



AUTOMOBILE CORPORATION OF GOA LIMITED

24th Annual Report 2004



AUTOMOBILE CORPORATION OF GOA LIMITED

BOARD OF DIRECTORS

S. V. Salgaocar	Chairman
D. N. Naik	
P. F. X. D'Lima	
P. M. Telang	
R. S. Thakur	
S. M. Kuvelker	<i>(from 30.10.2003)</i>
C. V. Singh	<i>(from 24.01.2004 to 30.07.2004)</i>
J. J. Singh	Managing Director <i>(upto 31.07.2004)</i>
N. R. Menon	Managing Director <i>(from 01.08.2004)</i>
Ananth Prabhu	Executive Director (Commercial) & Secretary

AUDITORS

C. C. Chokshi & Co.

BANKERS

State Bank of India

HDFC Bank Ltd.

REGISTERED OFFICE

Honda, Sattari,
Goa 403 530

SHARE REGISTRARS

Tata Share Registry Limited
Army and Navy Building,
148, Mahatma Gandhi Road,
Fort,
Mumbai - 400 001.

24th ANNUAL GENERAL MEETING
11th September, 2004.
4.00 P.M.
Honda, Sattari, Goa 403 530.

AUTOMOBILE CORPORATION OF GOA LIMITED**NO NOTICE**

NOTICE is hereby given that the 24th Annual General Meeting of the Members of AUTOMOBILE CORPORATION OF GOA LTD., will be held on Saturday, the 11th September, 2004 at 4.00 p. m. at the Registered Office of the Company at Honda, Sattari, Goa to transact the following business:

ORDINARY BUSINESS

1. To consider and adopt the Directors' Report and the audited Profit & Loss Account for the year ended 31st March 2004 and the Balance Sheet as at that date.
2. To appoint a Director in place of Mr. P F X D'Lima, who retires by rotation and is eligible for reappointment.
3. To appoint a Director in place of Mr. P M Telang, who retires by rotation and is eligible for reappointment.
4. To appoint Auditors and fix their remuneration.

SPECIAL BUSINESS

5. To appoint a Director in place of Mr. S M Kuvelker who was appointed as an Additional Director of the Company on 30.10.2003 by the Board of Directors to hold office up to the date of forthcoming Annual General Meeting of the Company under Section 260 of the Companies Act, 1956 but is eligible for appointment as a director liable to retire by rotation and in respect of whom the Company has received a notice from a member proposing his candidature for the office of Director.
6. To appoint a Director in place of Mr. N R Menon who was appointed as an Additional Director of the Company with effect from 1.08.2004 by the Board of Directors to hold office up to the date of forthcoming Annual General Meeting of the Company under Section 260 of the Companies Act, 1956 but is eligible for appointment as a director liable to retire by rotation and in respect of whom the Company has received a notice from a member proposing his candidature for the office of Director.
7. To consider, and, if thought fit, to pass with or without modification(s), the following resolution as an Ordinary Resolution:

"Resolved that, in accordance with the provisions of Sections 198, 269, 309 and other applicable provisions, if any, of the Companies Act, 1956, including schedule XIII of the Act as amended upto date, the consent of the Company be and is hereby accorded to the appointment of and terms of remuneration and perquisites granted to Mr N R Menon who has been appointed by the Board of Directors as Managing Director of the Company for the period from 01.08.2004 to 31.07.2007 upon the terms, conditions and remuneration as set out in the draft agreement submitted to this meeting and initialed by the Chairman for the purpose of identification, which agreement is hereby specifically sanctioned with liberty to the Remuneration Committee to alter and vary the terms and conditions of such appointment and/or agreement in such manner as may be agreed to between the Board of Directors and Mr. Menon."

"Resolved further that, in the event of loss or inadequacy of profits in any financial year of the Company during the tenure of Mr. Menon as Managing Director, the remuneration and perquisites set out in the aforesaid agreement be paid or provided to him as minimum remuneration subject to applicable provisions of the Companies Act, 1956 as may be amended from time to time."

