.

#### Exports

The Company continued to follow its policy of increasing the share of export sales so that it can be a globally competitive manufacturer with improved economies of scale and reduced dependence on a few major customers in specific markets.

Exports during the year under review grew from Rs 170.93 crores to Rs. 261.11 crores, a growth of 53%. The Company's efforts in developing new customers and new products over the past few years have helped the Company achieve a satisfactory growth in Exports. With a strong order book, the Company can look forward to further improvement in exports. Prices, however, have continued to remain depressed because of competitive pressures even as steel prices have been soaring to unprecedented levels.

Value of the Indian rupee fluctuated during the year - depreciating against US dollar in the first half and recovering all the lost ground during the second half. The rupee lost some ground against Euro and Pound Sterling. Margins remained under pressure on account of higher proportion of dollar denominated exports.

The Company's prestigious list of customers include ASC, Case New Holland, Caterpillar, Concentric Pumps, Cummins Engine, Daimler Chrysler, Deere and Co, Delphi Automotive, Deutz Motors, General Motors, Holset, Iveco, Mack Trucks, MTU, Perkins, Proton, Streparava, Valeo, ZF, etc

### Financial Performance

The higher volume of sales, both domestic and exports, has resulted in the Company achieving record levels of profit. Cost of inputs, particularly steel and aluminium rose continuously touching new highs causing a sizeable dent in gross margins. The Company has been able to pass on increase in costs only partially and hence margins have continued to remain under pressure. Availability and quality of steel also caused concern from time to time. In order to meet customer requirements in time, the Company had to import steel in greater quantities, resulting in higher inventories and inventory carrying costs. Non-availability of steel to meet production plans also resulted in increase in delivery costs to meet customer schedules.

Increase in input prices, higher imports of steel and the need to meet customer requirements on just-in-time basis besides increase in receivables in the normal course of business have resulted in increased net working capital. Higher investment in net working capital and steady rise in interest rates have resulted in higher interest costs.

Focus on implementing Total Productive Maintenance (TPM) has 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

	2004 - 2005	2003 - 2004	Growth (%)
Net Sales & Operating Income	92,954.85	68,911.58	34.89
Other Income	137.84	239.41	(42.43)
Total Income	93,092.69	69,150.99	34.62
Total Expenditure	79,699.20	58,880.45	35.36
Profit before depreciation, interest and tax (PBDIT)	13,393.49	10,270.54	30.41
Interest	585.75	(552.44)	(206.03)
Depreciation/Amortisation	2,332.50	1,977.15	17.97
Profit before tax (PBT) and before extraordinary item	10,475.24	8,845.83	18.42
Extraordinary item (EOI)	196.13	62.20	215.31
Profit before tax (PBT)	10,279.11	8,783.63	17.03
Current tax	2,957.00	2,520.00	17.34
Deferred tax	474.91	417.12	13.85
Profit after tax (PAT)	6,847.20	5,846.51	17.12
Income Tax - earlier years / provisions written back	92.43	(55.82)	(165.59)
Profit after tax and prior period items	6,939.63	5,790.69	19.84