

## DIRECTORS' REPORT

The Directors have pleasure in presenting their 27<sup>th</sup> Annual Report together with Audited Accounts for the year ended 31<sup>st</sup> March, 2013. The summarized financial results for the year are given below:

	<b>Year Ended 31-03-2013</b>	Amount ₹ in lakhs Year Ended 31-3-2012
Profit before Exceptional Items, Interest, Depreciation and Tax	<b>2,020.66</b>	1,529.81
Add: Exceptional Item	<b>0.00</b>	284.00
Profit before Interest, Depreciation and Tax	<b>2,020.66</b>	1,813.81
Less: Interest	<b>380.16</b>	367.07
Profit before Depreciation and Tax	<b>1,640.50</b>	1,446.74
Less: Depreciation	<b>202.87</b>	161.48
Net Profit before Taxes	<b>1,437.63</b>	1,285.26
Less: Taxation (Including Deferred Tax)	<b>462.85</b>	384.65
Net Profit After Tax	<b>974.78</b>	900.61
Add: Brought forward from previous year	<b>1,935.57</b>	1,180.27
Balance Available for Appropriations	<b>2,910.35</b>	2,080.88
<b>Appropriations</b>		
Transfer to General Reserve	<b>97.49</b>	90.23
Proposed Dividend	<b>85.84</b>	47.39
Dividend Distribution Tax	<b>14.59</b>	7.68
Balance Carried over to Balance Sheet	<b><u>2,712.43</u></b>	<b><u>1,935.57</u></b>

### REVIEW OF FINANCIAL PERFORMANCE

The Company's Sales turnover in the year under review aggregated ₹ 13,338.12 lakhs, constituting a growth of 15.62% over the previous year (₹ 11,536.44 lakhs), on which it made a net profit (excluding exceptional item) of ₹ 974.78 lakhs, up by 45% (over ₹ 671.83 lakhs in 2011-12).

### DIVIDEND

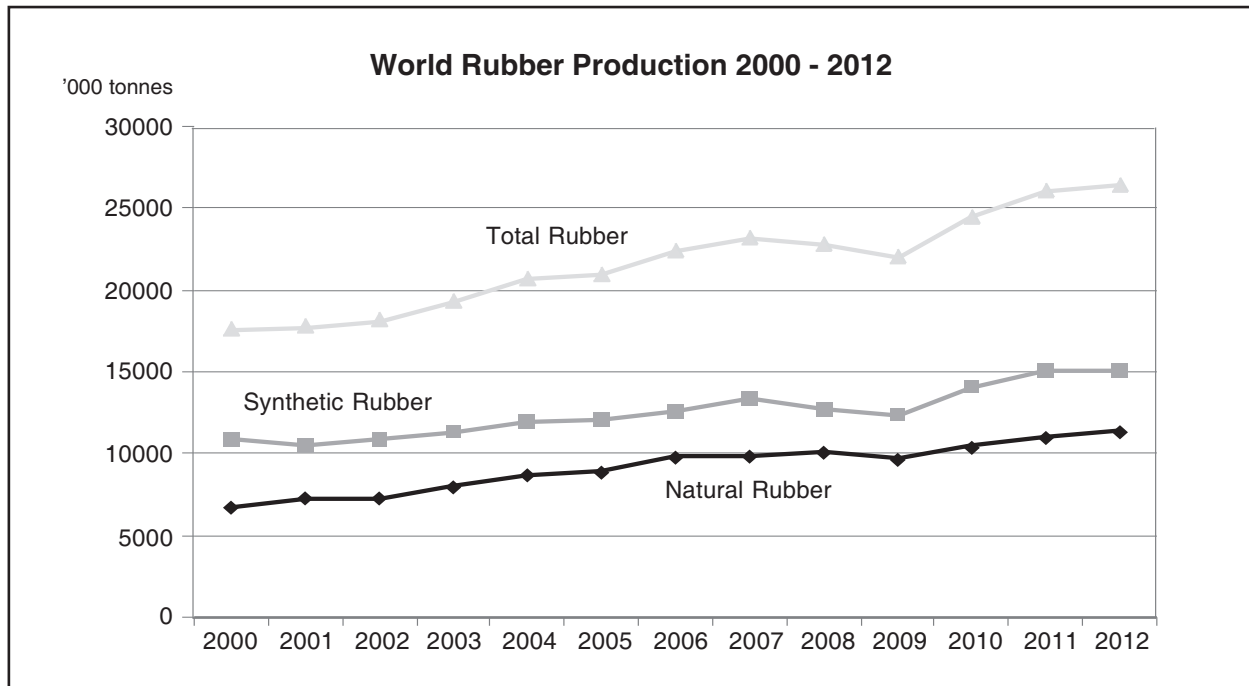
The Directors are pleased to recommend payment of dividend of 50% i.e. ₹ 5 per Equity Share of ₹ 10 each for the financial year ended 31<sup>st</sup> March, 2013 (40% in the previous year), subject to the approval of the Members at the ensuing Annual General Meeting. The dividend amount of ₹ 85.84 lakhs together with dividend distribution tax of ₹ 14.59 lakhs will absorb a sum of ₹ 100.43 lakhs.