"Resolved further that for the purpose of giving effect to this resolution, the Board of Directors be and is hereby authorised to do all such acts, deeds, matters & things as may be necessary, usual and proper in the best interests of the Company."

"Resolved further that Mr. Menon shall automatically cease to be a Director of the Company upon his ceasing to hold the office of Managing Director of the Company."

Notes:

- (a) A MEMBER ENTITLED TO ATTEND AND VOTE IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF AND A PROXY NEED NOT BE A MEMBER
- (b) Explanatory Statement pursuant to Section 173 of the Companies Act, 1956 in respect of the business under item Nos. 5 to 7 set out above is annexed hereto.
- (c) Register of Members and Transfer Books of the Company shall remain closed from the 3rd September 2004 to 8th September 2004 (both days inclusive).
- (d) As required under the Companies Unpaid Dividend (Transfer to General Revenue Account of the Central Government) Rules 1978, the Company has transferred all unclaimed/unpaid dividend upto and inclusive of financial year ended 31.3.1995 to the General Revenue account of the Central Government. Members who have not encashed the dividend warrants for the said period may approach the Registrar of Companies at the following address along with their claim in Form II of the Companies Unpaid Dividend (Transfer to General Revenue Account of the Central Government) Rules 1978.

The Registrar of Companies
Company Law Office
Plot No. 21, EDC Complex, Patto Plaza,
Panaji - Goa 403 001

Those members who have not encashed their dividend warrants for the financial years ended 31st March, 1997 & 31st March, 1998 may claim or approach the Company's Registrar as the balance will be transferred to Investor Education & Protection Fund established by the Central Government on or before the dates indicated below:

Dividend for the year ended 31st March, 1997 - 14.11.2004

Dividend for the year ended 31st March, 1998 - 14.11.2005

In respect of the dividend for the year ended 31st March, 1996 the balance as on 15.10.2003 has been transferred to Investor Education & Protection Fund.

It may be noted that no claims will lie against the Company or the Investor Education and Protection Fund in respect of the said unclaimed dividend amount transferred to the Fund.

By order of the Board of Directors

(ANANTH PRABHU)
Executive Director (Commercial)
& Secretary

Dated: 5th August, 2004

Registered Office :
Honda, Sattari,
Goa - 403 530.



Explanatory Statement pursuant to Section 173 of the Companies Act, 1956.

Item No. 5

The Board of Directors appointed Mr. S M Kuvelker as Additional Director at their meeting held on 30.10.2003. Under Section 262 of the Companies Act, 1956 read with Article 154 of the Articles of Association of the Company, he holds office till the forthcoming Annual General Meeting.

Notice has been received from a member as required under Section 257 of the Companies Act, 1956 proposing his candidature for appointment as a Director. Brief particulars of the Director being appointed is given in the annexure.

None of the Directors are concerned or interested in the said resolution.

Items No. 6 and 7

At the meeting of the Board of Directors of the Company held on 30th July, 2004, Mr. N R Menon was appointed as the Managing Director of the Company for a period of 3 years effective from 01.08.2004 to 31.07.2007 subject to the approval of the members at the ensuing Annual General Meeting.

The salient terms of appointment of Mr. Menon as Managing Director, as set out in the draft Agreement placed before the meeting are given below:

- i) Mr. Menon as Managing Director shall carry out such duties as may be entrusted to him subject to the supervision and control of the Board of Directors.
- ii) Tenure of Agreement: 01.08.2004 to 31.07.2007
- iii) Remuneration:

- a) Mr. Menon shall be paid a salary in the scale of Rs. 50,000 – 1,25,000 per month with authority to the Board, which expression shall include a Committee thereof, to fix his salary within the above scale from time to time. The annual increment shall be merit based and take into account the Company's performance.
- b) Annual Incentive Remuneration as may be decided by the Board of Directors (which term includes a committee of Directors) in its absolute discretion depending upon the performance of Mr. Menon from time to time but which shall not exceed 150% of his annual salary.
- c) Commission

