



ASHOK LEYLAND

Annual Report 2008-2009



HINDUJA GROUP

www.reportjunction.com

Forward-looking statement

In this Annual Report we have disclosed forward-looking information to enable investors to fully appreciate our prospects and take informed investment decisions. This report and other statements - written and oral - that we periodically make, contain forward-looking statements that set our anticipated results based on the management's plans and assumptions. We have tried wherever possible to identify such statements by using words such as 'anticipate', 'estimate', 'expects', 'project', 'intends', 'plans', 'believes', and words of similar substance in connection with any discussion of future performance.

We cannot, of course, guarantee that these forward-looking statements will be realised, although we believe we have been prudent in our assumptions. The achievement of results is subject to risks, uncertainties and even inaccurate assumptions. Should known or unknown risks or uncertainties materialise, or should underlying assumptions prove inaccurate, actual results could vary materially from those anticipated, estimated or projected. Readers should bear this in mind.

We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise.

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BOARD OF DIRECTORS	R J Shahaney, <i>Chairman</i>
	D G Hinduja, <i>Co-Chairman (Alternate : Y M Kale)</i>
	D J Balaji Rao
	A K Das (<i>Alternate : P Banerjee</i>)
	P N Ghatalia
	Ramachandran R Nair
	F Sahami
	S Shroff
	A Spare
	Dr V Sumantran
	R Seshasayee, <i>Managing Director</i>
	Vinod K Dasari, <i>Whole-time Director</i>
CHIEF FINANCIAL OFFICER	K Sridharan
EXECUTIVE DIRECTOR AND COMPANY SECRETARY	A R Chandrasekharan
EXECUTIVE DIRECTORS	J N Amrolia
	Anup Bhat
	S Balasubramanian
	A K Jain
	R R G Menon
	N Mohanakrishnan
	M Nataraj
	Rajinder Malhan
	Rajive Saharia
	Shekhar Arora
	B M Udayashankar
AUDITORS	M S Krishnaswami & Rajan
	Deloitte Haskins & Sells
COST AUDITORS	Geeyes & Co.
BANKERS	Bank of America
	Bank of Baroda
	Calyon Bank
	Canara Bank
	Central Bank of India
	Citibank N.A.
	HDFC Bank Limited
	ICICI Bank Limited
	IDBI Bank Limited
	Punjab National Bank
	Standard Chartered Bank
	State Bank of India
	State Bank of Patiala
	The Hongkong and Shanghai Banking Corporation Limited
REGISTERED OFFICE	1, Sardar Patel Road, Guindy, Chennai 600 032
PLANTS	Chennai (Ennore & Ambattur) and Hosur, Tamil Nadu;
	Bhandara, Maharashtra; Alwar, Rajasthan; Pant Nagar, Uttarakhand
WEBSITE	www.ashokleyland.com

