

10th Annual Report 2007 - 2008



Treadsdirect Limited

Treadsdirect Limited

Annual Report 2007 - 2008

Directors

Sudarsan Vasudevaraj
(Chairman & Managing Director)
K Gnanasekaran
MD Selvaraj
T Ashokanand
R Vidhya Shankar
SR Venkatachalam

Key Executives

Sudarsan Vasudevaraj
(President)
T Ashokanand
(Executive Director)
K Ramasubbu
(Company Secretary & C.A. - Finance)

Head Office

2000, Trichy Road
Singanailur
Coimbatore - 641 005
Tamilnadu

Registered Office

2000, Trichy Road
Singanailur
Coimbatore - 641 005
Tamilnadu

Plants

Korkadu, Pondicherry
Kottayi, Palakkad
Kurichi, Coimbatore
Nairobi, Kenya
Coromandel, Mauritius
Colombo, Sri Lanka

Bankers

State Bank of India
Commercial Branch
Coimbatore

Auditors

Reddy, Goud & Janardhan
Chartered Accountants
Bangalore

External Internal Auditor

Deloitte Haskins & Sells
Chartered Accountants
Coimbatore

ISO Association

Chartered Accountants
Coimbatore

Registrar & Officer (Company) Region

Intime Spectrum Registry Ltd.,
Legal Office
C/13, Pannalal Silk Mills Compound
Bhandup (West)
Mumbai 400 078

Branch Office

"Surya", 35, May Flower Avenue
Behind Genthil Nagar
Cowripalayam
Coimbatore 641 028, Tamilnadu

Directors' Report

The Board of Directors take pleasure in presenting the 10th Annual Report and Audited Accounts for the year ended 31st March 2008. The Management Discussion and Analysis Report is included at the appropriate places in this report.

Composite Scheme of Arrangement and Amalgamation

The company was a wholly owned subsidiary of Elgitread (India) Limited. Pursuant to a Composite Scheme of Arrangement and Amalgamation under Sections 391 to 394 of the Companies Act, 1956, the manufacturing division of Elgitread (India) Limited and tyre retreading and transport divisions of LRG Technologies Limited were demerged and vested with the company. Further Geo Renewable Power Limited was also merged with the company pursuant to the said Scheme. The Hon'ble High Court of Judicature at Madras sanctioned the scheme by its order dated 04.04.2008. This order was filed with the Registrar of Companies, Coimbatore, Tamilnadu on 12.04.2008, which is the effective date of the scheme. It is proposed to list the equity shares of the company in the National Stock Exchange of India Limited (NSE). NSE has accorded in-principle approval for the listing of shares, pending relaxation under Rule 19(2)(b) of Securities Contracts (Regulation) Rules, 1957 by the Securities Exchange Board of India.

An abstract of the financial results of the company is given below

| | 2007 - 2008 (Rs. in million) |
|-------------------------------------|---------------------------------|
| Profit before depreciation | 131.38 |
| Less: Depreciation | 44.95 |
| Profit before taxation | 86.43 |
| Less: Provision for taxation | 29.30 |
| Less: Provision for deferred tax | (0.51) |
| Profit after tax | 57.64 |
| Add: Balance from previous year | - |
| Less: Transfer on account of scheme | 0.19 |
| Profit available for appropriation | 57.45 |
| Appropriation | |
| General reserve | 5.76 |
| Proposed dividend @ 10% | 11.45 |
| Dividend distribution tax | 1.95 |
| Balance carried to balance sheet | 38.29 |

Dividend

The directors recommend a dividend of 10% on the equity shares, and this along with the dividend distribution tax translates to a payout of 23.25% of the profit after tax. The dividend would be paid upon approval of the members in the ensuing Annual General Meeting to the registered members as on the book closure date. In respect of the dematerialised shares, dividend will be paid to the beneficial owners based on the list provided by the depositories.

Review of operations and future outlook

The company's turnover for the year 2007-2008 was Rs. 1.35 billion. Other income amounted to Rs. 10.38 million. Cash profit was Rs.131.38 million. The turnover includes the sale of tread rubber and bonding gum and retreading service income. The company has a debt free status as on date.

The main objective of the demerger is to keep the costs at a minimum and to operate the franchisee system to effectively compete with open market suppliers. The industry witnessed phenomenal increase in input costs. This was due to steep raise in crude prices and shortage in the supply of natural rubber, synthetic rubber, rubber chemicals and carbon black. In addition, the industry could not fully pass on material cost increases to the consumers. This has affected the bottom line substantially. However, these price increase and raw material shortage will affect many of the unorganized manufacturers, resulting in shortage of retreading materials in the market. The company is adequately equipped and geared up to meet the situation and benefit from it.