Such remuneration by way of commission, in addition to the salary and perquisites and allowances payable, calculated with reference to the profits of the Company in a particular financial year, as may be determined by the Board of Directors of the Company at the end of each financial year, subject to the overall ceilings stipulated in Sections 198 and 309 of the Companies Act, 1956. The specific amount payable to him shall be

based on certain performance criteria laid down by the Board and shall be payable annually after the Annual Accounts have been approved by the Board and adopted by the members.

d) Perquisites and allowances:

In addition to the salary, incentive remuneration and commission, Mr. Menon shall be entitled to perquisites and allowances such as accommodation (furnished or otherwise) or house rent allowance in lieu thereof; house maintenance allowance, together with reimbursement of expenses or allowances for utilities such as gas, electricity, water, furnishings, repairs, servant salary, society charges and property tax; medical reimbursement, medical/accident insurance, leave travel concession for himself and his family; club fees and such other perquisites and allowances; in accordance with rules of the Company or as may be agreed to by the Board of Directors and the appointee; such perquisites and allowances will be subject to maximum of 140% of annual salary.

Provision for use of the Company's car for official duties and telephone at residence shall not be included in computation of perquisites and allowances for the purpose of calculating the said ceiling. Company's contribution to PF and superannuation fund or annuity fund, to the extent these either singly or together are not taxable under the Income Tax Act, gratuity payable as per the rules of the Company and encashment of leave at the end of the tenure shall not be included in the computation of limits for the remuneration and perquisites aforesaid.

- iv) Minimum Remuneration: Notwithstanding anything to the contrary herein contained, where in any financial year during the currency of the tenure of the appointee, the profits are inadequate; the Company will pay remuneration by way of salary, perquisites and allowances as specified above, subject to the provisions of schedule XIII of the Act.
- v) The terms and conditions of the said appointment and/or Agreement may be altered and varied from time to time by the Board as it may, in its discretion, deem fit within the maximum amount payable to the appointee in accordance with schedule XIII of the Act or any amendments made hereinafter in this regard.
- vi) The Agreement may be terminated by either party giving the other party three month's notice, or the Company paying three months remuneration in lieu of the notice.
- vii) If at any time Mr. Menon ceases to be a director of the Company for any cause whatsoever, he shall cease to be respectively the Managing Director/Whole-time Director of the Company. If at any time the appointee ceases to be in the employment of the Company for any cause whatsoever, he shall cease to be a Director of the Company.

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viii) Mr. Menon shall not be entitled to supplement his earnings under the Agreement with any buying or selling commission. He shall also not become interested or otherwise concerned directly or through wife and/or children in any selling agency of the Company, without the prior approval of the Central Government.

ix) The terms of remuneration specified above are now being placed before the members in General Meeting for their approval by way of an Ordinary Resolution.

x) The draft Agreement between the Company and the appointee is available for inspection by the members of the Company at its Registered Office between 9.00 am to 12.00 noon on any working day.

xi) This may be treated as an abstract of the draft agreement between the Company and the appointee pursuant to Section 302 of the Companies Act, 1956.

None of the Directors except Mr. Menon is concerned or interested in the said resolution.

By order of the Board of Directors

(ANANTH PRABHU)
Executive Director (Commercial)
& Secretary

Dated: 5th August, 2004

Registered Office :
Honda, Sattari,
Goa - 403 530.

Information on Directors retiring by rotation seeking re-appointment and Additional Directors seeking appointment at this Annual General Meeting