Performance highlights

Rs. Lakhs

	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Sales volume										
Vehicles (numbers)	37,859	32,475	29,673	36,444	48,654	54,740	61,655	83,094	83,307	54,431
Engines (numbers)	6,004	6,311	5,258	5,924	5,085	6,254	7,171	8,202	11,757	21,447
Spare parts and others	21,450	51,390	54,920	47,710	44,680	54,600	78,380	54,684	79,124	79,969
Revenue (Gross sales)	2,59,870	2,60,670	2,63,040	3,07,400	3,92,730	4,81,080	6,05,310	8,30,472	8,94,715	6,66,664
Profit before tax	9,330	10,190	13,220	17,010	28,646	35,501	45,230	60,451	63,815	20,845
Profit after tax	7,850	9,170	9,230	12,021	19,358	27,141	32,732	44,129	46,931	19,000
Assets										
Net fixed assets	94,580	96,130	1,00,980	93,980	92,110	97,900	1,08,470	1,54,452	2,05,479	4,39,741
Investments	12,040	11,790	11,730	15,758	14,660	22,919	36,818	22,109	60,990	26,356
Net current assets	1,03,290	1,02,230	98,250	74,812	63,100	99,161	82,392	94,183	60,332	1,02,867
	2,09,910	2,10,150	2,10,960	1,84,550	1,69,870	2,19,980	2,27,680	2,70,745	3,26,801	5,68,963
Financed by										
Shareholder's funds - Capital	11,890	11,890	11,890	11,890	11,890	11,890	12,220	13,239	13,303	13,303
- Reserves	1,01,450	1,04,960	91,310	84,060	90,050	1,02,960	1,28,300	1,73,776	1,99,366	3,33,118
Loan funds	96,570	93,300	88,840	71,750	49,900	88,040	69,190	64,040	88,750	1,95,814
Deferred tax liability - net	—	—	18,920	16,850	18,030	17,090	17,970	19,690	25,382	26,344
Foreign currency translation difference account - net	—	—	—	—	—	—	—	—	—	384
	2,09,910	2,10,150	2,10,960	1,84,550	1,69,870	2,19,980	2,27,680	2,70,745	3,26,801	5,68,963
Basic earnings per share (Rs.)	0.66	0.77	0.78	1.01	1.63	2.28	2.74	3.38	3.53	1.43
Dividend per share (Rs.) (face value Re. 1 each)	0.35	0.40	0.45	0.50	0.75	1.00	1.20	1.50	1.50	1.00
Employees (nos.)	14056	13489	13218	11860	12007	12178	11845	12125	13304	11938

DIRECTORS' REPORT

Part I - Performance/operations

The Directors have pleasure in presenting the Annual Report of the Company, together with the audited Accounts, for the year ended March 31, 2009.

FINANCIAL RESULTS	(Rs. Lakhs)	
	2008-2009	2007-2008
Profit before tax	20,844.63	63,815.02
Less: Provision for taxation	1,845.00	16,884.00
Profit after tax	18,999.63	46,931.02
Excess provision written back		
– Dividend	22.05	—
– Corporate dividend tax thereon	3.75	—
Balance profit from last year	50,227.38	36,168.59
Transfer from/(to):		
Debenture redemption reserve	(2,958.33)	500.00
General reserve	(2,500.00)	10,000.00
Profit available for appropriation	63,794.48	73,599.61
Appropriation:		
Proposed dividend	13,303.38	19,977.12
Corporate dividend tax thereon	2,260.91	3,395.11
Balance profit carried to balance sheet	48,230.19	50,227.38
Earnings per Share (face value Re.1/-)		
– Basic (in Rs.)	1.43	3.53

Dividend

The Directors recommend a dividend of 100% (Re.1/- per equity share of Re.1/-) for the year ended March 31, 2009.

Business operations

The global economic crisis had a severe adverse impact on the Indian economy, in the second half of the year. The Commercial Vehicle industry, which was already facing a slowdown in the first half of the year, due to a cyclical downturn, was suddenly faced with a precipitous decline in demand from October 2008. Medium and Heavy Duty Commercial Vehicles segment was the worst affected in the automobile industry and your Company could not escape the crisis. Consequently, sale of vehicles for the year declined by 35% compared to the previous year.

Highlights of performance are discussed in detail in the Management Discussion and Analysis Report attached as Annexure - D to this Report.

Research and Development, Technology Absorption, Energy Conservation, etc.

Your Company has been increasing its spend on Research and Development activities. The increased infrastructural and financial support reflects the Company's resolve to stay ahead of competition by delivering innovative quality products and its commitment to total customer satisfaction.

The particulars prescribed by the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 relating to Conservation of Energy, Technology Absorption and Foreign Exchange are furnished in Annexure - A to this Report.

External Commercial Borrowings (ECBs)

In December 2007, despite difficult conditions in the financial market, the Company had successfully contracted for a US\$ 200 mn loan. While US\$ 20 mn was drawn in March 2008, balance of US\$ 180 mn was drawn during the financial year. The funds drawn were fully utilised for the approved end uses permitted by Reserve Bank of India.