### REPORT ON MANAGEMENT DISCUSSION AND ANALYSIS

#### Industry Structure and developments

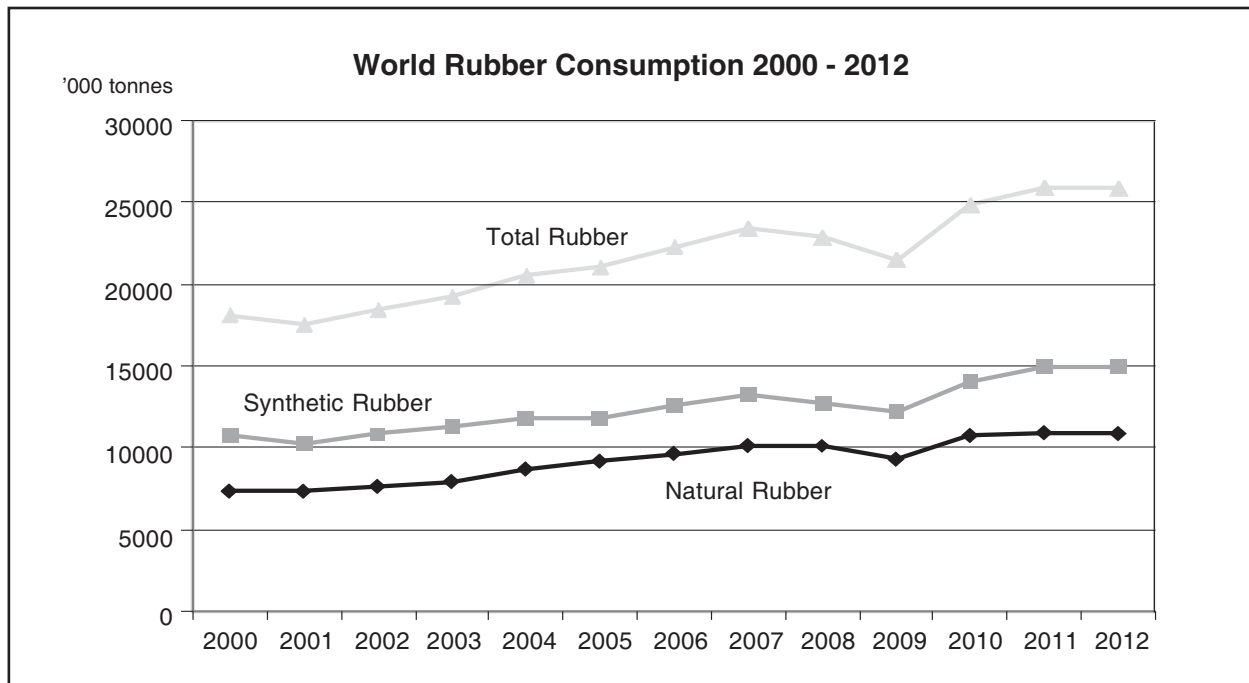
Global Rubber production increased by 1.03 % in 2012 against 6.62 % in 2011. The total rubber production was 26.477 million tonnes in 2012 compared to 26.135 million tonnes in 2011. Synthetic rubber production at 15.094 million tonnes in 2012 marginally dipped by 0.07% compared to 15.104 million tonnes in 2011. Natural Rubber production increased by 3.19% in 2012 against 5.78 % in 2011.