Name	Mr. P F X D'Lima	Mr. P M Telang	Mr. S M Kuvelker	Mr. N R Menon
Date of Birth & Age	12 th December, 1941 62 years	21 st June, 1947 57 Years	15 th February, 1935 69 years	27 th May, 1946 58 Years
Appointed on	25 th September, 2002	25 th September, 2002	30 th October, 2003	1 st August, 2004
Qualification	B E (Mechanical Engineering)	B E (Mechanical Engineering) MBA (IIM, Ahmedabad)	B.Com, F.C.A	B E. (Metallurgy)
Expertise in Specific functional areas	Mr. P F X D'Lima has 40 years industrial experience. He has expertise in the areas of Iron & Steel and Coke making Technology, Machine and Shipbuilding, Maintenance and other Engineering projects. Mr. D'Lima is currently the Chairman of the EDC Limited	Mr. P M Telang has been with Tata Motors Ltd. for 32 Years and is currently Sr. Vice President (Operations) Commercial Vehicle Business Unit, Tata Motors Ltd. Pune Works. Before joining Tata Motors, Mr. Telang was with Larsen Toubro Ltd, Mumbai for 3 Years.	Mr. S M Kuvelker is Chartered Accountant by profession. He started his practice in 1962 and was an advisor to a number of companies. He is associated with Garware Group of Industries since 1970. He was Executive Director of Garware - Wall Ropes Limited. He is presently Vice Chairman of the said company.	Mr. Menon joined Tata Motors Ltd. as a Graduate Engineer Trainee in 1970 and during the last 34 years has held various responsible positions in Machine Shop, Transmission Lines, Differential Lines as also in Quality Systems such as ISO 9000, ISO 14001 and TS16949. Mr. Menon has undergone training courses in Japan and Germany in connection with selection of machines/ processes. Member ASM (India) Chapter
Directorships held in other public companies (including Foreign companies)	EDC Limited	Tata Holset Ltd Tata Cummins Ltd TAL Manufacturing Solutions Ltd.	Garware Wall - Ropes Ltd. Garware Capital Market Ltd., Garware Securities Broking Ltd., Garware Elastomerics Ltd., Intermedia Interactive Solutions Ltd. Tulsiani Builders & Textiles Ltd. Amline Textiles Ltd. Garware Indus Consulting Ltd. Garware Real Estate Holdings Ltd., Garware Utzon (Cordage) Ltd.	—
Memberships/ Chairpersonships of Committees across public companies	Nil	Nil	Mr. S M Kuvelker is a Chairperson of Audit Committee in following companies. Garware Wall - Ropes Ltd. Garware Elastomerics Ltd. Intermedia Interactive Solutions Ltd.	Nil



DIRECTORS' REPORT

To the members of Automobile Corporation of Goa Ltd.

Your Directors present their 24th Annual Report and the audited statement of accounts for the year ended 31st March, 2004.

Financial Results

	(Rs. In Lakhs)	
	2003-04	2002-03
Net Sales	11268.34	7595.85
Total Expenditure	10170.44	7087.03
Operating profit	1097.90	508.82
Other Income	233.95	50.33
Earnings before Interest, Tax, Depreciation and Amortisation.	1331.85	559.15
Interest	165.13	261.25
Cash Profit	1166.72	297.90
Provision for Depreciation & Amortisation		310.65
Profit before Tax	961.06	21.54
Provision for Tax	49.00	-
Excess Provision for tax in respect of earlier years	-	2.18
Balance in Profit & Loss A/C brought forward from the previous year	(892.06)	(1,216.10)
	20.00	(1,192.38)
Appropriations:		
Transfer from Debenture Redemption Reserve	-	300.00
Transfer from General Reserve	-	0.32
Preference Dividend (including arrears)	171.06	-
Corporate Dividend tax there on	21.92	-
Deficit carried to Balance Sheet	(172.98)	(892.06)

Dividend

In view of the Company continuing to have accumulated losses, the Directors have not recommended a dividend on Equity shares. As statutorily required, the Preference share dividend, along with arrears, has been provided for in the accounts.

Operations

The year under review was a major milestone in the history of the Company in view of the all round improvements in all parameters – both operational and financial. The Company recorded profits every quarter and ended the year with a Profit Before Tax of Rs.961 Lakhs. The performance reflected the success of measures implemented during the last three years at improving quality and productivity and cost control. The considerable increase in demand also helped a great deal in achieving a commendable performance, which enabled in reducing the accumulated losses significantly.