Foreign Currency Convertible Notes (FCCNs)

The Foreign Currency Convertible Notes (FCCNs) for US\$ 100mn issued in April 2004 are convertible into shares of the Company (Fixed Rate USD 1 = Rs.44.10). As of March 31, 2009, 99,000 Notes (99%) have already been converted into underlying shares, thereby increasing the paid-up capital as of March 31, 2009.

All the procedures consequent to the conversion are being completed on time and these shares, which rank *pari passu* with the earlier shares in all respects, are tradeable on the Indian Stock Exchanges. The share capital as on March 31, 2009 and corresponding revised shareholding pattern are shown in the Corporate Governance Report (Annexure - B) to this Report.

FCCNs not converted aggregating to 1000 nos. have since been redeemed in April 2009 as per the terms of issue. With this redemption, FCCNs would cease to be traded in the London Stock Exchange, where it was listed.

Joint Venture with Nissan Motor Co. Ltd., Japan

A Joint Venture Agreement was signed on May 26, 2008 with Nissan Motor Co. Ltd., leading to formation of three Joint Venture companies for the Light Commercial Vehicle (LCV) business in India for technology development, vehicle manufacturing and powertrain manufacturing. Fiscal and other incentives from Government of Tamilnadu for the project have been secured although allotment of

DIRECTORS' REPORT

the land for the project is awaited. However, in view of the global slowdown, the two partners are reworking the manufacturing plans including the option of phased implementation of the project.

Joint Venture with John Deere, USA

A Joint Venture Agreement was signed on September 30, 2008 with John Deere, USA for manufacture and marketing of Construction Equipment. The Joint Venture is scheduled to commence production by early 2010 and will initially roll out backhoes and four-wheel-drive loaders.

Part II - Corporate matters

Corporate Governance

Your Company is fully compliant with the Corporate Governance guidelines, and has exceeded them in some aspects. All the Directors (and also the members of the Senior Management – of the rank of General Managers and above) have confirmed in writing their compliance with and adherence to the Code of Conduct adopted by the Company. The details of the Code of Conduct are furnished in **Annexure-B** to this Report. The Managing Director has given a certificate of compliance with the Code of Conduct, as required by SEBI guidelines.

The Statutory Auditors of the Company have examined the requirements of Corporate Governance with reference to Clause 49 of the Listing Agreement, and have certified the compliance as required under SEBI guidelines. The certificate is reproduced as **Annexure - C** to this Report.

The Directors' Responsibility Statement as required under Section 217(2AA) of the Companies Act, 1956 is furnished in **Annexure - E** to this Report.

The particulars of employees as prescribed by the Companies (particulars of employees) Rules, 1975 are furnished in **Annexure - F** to this Report.

The CEO / CFO certification as required under the SEBI guidelines is attached - as **Annexure - G** to this Report.

Directors

During the year, Life Insurance Corporation of India nominated Mr Ramachandran R Nair, Director and Chief Executive of LIC Housing Finance Ltd. in the place of Mr S R Krishnaswamy, who resigned as Director. Mr Subir Raha resigned as Director during the year and Dr V Sumantran was appointed in the casual vacancy so caused.

The Board wishes to place on record its appreciation for the contributions made by Mr S R Krishnaswamy and Mr Subir Raha during their tenure as Directors of the Company.

Mr R J Shahaney, Mr Shardul S Shroff, Mr Ramachandran R Nair and Dr V Sumantran, Directors, retire at the forthcoming Annual General Meeting and are eligible for re-appointment.

Necessary resolutions are being placed before the shareholders for approval.

Mr R J Shahaney, Mr Shardul S Shroff and Mr Ramachandran R Nair are independent Directors.

Cost Auditors

The Government has stipulated Cost Audit of the Company's records in respect of motor vehicles as well as engineering industries (diesel engines). M/s Geeyes & Co., Cost Auditors have carried out these audits. Their findings have been satisfactory.

Secretarial Audit

As directed by Securities and Exchange Board of India (SEBI), Secretarial Audit is being carried out at the specified periodicity by a Practising Company Secretary. The findings of the Secretarial Audit have been satisfactory.