Risks and Concerns

The company is facing all external risks pertaining to this business especially the market risk. The company has taken all possible steps to over such risks.

The escalating input costs still persist and until some stability is seen in this regard, the bottom line will continue to be under pressure.

As a part of overall risk management strategy, all assets are appropriately insured. Foreign exchange fluctuation risk is minimized through proper planning and natural hedging.

Internal Control Systems

Internal audit is being done every quarter by an independent firm of Chartered Accountants and observations are reported to management. Immediate steps are taken to rectify any discrepancies. All significant audit observations were discussed in the audit committee meetings.

Human Resources and Industrial Relations

The company continues to have cordial and harmonious relationship with its employees. As at 31st March 2008, it employs 473 people.

Subsidiaries

Ministry of Corporate Affairs, Government of India, vide its order No.47/330/2008-CL-III dated May 30, 2008 has granted approval waiving the requirement to attach various documents in respect of subsidiary companies, as set out in sub-section (1) of Section 212 of the Companies Act, 1956, Financial information of the subsidiary companies, as required by the said order, is disclosed in the Annual Report. The company will make available the Annual Accounts of the subsidiary companies and the related detailed information to any member of the company. The annual accounts of the subsidiary companies will also be kept open for inspection by any investor at the Registered Office of the company and that of the respective subsidiary companies. The consolidated financial statements presented by the company include financial results of its subsidiary companies.

Directors

In accordance with the provisions of the Articles of Association, K Gnanasekaran retires by rotation and being eligible offer himself for re-appointment.

Auditors

The statutory auditors, M/s Reddy, Goud and Janardhan retire in the ensuing Annual General Meeting and are eligible for reappointment.

Directors' Responsibility Statement

In terms of Section 217 (2AA) of the Companies Act, 1956, the Directors confirm that they have:

- a. Followed in the preparation of the Annual Accounts, the applicable accounting standards with proper explanations relating to material departures;
- b. Selected suitable accounting policies and applied them consistently and made judgments and estimates that 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;
- c. Taken proper and sufficient care 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
- d. Prepared the Annual Accounts on a going concern basis.

Other information

Particulars as required by Section 217(1)(e) of the Companies Act, 1956, relating to conservation of energy, technology absorption and foreign exchange earnings and outgo are provided as an annexure to this report. Since there are no employees fall under Section 217 (2A) of the Companies Act, 1956, the particulars under the said section was not given.

Corporate Governance

The requirement of attaching the report on Corporate Governance to the Annual Report of the company under Clause 49 of the listing agreement is not applicable to the company for the Annual Report of the year ended 31st March, 2008, since the provisions of Clause 49 become applicable to the company with effect from the date of approval of listing.

Cautionary Statement

Statements in this report, especially those relating to MD & A giving details of company's objectives, projections, estimates and expectations may be construed as "forward looking statements" within the realm of applicable laws and regulations. Actual results might be liable to differ materially from those either expressed or implied.

Acknowledgment

The company is pleased to place on record of the continued cooperation and support of the customers, suppliers, employees and bankers.

Annexure *

A. Conservation of Energy

a) Energy conservation measures taken

- i. Replaced slip ring motors in all the mixing mills with new high efficiency Squirrel-Cage motors in all the three factories, for reducing breakdowns and saving power
- ii. Conventional exhaust fans replaced with energy efficient Turbo Ventilators in all the factories.
- iii. PLC control system installed for efficient pumping of water from the cooling towers at Coimbatore.
- iv. PID control systems introduced in all temperature control units for reducing power consumption.
- v. All high volume water circulation pumps provided with mechanical seals to save power.

- b) Additional investments and proposals, if any, being implemented for reduction of consumption of energy**
- High efficiency transformer ordered for Coimbatore factory.
 - New high out put single pass tread finishing line ordered for installation in Coimbatore, to save power and labour.
 - Sinthallium insulation to be provided for all presses to reduce heat loss.
- c) Impact of the measures at (a) and (b) above for reduction of energy consumption and consequent impact on the cost of production of goods.**
- Substantial reduction in energy as a result of the measures taken.
- d) Total energy consumption per unit of production.** Not applicable.

B. Technology absorption

e) Efforts made in technology absorption Research and Development (R&D)

1. Specific areas in which R & D are carried out by the company

- New tread compounds developed for bus tyre treads for giving higher mileage at lower cost.
- Improvements made in retreading machines for increasing productivity.
- New tread designs developed for USA market.
- Quick mould changing system developed and installed to save time and manpower and also improve productivity

2. Benefit derived as a result of above R & D

- Increase in orders received from new markets in Europe.