Sheet Metal Division

The growth in commercial vehicle production by Tata Motors Ltd (TML), one of the major customers, during the

year under review substantially raised the demand for sheet metal components and the division was able to outperform anticipated levels. The steps taken at reconditioning major equipment and tooling helped in reducing rejection, improving efficiency and greatly improved the quality rating of the supplies by the customer. The division was thus able to demonstrate its ability to be a reliable vendor of quality components earning a greater share of supplies vis-à-vis the competitors. The division also stepped up efforts at operational efficiencies by closely monitoring key performance parameters and cost control to sustain the gains in capacity utilization.

The division also received refund of Rs. 60 Lakhs in respect of Sales Tax dues under dispute from a major vendor during the year under review.

The rationalization of the division's operations was continued during the year under review. One of the old 500 Tonne presses was disposed off in view of excess capacity idling at the division. The division also bagged a prestigious and long-term order from Komatsu Cummins Engine Co.Ltd. Japan for supply of an engine component, which has grown in volume during the current year.

Having achieved success, the division looks forward to reclaim its rightful place among the major component suppliers of TML and is drawing up plans to move closer to the customer by shifting further components to Jejuri Pressings Unit as also taking up further value addition activities.

Bus Body Division

The Bus Body Division sold 1293 buses during the year under review as against 1079 buses during the previous year. Timely availability of chassis and other bottlenecks affected the production volumes in the second half of the year, but for which the division would have performed even better. The division has demonstrated its ability to consistently produce over 6 buses a day. Constraints of economical batch size, timely availability of chassis as also the continuous customization of the body specifications by customers resulted in slowing down output.

The division also earned income of Rs. 99 Lakhs from technology transfer during the year.

In close association with the Fully Built Vehicles division of TML, several new models as also improved versions of the existing models were introduced during the year. A number of these models were also exhibited at the TML pavilion of Auto Expo 2004 held at New Delhi in January 2004.

The division obtained Certification under ISO 9001/2000 during the year under review.

HRD and Industrial Relations

As reported last year, the salaries and wages of all employees were revised effective from 1st April 2003. The negotiations with employee unions were conducted in a very cordial atmosphere and, for the first time, were jointly held and concluded with a single agreement reached

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between the unions at both the divisions. The continuing close cordiality between the unions and the management, which is evident in the joint workshops being held for quality and productivity gains at both the divisions, augurs well for the long-term well being of the Company.

Finance

The proposal to set off the Miscellaneous Expenditure account with the balance available in the Share Premium account, approved by the members last year was given effect during the year under review with the approval of the Hon'ble High Court of Bombay at Goa. As a result, the unamortised balance of Miscellaneous Expenditure as at 30th June 2003 amounting to Rs. 37,908,311/- is adjusted against the balance standing to the credit of Share Premium account as on that date.

In view of the improved cash generation, the entire term loan of ICICI Bank Ltd. (ICICI) of Rs. 10.21 Crores was pre-paid during the year under review. This is a matter of great satisfaction as the members will recall that the Company had to request ICICI to restructure the loan only three years back with roll over of installments, reduction in interest rate and funding of interest for a few years. With this repayment, the collaterals provided by TML to ICICI also stand extinguished. The Directors wish to place on record their deep gratitude to ICICI and TML for the faith reposed in the Company in times of need.

The Company also inducted HDFC Bank Ltd. (HDFC Bank) as one of the bankers to the Company in view of the favourable terms offered by HDFC Bank.

By closely monitoring cash credit utilization, the repayment of loan as stated above and the general softening of interest rates in the country, the Company was able to reduce the interest cost substantially during the year under review from Rs. 261.25 Lakhs to Rs. 165.13 Lakhs. Financial assistance has been availed from time to time from TML in the form of ICD's to achieve such savings.

As a good corporate governance measure, a provision has been made in the books of account in respect of investment of Rs. 45.50 Lakhs made in Ashiyana Autobodies Ltd. (AAL). The Directors are, however, hopeful that the Company will be in a position to recover its investment in due course of time.