DIRECTORS' REPORT



Source: International Rubber Study Group.

Despite increase in production in the year 2012, the world rubber consumption dipped by 0.21 % in the year 2012 on account of uncertainty in global economy.



Source: International Rubber Study Group.

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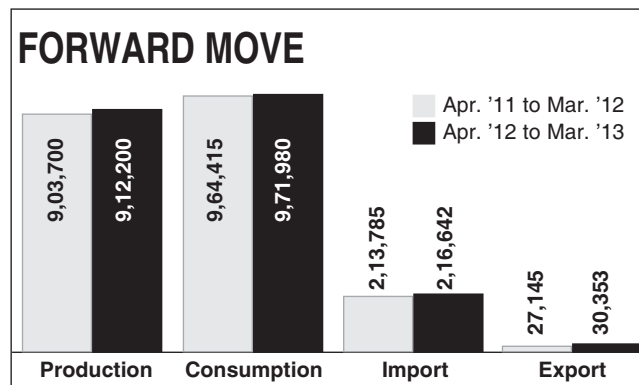
India's GDP growth rate which in 2011-12 was 6.50% declined in 2012-13 to 5%, much lower than projected. The rate of inflation also continued to be high in the year 2012-13. The manufacturing sector grew by a mere 1% in 2012-13 as against 4.4% in 2011-12.

India's Natural Rubber production increased marginally by 0.9% to 0.91 million tonnes in 2012-13 from 0.90 million tonnes in 2011-12. Consumption edged up slightly (0.8%) to 0.97 million tonnes in 2012-13 as against 0.96 million tonnes in the previous year. The weather conditions worsened the situation, damaging rubber trees in many parts of Kerala, which accounts for around 92 per cent of the country's production.

The uncertainty witnessed across the regions in the year 2012-13 and the slow recovery are likely to continue during the year 2013-14 and is expected to impact a number of sectors.

### Company Performance and Key developments

As the Members are aware, the Company is engaged in manufacturing, marketing and servicing activities, all under one roof. The services business caters to Belt Splicing, Pulley Lagging, Belt Conveyor Maintenance, Installation of Belt Conveyors, Belt Reconditioning, Rubber Lining etc., and products business to design, development, manufacture and supply of Rubber and Polyurethane based engineered products for belt cleaning, spillage control, flow enhancement, impact & abrasion protection and screening applications. In the Financial Year 2012-13, products and services contributed 55 % and 45 %, respectively to the Company's total income.



Source: Rubber Board.

### Listing of Equity Shares in SME Platform of National Stock Exchange

During the year 2012-13, the Company raised ₹ 21 Crore by way of fresh issue of Equity Shares, of which ₹ 1.99 Crore was raised under Pre-IPO Placement to SIDBI Trustee Company Limited A/c India Opportunities Fund and the balance amount of ₹ 19 Crore under Initial Public Offer (IPO). The Equity Shares issued under IPO was oversubscribed by 1.53 times, thanks to the robust response from retail investors.

On 18<sup>th</sup> September, 2012, Union Finance Minister, Mr. P. Chidambaram launched 'EMERGE', a dedicated new NSE platform and the Company's Equity Shares got listed on the platform with his ceremonial ringing of the Bell at the special event organized in New Delhi.

### Status of utilization of Proceeds raised from IPO:

The funds raised from IPO are to be utilized for the following purposes (apart from meeting General corporate needs and IPO expenses):

- Setting up of in-house R&D Center
- Setting up of Polyurethane Unit
- Investment in Wholly-Owned Subsidiary in Australia
- Setting up of Lining Unit
- Expansion of existing manufacturing Unit

The current status of utilization is as follows:

### Setting up of in-house R&D Center:

R&D Center has been completed and has commenced its activities. The Company has applied for approval from DSIR for the Center. As indicated in the Red Herring Prospectus ("RHP"), it has been funded from IPO proceeds to the extent of ₹ 283.06 lakhs.

