

TUBE INVESTMENTS OF INDIA LIMITED

Annual report 2004-05

Cautionary Statement

Certain expectations and projections regarding future performance of the Company referenced in the annual report are forward looking statements. These expectations and projections are based on currently available competitive, financial and economic data along with the Company's operating plans and are subject to certain future events and uncertainties, which could cause actual results to differ materially from those that may be indicated by such statements.

Values and Beliefs

Adhere to ethical norms in all dealings with shareholders, employees, customers, suppliers, financial institutions and government.

Provide value-for-money to customers through quality products and services.

Treat our people with respect and concern; provide opportunities to learn, contribute and advance, recognise and reward initiative, innovativeness and creativity.

Maintain:

- An organisational climate conducive to trust, open communications and team spirit.
- A style of operation befitting our size, but reflecting moderation and humility.

Manage the environment effectively for harnessing opportunities.

Discharge responsibilities to various sections of society and preserve the environment.

Grow in an accelerated manner, consistent with value and beliefs, by continuous organisational renewal.

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Managed evolution is the use of a new product, process, or service to spawn an even newer product, process or service. Its motto is each successful new product is the stepping stone to the next one.

- Peter Drucker

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The world of business and industry has seen more changes in the last one decade than in the preceding few.

In response to this dramatic upheaval, TI made a paradigm-changing transformation.

The Company transformed its men, machines, markets and mindset with the objective to achieve an enduring competitiveness across all business cycles, across all geographies and across all its products.

At TI, the secret of this strengthening competitiveness narrows down to a discipline that can be encapsulated in two words.

Managed evolution

From the perception of a 'bicycles Company' to an 'engineering and auto application Company' as well

Over the last few years, TI has successfully transformed its longstanding business profile because it was as advisable as it was imperative.

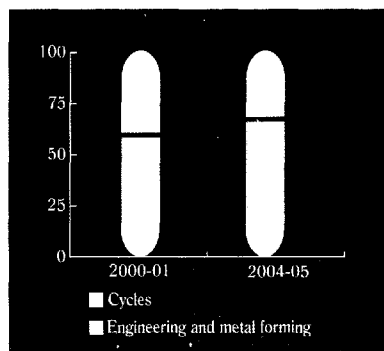
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The cycle-focused Company of yesterday has evolved largely into an auto-engineering product organisation of today.

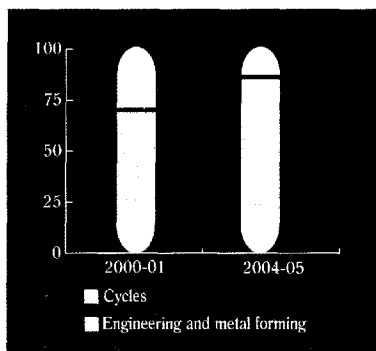
TI has successfully evolved its balanced portfolio, comprising high-growth areas such as engineering and metal forming, with an aggressive focus on auto applications along with a steady outlook on its bicycle business.

This is reflected in the sustainable growth of organisational revenues and profits:

Contribution to revenue (%)



Contribution to profit (%)



This portfolio evolution provides TI with a stronger opportunity to sustain growth and enhance shareholder value.

From product output to value-added product mix as well

Over the last few years, TI's focus has evolved from how much more it can produce to how much more value it can add.

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As a value-dedicated organisation, TI does not focus only on maximising output; it is dedicated to a stronger product mix as well, migrating from low to value-added products across all its businesses.

For instance, in its Engineering business, the Company has gradually evolved its focus from general engineering applications to higher value auto engineering applications, from ERW tubes to value-added CDW tubes. In 2002-03, CDW tubes accounted for 31 percent of the Company's domestic tubes revenue; today these products contribute 51 percent. Even within the ERW tubes segment, the Company is gradually exiting low value ERW tubes and focusing on value-added high-end ERW tubes.

Similarly, there is an increasing focus on high margin special grades of strips for automotive applications. As a result, the production of specials increased from 22 percent in 2002-03 to almost 35 percent of the total strips production in 2004-05.

In doorframes, the Company extended its product portfolio beyond the Maruti 800 and Hyundai models and is now the sole supplier to Maruti Omni, and General Motors Tavera models. In chains, the Company has evolved its product mix towards automotive and industrial applications. It has also extended its portfolio to fine blanked products and is now moving into value-added hydroformed products.

A focus on enhancing value over merely increasing production has helped the Company strengthen its presence in high value models in the cycles segment. As a result, the contribution of specials has been maintained consistently above 60 percent of the total sales derived from this segment. At the same time, a close study of changing consumer preferences has enabled the Company to accelerate the development of new ideas, features and models with new models now contributing almost 36 percent of the Company's total cycles sales.

From a manufacturing-centric to customer-centric existence as well

Over the last few years, TI's focus has evolved from a one-stop approach to a dispersed business presence in order to facilitate a quicker response to customer needs and capture a higher portion of the value chain.

In recognition of the divergent demand for value-added and cost-effective products, the Company altered the way it managed its Cycles business: from an integrated manufacturer, it outsourced a large proportion of its components requirement to quality conscious vendors in proximity to its plants.

This helped liberate the Company's resources to focus on core and value-added competencies: the design and development of new and improved models, marketing and brand management.

Similarly, in the Engineering business, to meet the stringent just-in-time delivery demands and lower inventory cost priorities of the automobile majors, the Company strategically enhanced capabilities

across its plants to suit its customers. As a result, some of the product lines, which were hitherto restricted to a few plants, have now been introduced in others, leading to quicker delivery.