Audit observations

At Para 10 (a) of the Annexure to the Auditors Report, a mention has been made of arrears of PF dues of Rs. 203,461/-. This amount pertains to the employees of certain contractors and was withheld pending registration by the contractors with the PF authorities. The amount has since been paid to the PF authorities.

Corporate Governance

The report on Corporate Governance and the certificate of the Company's auditors confirming compliance of conditions as stipulated in clause 49 of the Listing Agreement is annexed to this report.

Directors

Mr. S M Kuvelker was appointed as Additional Director with effect from 30th October, 2003 and relinquishes office at the forthcoming Annual General Meeting. Notice has

been received from a member signifying his intention to propose the re-appointment of Mr. S M Kuvelker as a Director liable to retire by rotation. Attention of members is drawn to Item No. 5 of the Notice of the AGM seeking the reappointment of Mr. Kuvelker.

Consequent upon his relocation to the Republic of Korea, Mr. C V Singh, who was appointed as Additional Director on 24th January, 2004 resigned from the Board with effect from 30th July, 2004. The Directors wish to place on record their sincere appreciation of the contribution made by Mr. C V Singh during his tenure.

Mr. J J Singh relinquished office as Managing Director at the end of his term on 31st July, 2004. Due to personal reasons, Mr. Singh declined re-appointment for a further term. Mr. Singh assumed office in 2001 when the Company was experiencing its most difficult period and has rendered an yeoman service in not only arresting the Company's losses but also by guiding the manufacturing units to profit and growth. The Board has recorded its deep appreciation of the service rendered by Mr. Singh during his term in office.

Consequent to the relinquishing of office by Mr. J J Singh, Mr. N R Menon has been selected to lead the Company. Mr. Menon was appointed as an Additional Director in the vacancy created by the stepping down of Mr. Singh. Mr. Menon would function as the Managing Director of the Company with effect from 1st August, 2004 for a period of 3 years subject to the approval of the members. Mr. Menon joined Tata Motors Limited as a Graduate Engineer Trainee in 1970 and during his long career with TML has held various responsible positions in the plants and was Deputy General Manager (Auto) at Tata Motors' Pune works at the time of his appointment. Attention of members is drawn to Items No. 6 and 7 of the Notice of the meeting for the appointment of Mr. Menon as Managing Director and the remuneration payable to him.

Mr. P F X D'Lima and Mr. P M Telang retire by rotation and being eligible, offer themselves for re-appointment.

The Directors commend the appointments of Mr. D'Lima, Mr. Telang, Mr. Kuvelker and Mr. Menon.

Particulars of employees

Information required under Section 217 (2A) of the Companies Act, 1956, is annexed to this report.

Energy conservation, Technology absorption and Foreign Exchange earnings/outgoings.

Information required under Section 217 (1) (e) of the Companies Act, 1956 read with Companies (Disclosure of Particulars in the Report of Directors) Rules, 1988 and forming part of the Directors' Report is annexed.

Directors' Responsibility Statement

The Company is in compliance with various accounting and financial reporting requirements in respect of the financial statements for the period under review. Pursuant to Section 217 (2AA) of the Companies Act, 1956 and in respect of the annual accounts for the year under review, based on the representations received from the operating management, the Directors confirm that:



- i. in the preparation of the annual accounts, the applicable accounting standards have been followed and that there are no material departures;
- ii. they have, in the selection of the accounting policies, consulted the Statutory Auditors and have applied them consistently and made judgements 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;
- iii. they have taken proper and sufficient care, to the best of their knowledge and ability, 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;
- iv. they have prepared the annual accounts on a going concern basis.

Acknowledgements

The restructuring of operations over the last three years has been hugely rewarding as manifest from the results for the year under review. This has been a joint effort by various stakeholders; mainly the promoters, the Govt. of Goa, the employees, employee unions, and the operating management. The Directors wish to thank each and everyone associated in this effort.

On behalf of the Board of
Directors

(S V Salgaocar)
Chairman

Place : Vasco-Da-Gama,
Dated : 5th August, 2004.