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**DIRECTORS' REPORT**
**Setting up of Polyurethane Unit:**

Polyurethane Unit has been set up and commissioned. The total project cost is ₹ 68.28 lakhs and the Company has utilized ₹ 60.71 lakhs from the IPO proceeds as on 30<sup>th</sup> June, 2013. One machine has been purchased on deferred payment scheme in terms of which about ₹ 5 lakhs is to be paid.

**Investment in Wholly-Owned Subsidiary in Australia:**

The subsidiary has been incorporated and has commenced operations. As on 31<sup>st</sup> March, 2013, the Company has invested ₹ 802.54 lakhs with ₹ 642 lakhs from IPO proceeds and the balance from internal accruals.

**Setting up of Lining Unit:**

An independent Lining unit is being set up on leased land. The project is funded from the IPO proceeds to the extent of ₹ 169.02 lakhs. The project implementation is expected to be completed by the middle of August 2013. As on 30<sup>th</sup> June, 2013, the Company has utilized ₹ 149.93 lakhs from the IPO proceeds on the Unit.

**Expansion of existing manufacturing Unit:**

The Company has selected the machineries to be installed to balance the capacity and enhance the manufacturing operations. Orders have been placed for these equipments and advance has been paid. Work is also in progress to enhance the area of the factory, finished goods store, office space etc. This is to be funded from the IPO proceeds to the extent of ₹ 686.61 lakhs. As on 30<sup>th</sup> June, 2013, the Company has utilized ₹ 142.72 lakhs from the IPO proceeds for the acquisition of equipments.

Thus, the Company has utilized ₹ 1530.10 lakhs out of the IPO proceeds of ₹ 1900.66 lakhs plus pre-IPO placement of ₹ 199.99 lakhs, as summarized in the table below:

Projects	Amount ₹ in lakhs		
	As per RHP	Utilized upto 30-6-2013	Balance as on 30-6-2013
PU Unit	68.28	60.71	7.57
Expansion of Unit I	686.61	142.72	543.89
R&D Center	283.05	283.05	0.00
Lining Plant	169.02	149.93	19.09
Thejo Australia Pty Ltd	642.00	642.00	0.00
General Corporate Purposes	71.14	71.14	0.00
IPO Expenses*	180.55	180.55	0.00
<b>Total</b>	<b>2100.65</b>	<b>1530.10</b>	<b>570.55</b>

\* As per RHP.

The unutilized balance of ₹ 570.55 lakhs has been gainfully invested.

**Research and Development:**

During the year 2012-13, the Company has set up a separate Research and Development Center, independent of the manufacturing unit, at Ponneri, near Chennai. The R&D Center will focus on developing products that meet the needs of the customers. Prior to the setting up of R&D Center, the Company had been carrying out Research & Development activities within the manufacturing unit. The sustained efforts of Research and Development team helped the Company to develop diverse product ranges under varied conditions such as rubberizing of T 72 battle tank tyres, mill liners, high tension belt splicing compounds that can withstand some of the hardest working conditions in leading mines. The Company has formed an Expert Advisory Committee for R&D headed by Dr. P.M. Bhargava, former Member of National Knowledge Commission and coordinated by Mr. Zachariah George, former Head of R&D at MRF, who is currently

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heading our R&D initiatives. The Company has applied for the recognition of its R&D Center by the Department of Scientific & Industrial Research, Ministry of Science & Technology, Government of India.

**OPPORTUNITIES AND THREATS****Opportunities:**

As the products and services offered by the Company are intended for core sector industries, the opportunities for the industry in which the Company operates are intertwined with the opportunities for core sector industries.

Despite the current sluggishness in the domestic core sector, the future business from the sector is expected to be bright. Moreover, the Company's portfolio includes installation and maintenance services and products catering to both the categories. As a result, even during the period of sluggishness, any loss of business in installation-related work will be compensated to a fair extent by increased maintenance works as maintenance of existing systems would be given due importance during periods of slowdown.

The Company has started its Operations & Maintenance Division under which it offers comprehensive service. The concept of Operations & Maintenance is slowly gathering momentum in the Indian Industry and is expected to grow exponentially. With the Company being the first mover in this space, it looks forward to tap a sizeable portion of the increasing demand for Operations & Maintenance service.

On the export front, the Company has so far tapped only the Australian and Middle East markets in a sizeable manner. The Company's share in South American and African markets is very less. This gives immense opportunity to the Company to tap the hitherto untapped market with huge business potential.