Auditors

M/s M S Krishnaswami & Rajan, Chartered Accountants and M/s Deloitte Haskins & Sells, Chartered Accountants, retire at the close of this Annual General Meeting and are eligible for re-appointment. The Company has received confirmation from both the firms that their appointment will be within the limits prescribed under Section 224(1B) of the Companies Act, 1956. The Audit Committee of the Board has recommended their re-appointment. The necessary resolution is being placed before the shareholders for approval.

Acknowledgement

The Directors express their appreciation of the continued co-operation of the Central and State Governments, bankers, financial institutions, customers, dealers and suppliers and also the valuable assistance and advice received from major shareholders Hinduja Automotive Limited (erstwhile LRLIH Limited), the Hinduja Group and all the shareholders. The Directors also wish to thank all the employees for their contribution, support and continued cooperation through the year.

On behalf of the Board of Directors

Chennai
May 15, 2009

R J SHAHANEY
Chairman

ANNEXURE A TO DIRECTORS' REPORT

(A) Conservation of Energy

All manufacturing plants continue to implement various initiatives for conservation of energy.

Around 39 lakh electrical units have been saved, leading to significant savings in energy costs during the year. This was made possible by the high degree of awareness and involvement of associates through the Mission Gemba Cost Management Initiative.

A few key initiatives are:

- Maintenance of Power Factor throughout the year, through optimum use of capacitor banks
- Use of wind power, contributing to over 66% of the total saving
- Optimised use of Compressed Air Systems
- Optimum use of power to stay within the sanctioned maximum demand
- Implementation of several energy saving projects

(B) Technology Absorption

Research and Development (R&D)

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

Engines :

- New series of engines from 140 kW to 260 kW range being developed to meet Bharat Stage III & Stage IV emission norms
- 'H' series Bharat Stage IV 165 kW developed and being applied on vehicle models

2. Benefits derived as a result of R & D :

- Compliance with emission standards proposed for April 2010
- New engine platform with potential for development for the next 10 years
- New process to reduce time-to-market

3. Future plan of action :

- Next generation cabs and engine platforms under development
- Vehicle model combination with various drivelines for higher fuel efficiency and lower operating economics under development.

4) Expenditure on R & D

	Rs. Lakhs
Capital	15,001.59
Revenue (excluding depreciation)	11,536.66
Total	26,538.25

Total R & D Expenditure as a % of total turnover 3.98%

(C) Foreign Exchange Earnings and Outgo

Details of earnings and outgo of foreign exchange are given in Schedules 1.5 to 1.8 of Notes to the Accounts. The Company continues to strive to improve its export earnings.

RESEARCH & DEVELOPMENT EXPENDITURE

Expenditure incurred on in-house Research & Development

	2008-09	2007-08	2006-07	Rs.Lakhs 2005-06
		(Audited)	(Audited)	(Audited)
A. Capital expenditure	15,001.59	8,987.84	7,340.41	4,859.55
B. Revenue expenditure (excluding depreciation):				
- Employees' Remuneration and benefits	5,771.71	5,544.00	3,966.75	2,290.65
- Other expenditure (clubbed under respective heads)	5,764.95	6,403.84	4,715.27	3,635.02
Total R&D Expenditure	26,538.25	20,935.68	16,022.43	10,785.22
as a % of Total Turnover	3.98%	2.34%	1.93%	1.78%

ANNEXURE B TO DIRECTORS' REPORT REPORT ON CORPORATE GOVERNANCE

1. Philosophy on Corporate Governance

The Board of Directors and the Management of Ashok Leyland commit themselves to:

- strive towards enhancement of shareholder value through
 - sound business decisions
 - prudent financial management and
 - high standards of ethics throughout the organisation
- ensure transparency and professionalism in all decisions and transactions of the Company
- achieve excellence in Corporate Governance by
 - conforming to and exceeding wherever possible, the prevalent mandatory guidelines on Corporate Governance
 - regularly reviewing the Board processes and the management systems for further improvement

The Company has adopted a Code of Conduct for members of the Board and senior management. All Directors have affirmed in writing their adherence to the above Code. The full text of the Code is furnished at the end of this Report, and is also displayed at the Company's website www.ashokleyland.com.