In the customer-centric Metal Forming businesses, the Company has always been able to successfully meet the quality specifications and delivery requirements of its customers.

It reinforced this competitive strength with progressive investments in new technology and equipment with the objective to increase manufacturing capabilities. Besides, it implemented TPM across its divisions to enhance its productivity and asset utilisation.

From an Indian Company to a global presence as well

*While servicing the growing needs of India, TI has
extended its presence across a number of geographies.*

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Even as the Company expanded its presence within India, it recognised that an increasing presence in the global economy is a must to its sustainable growth.

Today, the Company's precision tubes are exported to South East Asian countries, Europe and North America.

Similarly, TI identified a large opportunity in the global market for chains and strengthened its global focus. Today, the Company aims to be a world-class global player in chains with applications in the power

transmission and conveyor system industries. In line with this strategic focus, the Company strengthened the global benchmarking of its systems, technologies and services.

Relevantly, TI leveraged its deep organisational resources to expand its international presence across all its businesses. As a result, the Company's exports increased from Rs. 54.29 cr in 2000-01 to Rs. 190.41 cr in 2004-05. Export revenues increased from 4.98 percent of the turnover in 2000-01 to 12.18 percent in 2004-05.

From transformation in business to transformation in people as well

In TI, people skills have evolved from the generalised to the specialised in line with the specific requirements of the Company's various businesses.

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In view of this, the Company embarked on the following initiatives to upgrade skill sets:

- It inducted professionals with competencies that plugged hitherto non-existing skill sets.
- It focused on the recruitment of technical professionals capable of innovating products that are non-competing but complementary to its existing portfolio.
- It extended from manufacturing-centric to customer-centric people skills, reinforcing its training in line with customer requirements.

Over the last few years, as business needs became increasingly focused, the Company reoriented its people skills in line with changing requirements.

In view of this, the Cycles business with an engineering perspective evolved a consumer

durable outlook, driven by new product development, marketing and brand management. Correspondingly, TI changed its people focus to market and brand-driven skill sets.

When the Company developed its vision to emerge as a global player in the tubes and chains businesses, it reoriented its training requirements to focus on skills required for new markets and reinforced this with behavioural training, focusing on customer interactions.

In its quality and delivery-driven doorframes business, TI identified four levels of required skills and evolved its training accordingly.

As a result of consistent improvement in employee satisfaction levels, TI is now an organisation where every person is geared towards a higher level of performance.

From manufacturing efficiency to financial efficiency as well

In TI, there is an emphasis on not just aligning its manufacturing or marketing in line with global standards but also the quality of its balance sheet in line with some of the most progressive organisations.

This has been reflected in the following strengths:

- Sustained growth in sales and profits at a CAGR of 9.44 percent and 25.47 percent respectively over the last five years.
- A steady improvement in working capital turnover ratio from 4.81 in 2000-01 to 7.24 in 2004-05.
- Higher returns on capital employed at 20.02 percent compared to 12.55 percent in 2000-01; increase in RONW from 9.75 percent in 2000-01 to 21.99 percent, growing at a CAGR of 12.38 percent and 22.54 percent respectively.
- Decline in average borrowing cost from 10.50 percent in 2000-01 to 6.82 percent in 2004-05.

The strength of the Company's balance sheet and the confidence of the shareholders in the Company are reflected in the fact that the Company's market capitalisation crossed Rs.1000 cr for the first time in its history in 2004-05.



M A Alagappan
Chairman

“The Company’s transformation has been derived through a prudent leverage of organisational knowledge, experience and skills...”

Dear Shareholders

Managed evolution at TI is the over-riding strategy by which TI has rewritten its script from being an ordinary organisation to a high-performance organisation in the recent years that leverages product and people performance for sustainable growth.

Over the last half-decade, this transformation has been derived through a prudent leverage of organisational knowledge, experience and skills to capitalise on the opportunities presented by a rapidly changing external environment.

The engineering and metal-forming businesses have the opportunity to become growth engines of TI for a number of reasons. India’s passenger car market is growing at a CAGR of 10 percent over the past four years while exports have been growing at a CAGR of 68 percent during the period. The country’s two-wheeler industry is one of the largest in the world with an estimated size of 5.4 million units a year. India’s auto component exports emerged as one of its most celebrated industry success stories, evolving into a high technology, quality conscious business with low costs. This enabled it to emerge as an outsourcing hub for global original equipment manufacturers and automotive suppliers.

In Cycles business, the challenge is to transform the organisation to suit the ever changing customer profile and priorities.

To succeed in this dynamic environment, TI recognised that

transformation in its knowledge-based, skill-intensive and customer-oriented businesses need to begin from progressive people practices. In view of this, TI is investing in required skill sets through continuous training in competitive industry environments. This will be reinforced through prudent identification of non-existing skill sets and relevant recruitment.

TI of today is transforming into an organisation possessing skilled engineering competencies, efficient processes and internationally benchmarked quality systems to capitalise on the emerging opportunities. It is a Company where each individual is aligned to deliver a superior performance, thereby enhancing individual and organisational value.

To sustain this culture of managed and positive evolution, the TI of tomorrow will have to be a leader in each of its business segments in India; will have to explore the acquisition of facilities abroad; and will have to work with the objective of deriving at least 25 percent of its turnover from exports to brand-enhancing customers.

These initiatives will manage the Company’s next stage of evolution from an Indian into a global organisation.

Yours sincerely,

M A Alagappan