**Threats:**

Competition from parties in the unorganized sector is a challenge for the services business of the Company. However, the challenge is restricted to service contracts of smaller values.

Natural rubber and synthetic rubber form a major portion of the raw materials consumed by the Company. The prices of these key raw materials are highly volatile. The Company is managing the volatility risk by entering into price contracts on a monthly basis.

**FUTURE OUTLOOK**

The lower growth numbers witnessed during 2012-13 are expected to continue during 2013-14. In domestic industry, inflationary pressure, difficulties in passing the increase in input costs to customers fully and high interest rates continue to be a challenge.

**FINANCIAL PERFORMANCE**

The financial performance of the Company has shown an overall growth of about 16% in terms of turnover compared to the previous year. The increase in turnover has been contributed primarily by the Services Division. The Division has grown by about 32% in terms of turnover as against 7% in manufacturing division. Export has shown a negative growth of about 32% on product front as against a growth of 170% on services front (where the base was lower at ₹ 19.30 lakhs). The production of moulded and extruded rubber products was 1,158 tonnes during the year, registering a negative growth of 9% over the previous year (1,270 tonnes). The production of adhesives during the year was 2,16,283 litres showing a modest growth of 3% over the previous year (2,09,998 litres). During the year, the company manufactured 32 Nos. of hot vulcanizing machines (previous year : 34 Nos.), 1,390 Nos. of belt scrappers including components (previous year : 1,349 Nos.) and 2 Nos. of belt winders (previous year : Nil). It may be noted that order for belt winders are normally few and far between.

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### SEGMENT WISE PERFORMANCE

Your Company has 3 segments of revenue – Manufacturing, Service and Trading. The Company has seen growth rate in Gross Revenue as follows - Manufacturing : 6.54%; Service : 32.36%; and Trading : -6.38%. There is a negative growth in Trading segment as the Company had concentrated more on its manufactured products and service segment as the profit margin was on the higher side in these areas. The Company is expecting an increased growth in manufacturing segment, riding on the back of the expansion of existing units and setting up of new units for Polyurethane, Lining and R&D. However, the Company is keenly watching the industry trend in order to keep itself abreast to handle any future business scenario. For more details, please refer to Note 25.4 of Notes to Accounts.

### RISK AND CONCERNS

The Company has put in place Risk Management Policy and Procedures for identification, assessment, management, monitoring and minimization of risks. The Company has identified potential risks under various categories like Business Dynamics, Operations, Liquidity, Market/Industry, Human Resources, Systems and Disaster Management. The Company is periodically reviewing the risks and their identification, assessment, monitoring and mitigation procedures. The Company does not perceive any major technological, operational, financial or environmental risks in the near future.

Continuing uncertainty in domestic and global markets, constraints in infrastructure, recent developments in the price of gold adversely affecting gold mining activities across the globe and latest developments in global mining activities are causes for concern in the immediate future.

### INTERNAL CONTROL SYSTEM AND THEIR ADEQUACY

Your Company has in place adequate internal control systems combined with Delegation of Powers and periodical review of the process. The control system is also supported by internal audits and management reviews with documented policies and procedures.

### MATERIAL DEVELOPMENTS IN HUMAN RESOURCES / INDUSTRIAL RELATIONS

During the year, the Company, as part of ongoing exercise in skill upgradation, deputed different classes of its employees to programmes and seminars to help them add to their professional knowledge and skills.

In order to enthuse the employee base and increase the linear relationship between performance and reward, incentives are being provided based on performance. The Company continued to look at, identify, create and execute seamlessly, initiatives which enhance productivity and efficiency.

The Company continues to invest in people through various initiatives which enable the workforce to meet the production requirements and challenges related thereto and to infuse positive enthusiasm towards the organisation.