ANNEXURE TO DIRECTORS' REPORT

Information as per Section 217(2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975, as amended

Name	Age (yrs)	Designation/ Nature of duties	Gross Remuneration received (subject to tax) (Rs.)	Qualification	Total Experience (yrs)	Date of commencement of employment	Last employment held, Designation, Period for which post held
Mr. J J Singh	59	Managing Director	34,43,011.00	B. E. (Mech)	34	01.08.2001	Tata Motors, Pune. Dy. General Manager (Auto Production) 30 years.

Notes:

1. Gross remuneration includes salary, commission, taxable value of perquisites and Company's contribution to PF, SAF and Gratuity
2. The nature of employment is contractual.

On behalf of the Board of Directors

Place : Vasco-Da-Gama,
Dated : 5th August, 2004

(S V Salgaocar)
Chairman

ANNEXURE TO DIRECTORS' REPORT

Information required under the Companies (Disclosure of Particulars in the Report of the Board of Directors) Rules, 1988.

A. Conservation of Energy

Close monitoring of consumption of LDO, compressed air and optimum utilization of motors, boilers, welding machines and other electrical devices has resulted in about 10% energy savings at both the manufacturing divisions.

B. Absorption of Technology, Research and Development (R & D)

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

Design and Development of new models of buses, concept vehicles, fitments and processes

2. Benefits Derived from R & D

- i. Widening of product portfolio to meet specific Customer demand.
- ii. Opportunity of selling Design Packages

3. FUTURE PLAN OF ACTION

- i. Weight optimization for various bus models.
- ii. Development of new models.
- iii. Mass production of RE-SLF (Rear Engine Semi Low Floor) buses and HCBS (High capacity Monocoque Ultra Low floor) buses.

4. Expenditure on Research and Development

- a) Capital Rs. 3,56,500.00
- b) Recurring Rs. 21,41,280.89
- c) Total Rs. 24,97,780.89
- d) Total R & D expenditure as a percentage of total turnover 0.22%

Technology Absorption, Adaptation and Innovation

a) Technology imported:

- i) Technology for building Monocoque Buses as per Technical Collaboration Agreement with Fuji Heavy Industries Ltd., Japan.
- ii) Technology for manufacture, sale and service of Air Suspension systems as per Technology License Agreement with Holland Neway Intl. Muskegon, Michigan, U S A

b) Year of import:

- i) 1997-1998
- ii) 1999-2000

c) Has technology been fully absorbed:

- i) Yes.
- ii) License terminated

C. Foreign Exchange earnings and outgo

The company earned Rs.423,720,350/- by export of Buses through a merchant exporter. The particulars of foreign exchange earned/utilised during the year are given in Schedule 15 to the Accounts.

On behalf of the Board of Directors

Place : Vasco-Da-Gama,
Dated: 5th August, 2004

(S V SALGAOCAR)
Chairman

AUTOMOBILE CORPORATION OF GOA LIMITED

MANAGEMENT DISCUSSION & ANALYSIS

1. Industry structure and development

The company is engaged in the manufacture of pressed sheet metal components, sub-assemblies and assemblies for automobiles and bus coaches.

The estimated GDP growth of 8.2% for the year 2003-04 has driven demand benefitting the entire industrial sector. With the economy still in a strong growth path, there is wide-spread optimism that this momentum will be sustained in the next few years.

The automobile industry also witnessed very healthy improvements in volumes in all segments in 2003-04. The commercial vehicles segment in particular has had a robust growth achieving about 35% increase over the previous year in the Light, Medium and Heavy commercial vehicles segment as a whole. If the demand in the first few months of the current year is any indication, it appears that this buoyancy will continue in the current year.

i) Sheet Metal Components

The spiraling input costs, particularly of steel, had a dampening effect in the otherwise encouraging demand environment. Even though the customers eventually agree to reimburse steep input cost increases, some of these need to be absorbed by the Company and this, coupled with the pressure on cash flows, production disruptions due to shortages and, particularly, the uncertainty of supplies from small component vendors has resulted in the component industry's inability to reap the full advantage of demand.