3. Future plan of action

- More tread patterns and moulds being developed for Winter / Snow Tyres.
- Automatic material handling systems being developed in the tread finishing line.

4. Expenditure on R & D Rs. in million

- Capital : NIL
- Recurring : NIL
- Total : NIL

iv. Total R & D expenditure as a percentage of total turnover : NIL

Technology absorption, adaptation and innovation

- Efforts in brief, made towards technology absorption, Adaptation and innovation. Not applicable
- Benefits derived as a result of the above efforts, e.g., product improvement, cost reduction, product development, import substitution etc. Not applicable
- In case of imported technology (imported during the last five years reckoned from the beginning of the financial year) following information may be furnished Not applicable

C. Foreign Exchange Earnings and Outgo

(f) Activities relating to exports; initiatives taken to increase exports, development of new export markets for products and services and export plans.

The company has adopted a strategic market plan to export its products by establishing marketing offices and warehousing the material in different regions. In addition to this, the company will participate in more international trade fairs and exhibitions. It has also developed newer products for meeting the market demands. It also has plans of entering new markets that are untapped for increasing the company's share in the international market.

(g) Total Foreign Exchange earned and used

Foreign exchange earned : Rs. 413.93 million

Foreign exchange used : Rs. 184.23 million

* vide The Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988.

For the Board of Directors

Coimbatore
07.06.2008

Sudarsan Varadaraj
Chairman & Managing Director

Auditors' Report

We have audited the attached Balance Sheet of M/s Treadsdirect Limited, as at March 31, 2008, the Profit and Loss Account and also the Cash Flow Statement for the year ended on that date annexed thereto. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our Audit.

We conducted our audit in accordance with auditing standards generally accepted in India. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes, examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

1. As required by the Companies (Auditor's Report) Order (as amended) 2003, issued by the Central Government of India in terms of Sub Section (4A) of Section 227 of the Companies Act, 1956, we enclose in the Annexure, a statement on the matters specified in paragraphs 4 and 5 of the said Order.
2. Further to our comments in the Annexure referred to in paragraph 1 above, we report that:
 - 2.1 We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit.
 - 2.2 In our opinion, proper books of account as required by law have been kept by the Company so far as appears from our examination of those books and proper returns adequate for the purposes of our audit have been received from the Branches not visited by us.
 - 2.3 The Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report are in agreement with the books of account and returns.
 - 2.4 In our opinion, the Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report comply with the Accounting Standards referred to in Sub-section (3C) of Section 211 of the Companies Act, 1956.
 - 2.5 On the basis of written representations received from the directors, as on March 31, 2008 and taken on record by the Board of Directors, we report that none of the directors of the Company is disqualified as on March 31, 2008, from being appointed in terms of clause (g) of sub-section (1) of Section 274 of the Companies Act, 1956.
 - 2.6 In our opinion and to the best of our information and according to the explanations given to us, the said accounts give the information required by the Companies Act, 1956, in the manner so required, give a true and fair view in conformity with the Accounting Principles generally accepted in India:
 - a. In the case of the Balance Sheet, of the state of affairs of the Company as at March 31, 2008;
 - b. In the case of the Profit and Loss Account, of the profit of the Company for the year ended on that date; and
 - c. In the case of the Cash Flow Statement, of the cash flows for the year ended on that date.