### CAUTIONARY STATEMENT

Certain statements in the Management Discussion and Analysis describing the Company's views about the Industry, objectives and expectations, etc. may be considered as 'forward looking statements.' The Company has tried to identify such statements by using words such as 'expect', 'anticipate', 'hope', 'likely', 'plan', 'projected' and 'believe.' While making these statements, the Management has made certain assumptions which it believes are prudent. There is no guarantee that the assumptions would prove to be accurate. Actual results may differ substantially or materially from those expressed or implied in the statement. The Company undertakes no obligation to update any of the forward looking statements, whether as a result of any future events, change in assumptions or for any other reason, whatsoever. The forward looking statements are purely intended to put certain things in perspective based on the assumptions and estimates of the Management and in no way solicits investment. Members and others are requested to make their own judgment before taking any decision to invest in the shares of the Company.

## DIRECTORS' REPORT

### SUBSIDIARY COMPANIES

As on date of this Report, the Company has two subsidiaries, namely, Thejo Hatcon Industrial Services Company LLC, Kingdom of Saudi Arabia and Thejo Australia Pty Ltd, Australia. Thejo Hatcon in which the Company has 51% shareholding, has obtained all the statutory approvals and has commenced its operations. Thejo Australia is a Wholly-Owned Subsidiary in which the Company has invested ₹ 8.02 Crore as at 31<sup>st</sup> March, 2013 – ₹ 6.42 Crore from the funds raised under IPO and the balance of ₹ 1.6 Crore from internal accruals. Thejo Australia has obtained all the statutory approvals and has commenced its operations.

The Annual Report of the Company includes the Audited Consolidated Financial Statements of the Company for the year ended 31<sup>st</sup> March, 2013. The same has been prepared as per Accounting Standard 21 issued by the Institute of Chartered Accountants of India.

In terms of the general exemption granted by the Central Government under Section 212(8) of the Companies Act, 1956 vide General Circular No. 2/2011 in File No. 51/12/2007-CL-III dated 8<sup>th</sup> February, 2011, the Company has complied with the conditions stipulated therein and has not attached copies of Balance Sheet, Statement of Profit and Loss and other documents of the subsidiary companies to the Balance Sheet of the Company. The Company will make available these documents and other related information upon request by any Member of the Company. If any Member wishes to inspect the same, it will be available at the Registered Office of the Company during the business hours of any working day of the Company.

### PERFORMANCE OF SUBSIDIARY COMPANIES

Thejo Hatcon Industrial Services Company LLC (Thejo Hatcon) is engaged primarily in rubber lining and related industrial services activities. During the period January 2012 to March 2013, Thejo Hatcon achieved a turnover of SAR 21.50 lakhs (₹ 307.70 lakhs) with a profit of SAR 0.25 lakh (₹ 3.54 lakhs).

Thejo Australia Pty Limited is a servicing Company, primarily engaged in belt splicing, belt jointing and related activities. Thejo Australia was incorporated in February 2012. During the period from the date of incorporation upto 31<sup>st</sup> March, 2013, Thejo Australia achieved a turnover of AUD 3.76 lakhs (₹ 205.46 lakhs) with a loss of AUD 3.85 lakhs (₹ 205.32 lakhs).

### INFORMATION AS PER SECTION 217(1) (e) OF THE COMPANIES ACT, 1956

Your Company is making every effort to utilize energy optimally, avoiding any known wastages. The Company does not fall under any of the industries listed under Rule 2 of The Companies (Disclosure of Particulars in the report of Board of Directors) Rules, 1988 and hence, disclosure as per Form A is not applicable.

There is no technological absorption by the Company during the year under review.

Foreign Exchange Earnings and Outgo are as follows:

₹ in Lakhs

#### a) Imports made during the year

Imports at CIF Value	2012-13	2011-12
Raw Materials	304.84	471.23
Capital goods	286.31	39.81

#### b) Expenditure in Foreign Currency During the year

Expenditure in Foreign Currency	2012-13	2011-12
Royalty	11.82	3.60
Commission paid	15.84	36.92
Professional and consultation fees	29.58	25.59
Foreign Tour	10.53	9.49
Advertisement & Sales promotion	13.02	2.55

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₹ in Lakhs

**c) Earnings in Foreign Currency on Accrual basis**

<b>Earnings in Foreign Exchange</b>	<b>2012-13</b>	2011-12
Exports – Products	<b>1592.74</b>	2341.57
Exports – Services	<b>52.12</b>	19.30

**DIRECTORS**

Mr. V.A. George was appointed by the Board as Additional Director with effect from 15<sup>th</sup> July, 2013. As per Section 260 of Companies Act, 1956, Mr. George will hold office upto the date of the ensuing Annual General Meeting (AGM). A Resolution for his election as Director of the Company is included in the Notice dated 15<sup>th</sup> July, 2013 convening the Annual General Meeting.