With the steel price and availability situation now stabilizing, the components industry looks forward to reap the benefit of the buoyant market and recover from the setbacks suffered in the recent years.

ii) Bus Bodies

The continuing infrastructure development, initiatives of various governments to phase out old vehicles and the general improvement in the economy have aided the Bus Body building industry to enter an era of growth. With the expectations of further steps by the new government to reduce the anomalies in the Excise duty levy on Bus Bodies and provide the organized sector with a level playing field for bus body building, it is hoped that more and more vehicle manufacturers will convert their chassis sales into fully built vehicle sales thus giving a fillip to organized body-builders.

2. Opportunities and threats

The success of the reform process, which commenced in 1991, has already integrated the country into the global economy and has brought it closer to being considered along with some of the developed nations. The promise of long term and sustained economic growth provides great opportunities, particularly in the automotive sector considering the low density of quality public transport vehicle population in the country. Those units, which have invested in building strong technology driven and innovative manufacturing facilities, are poised to reap the benefits in the foreseeable future.

With increasing competitive pressure and escalating costs, vehicle manufacturers have started demanding continuous cost reductions from ancillary suppliers. While volumes do provide economies of scale, ancillary suppliers too have to grapple with increasing overhead costs, which get compounded when the units are not in the vicinity of vehicle manufacturers due to logistics costs. The margins will therefore continue to be under pressure and higher levels of quality and reliability will prove to be decisive in retaining customers.

3. Risks and concerns.

The industry has just completed its process of shedding excess manpower at great cost and has no alternative but to depend on temporary labour to meet sudden surges in demand. The policies of the government, particularly with respect to labour reform, will be watched with great anxiety as the industry will not be able to take the sustenance of the current demand for granted, and hence will have to follow flexible hiring policies.

4. Internal Control Systems

As stated in the previous year, the internal control systems have been revised to provide for the changes made in the organization structure during the year. The systems are continuously being appraised for further modification to suit the needs of changing business environment and the consequent empowerment of personnel in charge of key functions.

After a long gap, the Computer systems have been fully upgraded and networked to facilitate superior data gathering and analysis.

5. Financial and operational performance and outlook

As may be seen from the tabulation, the operations in the year under review have improved substantially in all key areas:

	2003/04	2002/03	% Change
Turnover (Rs. in lakhs)	11502.30	7595.85	51%
No. of buses sold	1293	1079	20%
PBITDA (Rs. in lakhs)	1338.54	559.15	139%
Operating margin	9.80%	7.36%	154 bps
Interest (Rs. In lakhs)	165.13	261.25	(-)37%
Cash profit (Rs. In Lakhs)	1173.41	297.90	294%
Interest coverage	6.83	2.36	189%
Inventory Turnover	7.56	5.64	34%
Asset turnover	6.71	4.19	60%
Profit after tax (Rs. lakhs)	962.35	21.54	

The planned financial restructuring, which began with infusion of capital by issue of Preference Shares of Rs. 9.20 Crores to the promoters in 2002-03 was carried forward by setting off the balance in the Miscellaneous Expenditure account as at 30th June, 2003 amounting to Rs. 379.08 lakhs against the Share premium account after approval from the Hon'ble High Court of Bombay at Goa.

The cash generation from operations and the miscellaneous income during the year also helped in pre-paying the balance long-term loan of Rs. 10.21 Crores to ICICI Bank Ltd.

The demand for both buses and pressed sheet metal components for the current year shows a healthy trend and therefore the outlook for the year appears promising.

6. Material developments in Human Resources and Industrial Relations

The long pending issue of revision in salaries and wages was finalized during the year. The industrial relations continued to be cordial at both the divisions.

Cautionary Statement

Statement in this Management Discussion and Analysis that describe the Company's objectives, expectations and predictions may be 'forward-looking statements' within the meaning of applicable securities laws and regulations. Actual results could differ materially from those expressed or implied. Important factors that could make a difference to the Company's operations include raw material availability and prices, demand and pricing by the Company's major customers, changes in the Government regulations, tax regimes, economic development and other incidental factors.