For Reddy, Goud & Janardhan
Chartered Accountants

Coimbatore
07.06.2008

B Anand
Partner
Membership No.29146

Annexure referred to in paragraph 1 of our report of even date

1.
 - a. The Company has maintained proper records showing full particulars including quantitative details and situation of fixed assets.
 - b. The assets have been physically verified by the management in accordance with a phased programme of verification, which in our opinion is reasonable, considering the size and the nature of its assets.
 - c. The Company has not disposed off substantial part of fixed assets during the year.
2.
 - a. The inventories have been physically verified during the year by the management. In our opinion the frequency of verification is reasonable.
 - b. In our opinion, the procedures of physical verification of inventories followed by the management are reasonable and adequate in relation to the size of the Company and nature of its business.
 - c. The Company is maintaining proper records of inventories. The discrepancies noticed on verification between the physical stock and the book records were not material.
3.
 - a. The Company had not granted any unsecured loan to any firm or other parties. The Company has granted unsecured loan to a *Company covered in the register maintained under section 301 of the Companies Act, 1956. The maximum amount involved during the year was Rs 1.45 Million and the year end balance of loan granted to such party was Rs 1.45 Million.*
 - b. In our opinion and according to the information and explanations given to us, the rate of interest and other terms and conditions on which loan has been granted to the body corporate listed in the register maintained under Section 301 of the Companies Act, 1956 are not, prima facie prejudicial to the interest of the Company.
 - c. In the case of loan granted to the body corporate listed in the register maintained under Section 301 of the Companies Act, 1956 the borrower is regular in repaying the principal amount as stipulated and has been regular in the payment of interest.
 - d. There are no overdue amounts of more than Rupees One Lakh in respect of the loan granted to a body corporate listed in the register maintained under section 301 of the Companies Act, 1956.
 - e. The Company had not taken any loan secured or unsecured from the companies, firms or other parties as covered in the register maintained under section 301 of the Companies Act, 1956 and hence the provisions of clause (iii)(e), clause (iii)(f) and clause (iii)(g) of the said Order (as amended) are not applicable.
4. In our opinion and according to the information and explanations given to us, there are adequate internal control procedures commensurate with the size of the Company and the nature of its business with regard to the purchases of inventory, fixed assets and with regard to sale of goods and services. During the course of our audit, we have not observed any continuing failure to correct major weaknesses in internal control.
5. In our opinion and according to the information and explanations given to us and to the best of our knowledge and belief,
 - (i) The particulars of contract or arrangements referred to in Section 301 of the Companies Act, 1956 that needed to be entered into the register maintained under the said section have been so entered.
 - (ii) Where each such transaction is in excess of Rs. 5 Lakhs in respect of any party, the transactions have been made at prices, which are *prima facie* reasonable having regard to the prevailing market prices at the relevant time, except that reasonableness could not be ascertained where comparable quotations are not available having regard to the specialized nature of some of the transactions of the Company.
6. The Company has not accepted any deposits from public and hence provisions of para (vi) of the said order (as amended) are not applicable.
7. In our opinion, the Company has an internal audit system commensurate with the size of the Company and nature of its business.
8. We have broadly reviewed the books of accounts relating to material, labour and other items of cost maintained by the Company pursuant to the Rules made by the Central Government for the maintenance of cost records under Section 209 (1) (d) of the Companies Act, 1956 in respect of its Windmill Division and we are of the opinion that prima facie the prescribed accounts and records have been made and maintained. We have, however, not made a detailed examination of the records with a view to determine whether they are accurate or complete. To the best of our knowledge and belief and according to the information and explanations given to us, the Central Government has not prescribed the maintenance of Cost records for any other product of the Company.

9. a. According to the information and explanations given to us and books and records as produced and examined by us, in our opinion, the undisputed statutory dues including Provident Fund, Investors Education and Protection Fund, Employees State Insurance, Income Tax, Sales Tax, Wealth tax, Service tax, Customs Duty, Excise Duty, Cess and other material statutory dues applicable have been regularly deposited by the Company during the year with the appropriate authorities.
- b. According to the information and explanations given to us, no undisputed amounts payable in respect of Income Tax, Wealth tax, Service tax, Sales Tax, Customs Duty, Excise Duty and Cess were in arrears, as at 31st March 2008 for a period of more than six months from the date they became payable.
- c. According to the information and explanations given to us, there are no dues of Income Tax, Wealth Tax, Service Tax and Cess which have not been deposited with the appropriate authorities on account of any dispute.
10. There are no accumulated losses and the Company has not incurred cash losses during the financial year covered by our audit and in the immediately preceding financial year .
11. In our opinion and according to the information and explanations given to us, the Company has not defaulted in repayment of dues to any financial institution or to any bank. There are no debenture holders during the year.
12. We are of the opinion that the Company has not granted loans and advances on the basis of security by way of pledge of Shares, debentures and other securities.
13. In our opinion, the Company is not a chit fund or a Nidhi / Mutual Benefit Fund / Society. Therefore the provisions of clause (xiii) of para 4 of the Order (as amended) are not applicable.
14. In our opinion, the Company is not dealing in respect of shares and securities and hence provisions of this para are not applicable to the Company.
15. In our opinion, the Company has not given guarantees for loans taken by others from banks or financial institutions.
16. The Company has not borrowed any term loan during the year and hence the provisions of clause (xvi) of para 4 of this Order (as amended) are not applicable.
17. According to the information and explanations given to us and on an overall examination of the balance sheet of the Company, we report that funds raised on short term basis have prima-facie, not been used during the year for long term investments.
18. The Company has not made any preferential allotment of shares during the year and hence the provisions of clause (xviii) of para 4 of this Order (as amended) are not applicable.
19. The Company has not issued any debentures during the year and hence the provisions of clause (xix) of para 4 of this Order (as amended) are not applicable.
20. The Company has not raised any monies by way of public issues during the year and hence the provisions of clause (xx) of para 4 of this Order (as amended) are not applicable.
21. During the course of our examination of the books of account carried on in accordance with the generally accepted auditing practices in India and according to the information and explanations given to us, we have neither come across any instance of fraud on or by the Company, noticed or reported during the year nor have been informed of such case by the management.