Mr. George has been appointed by the Board as Managing Director for a period of five years with effect from 15<sup>th</sup> July, 2013 on the terms recommended by the Remuneration Committee, subject to the approval of the Members. Accordingly, a Resolution for obtaining such approval is included in the Notice dated 15<sup>th</sup> July, 2013, convening the AGM.

Mr. Thomas John, Vice Chairman, retires by rotation at the ensuing AGM and being eligible, offers himself for reappointment.

Mr. Manoj Joseph, Director Marketing, retires by rotation at the ensuing AGM and being eligible, offers himself for reappointment.

Mr. N. Ganga Ram, Non-Executive Independent Director, retires by rotation at the ensuing AGM and being eligible, offers himself for reappointment.

A brief resume of these Directors and related information are given in the notice convening the AGM. The Directors recommend their appointment / re-appointment as Directors of the Company.

**DIRECTORS' RESPONSIBILITY STATEMENT**

The Directors confirm —

- i. that in the preparation of the accounts for the year ended 31<sup>st</sup> March, 2013, the applicable Accounting Standards have been followed and there has been no material departure;
- ii. that the Directors have selected such accounting policies (as mentioned in Significant Accounting Policies under Note 2 of the Annual Accounts) 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 31<sup>st</sup> March, 2013 and profit of the Company for the year ended on that date;
- iii. that 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
- iv. that the annual accounts for the year ended 31<sup>st</sup> March, 2013, have been prepared on a going concern basis

**PERSONNEL**

In terms of the provisions of Section 217(2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975 as amended, the names and other particulars of the employees covered therein are to be set out in the annexure to the Directors' Report. Having regard to the provisions of Section 219(1)(b)(iv) of the said Act, the Annual Report excluding the aforesaid information is being sent



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to all the Members of the Company and others entitled thereto and if interested in obtaining the information, they may write to the Company Secretary at the Registered Office of the Company.

**AUDITORS' REPORT**

The Auditors' Report for the year ended 31<sup>st</sup> March, 2013 does not contain any qualification.

**AUDITORS**

M/s. Joseph & Rajaram, Chartered Accountants, Chennai, retire at the ensuing Annual General Meeting and are eligible for re-appointment.

**COST AUDITORS**

The Ministry of Corporate Affairs *vide* its order No. 52/26/CAB-2010 dated 6<sup>th</sup> November, 2012 has made it mandatory for companies which are listed on stock exchange or with turnover of more than ₹ 100 crores during the previous financial year and manufacturing any of the products mentioned in the Order to get their cost accounting records audited by a Cost Accountant. As the Order covers engineering machinery (including electrical and electronic products), the Company is required to get its cost accounting records audited by a Cost Accountant or firm of Cost Accountants from the Financial Year commencing on or after 1<sup>st</sup> January, 2013.

Based on the recommendation of the Audit Committee, the Board at its meeting held on 10<sup>th</sup> May, 2013 has approved the appointment of M/s. S. Gopalan and Associates as the Cost Auditor of the Company for the Financial Year 2013-14.

**CORPORATE GOVERNANCE:**

Your Company has complied with the requirements of Corporate Governance stipulated under Clause 52 of the SME Listing Agreement entered into with the National Stock Exchange of India Ltd. (NSE). A report on Corporate Governance forms part of this Report.

The Statutory Auditors of the Company have examined the requirements of Corporate Governance with reference to Clause 52 of the SME listing agreement, and have certified the compliance. The certificate is reproduced in the Report on Corporate Governance.

**ACKNOWLEDGEMENT**

The Directors wish to thank the Company's bankers for their continued support. The Directors also wish to thank the Company's customers and stake-holders for their patronage.

Your Directors place on record their appreciation of the good work done by the employees of the Company at all levels.

For and on behalf of the Board

Place : Chennai  
Date : 15<sup>th</sup> July, 2013

V.A. GEORGE  
Managing Director

THOMAS JOHN  
Vice Chairman

K.J. JOSEPH  
Chairman