2. Board of Directors

a) **Composition** : The Board of Directors of the Company, headed by a Non-Executive Chairman, consisted of the following Directors, as on March 31, 2009, categorised as indicated:

i) Non-Executive Directors

Promoter Group

Mr A K Das (Alternate : Mr P Banerjee)
Mr D G Hinduja (Co-Chairman) (Alternate : Mr Y M Kale)
Mr F Sahami
Mr A Spare
Dr V Sumantran

Independent

Mr D J Balaji Rao
Mr P N Ghatalia
Mr Ramachandran R Nair (Nominee of LIC)
Mr Shardul S Shroff
Mr R J Shahaney

ii) Executive Directors

Managing Director

Mr R Seshasayee

Whole-time Director & Chief Operating Officer

Mr Vinod K Dasari

None of the Directors is related to each other.

Equity shares held by Directors

<i>Name of the Director</i>	<i>No. of equity shares</i>
Mr R J Shahaney	11730
Mr R Seshasayee	11236
Mr Vinod K Dasari	52900

There are no other shares or convertible instruments held by any other Director(s).

b) Attendance at Board Meetings and last Annual General Meeting (AGM) and details of memberships of Directors in other Boards and Board Committees

Board Meetings held during the year 2008-09

Date of Meeting	Board Strength	No. of Directors present
May 8, 2008	12	9
July 29, 2008	12	10
October 21, 2008	12	11
January 28, 2009	12	12

- The time gap between any two meetings did not exceed four months.
- The last Annual General Meeting was held on July 30, 2008.

ANNEXURE B TO DIRECTORS' REPORT – REPORT ON CORPORATE GOVERNANCE

Name of Director	No. of Board meetings attended	Whether attended last A.G.M. held on July 30, 2008	Membership as on 31/03/2009	
			Other Boards (excluding Ashok Leyland) (Note 1)	Other Board Committees (excluding Ashok Leyland) (Note 2)
Mr R J Shahaney	3	Yes	2 (1 as Chairman)	1 (as Chairman)
Mr D G Hinduja	4	Yes	6	2
Mr D J Balaji Rao	4	Yes	10 (1 as Chairman)	8 (3 as Chairman)
Mr A K Das	3	Yes	10 (1 as Chairman)	1
Mr P N Ghatalia	3	Yes	9	9 (5 as Chairman)
Mr S R Krishnaswamy (resigned w.e.f January 28, 2009)	4	Yes	Not Applicable	Not Applicable
Mr S Raha (resigned w.e.f. August 6,2008)	1	No	Not Applicable	Not Applicable
Mr Ramachandran R Nair (appointed w.e.f. January 28,2009)	1	Not Applicable	5	3
Mr F Sahami	4	Yes	1	1
Mr Shardul S Shroff	1	No	4	3
Mr A Spare	4	Yes	2	Nil
Dr V Sumantran (appointed w.e.f. October 21,2008)	2	Not Applicable	Nil	Nil
Mr R Seshasayee	4	Yes	9 (5 as Chairman)	1
Mr Vinod K Dasari	4	Yes	4 (1 as Chairman)	Nil
Alternate Directors :				
Mr P Banerjee	1	No	5	1
Mr Y M Kale	Nil	No	3	1 (as Chairman)

Note 1 : Excludes Foreign Companies, Private Limited Companies and Alternate Directorships.

Note 2 : Memberships in Audit Committee and Shareholders/Investors Grievance Committee are reckoned for this purpose.

Full details of Directors seeking re-appointment at the ensuing Annual General Meeting have been furnished in the Notice convening the meeting of the Shareholders.

Secretarial Standards

The Institute of Company Secretaries of India (ICSI) has published Standards on secretarial practices relating to

meetings of the Board / Committees, General Meetings, Dividends, etc. The Secretarial and the operating practices of the Company are in line with the above Secretarial Standards.

The required information as per Annexure-I to Clause-49 of the Listing Agreements with Stock Exchanges is provided to the Board at every meeting.