For Reddy, Goud & Janardhan
Chartered Accountants

Coimbatore
07.06.2008

B Anand
Partner
Membership No.29146

Balance Sheet as at 31st March 2008

| | | | 31.03.2008 | 31.03.2007 |
|---|-----------------|--------------------|-------------------|-------------------|
| | Schedule | Rs. | Rs. | Rs. |
| I. Sources of Funds | | | | |
| Shareholders' Funds | | | | |
| Capital | 1 | 500,000 | | 500,000 |
| Share Suspense | | 114,025,000 | | - |
| Reserves & Surplus | 2 | 810,893,221 | | - |
| Secured Loans | | - | | - |
| Deferred Tax Liability (Net) | | 30,559,217 | | - |
| | | 955,977,438 | | 500,000 |
| II. Application of Funds | | | | |
| Fixed Assets | | | | |
| Gross Block | 3 | 542,136,559 | | - |
| Less : Depreciation | | <u>341,186,842</u> | | - |
| Net Block | | 200,949,717 | | - |
| Investments | 4 | 99,471,020 | | 350,000 |
| Current Assets, Loans & Advances | | | | |
| Inventories | 5 | 279,275,442 | | |
| Sundry Debtors | 6 | 239,588,909 | | |
| Cash and Bank Balances | 7 | 18,275,466 | | 53,227 |
| Other Current Assets | 8 | 539,242 | | |
| Loans and Advances | 9 | 220,503,529 | | |
| | | 758,182,588 | | 53,227 |
| Less | | | | |
| Current Liabilities and Provisions | 10 | | | |
| Liabilities | | 59,795,562 | | 500 |
| Provisions | | 42,830,325 | | |
| | | 102,625,887 | | 500 |
| Net Current Assets | | 655,556,701 | | 52,727 |
| Miscellaneous Expenditure | | - | | 97,273 |
| | | 955,977,438 | | 500,000 |

Notes and Schedules 1 to 10 form part of this Balance Sheet.

As per our report of even date
For Reddy, Goud and Janardhan
Chartered Accountants

Sudarsan Varadaraj
Chairman & Managing Director

T Ashokanand
Executive Director

K Ramasubbu
Company Secretary
& GM-Finance

B Anand
Partner
Membership No.29146

Coimbatore
07.06.2008

Profit and Loss Account for the year ended 31st March 2008

| | | | 31.03.2008 | 31.03.2007 |
|--|-----------------|--------------------|----------------------|-------------------|
| | Schedule | Rs. | Rs. | Rs. |
| Income | | | | |
| Sales | | 1,485,828,751 | | |
| Less: Excise Duty | | <u>131,962,476</u> | 1,353,866,275 | - |
| Other Income | 11 | | 10,379,269 | |
| | | | 1,364,245,544 | - |
| Expenditure | | | | |
| Material and other expenditure | 12 | | 1,232,868,081 | 45,073 |
| Depreciation | | | 44,946,378 | - |
| | | | 1,277,814,459 | - |
| Less: Transfer to Pre-operative Expenses | | | - | 45,073 |
| Profit before Tax | | | 86,431,085 | - |
| Provision for Income Tax | | | 28,500,000 | - |
| Provision for Fringe Benefit Tax | | | 800,000 | - |
| Deferred Tax | | | (506,133) | - |
| Profit after Tax | | | 57,637,218 | - |
| Add / (Less) | | | | |
| Transfer on account of "Scheme" | | | (190,830) | - |
| Profit available for Appropriation | | | 57,446,388 | - |
| Appropriations | | | | |
| Proposed Final Dividend | | | 11,452,500 | - |
| Tax on Dividend | | | 1,946,352 | - |
| General Reserve | | | 5,763,722 | - |
| Balance surplus carried to Balance Sheet | | | 38,283,814 | - |
| | | | 57,446,388 | - |
| Earnings per share - Basic | | | 115.27 | - |
| Earnings per share - Diluted | | | 0.50 | - |

Notes and Schedules 11 and 12 form part of this Profit & Loss Account.

**As per our report of even date
For Reddy, Goud and Janardhan
Chartered Accountants**

Sudarsan Varadaraj
Chairman & Managing Director

T Ashokanand
Executive Director

K Ramasubbu
Company Secretary
& GM-Finance

B Anand
Partner
Membership No.29146

Coimbatore
07.06.2008