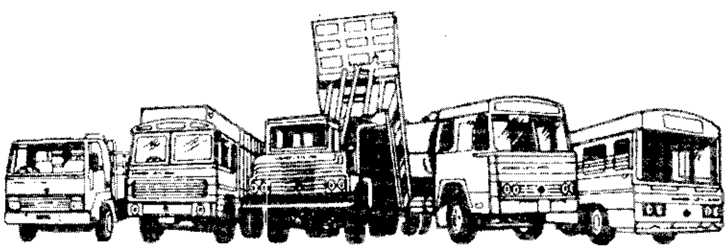
Annual Report
1998-99



Ashok Leyland Limited

Contents

Board of Directors	R J Shahaney, *Chairman*
	G Boschetti
	S C Chawla
	P K Choksey
	A K Das
	S M Datta
	D G Hinduja
	J Joseph
	H Klingele
	S K Mukerji
	F Sahami *(Alternate: B D Punjabi)*
	R Sorce *(Alternate: M Lecomte)*
	M J Subbaiah
	R Seshasayee, *Managing Director*
	R Jagannath, *Wholetime Director*
Executive Directors	J N Amrolia
	T Anantha Narayanan
	K K S Bhalla
	S Nagarajan
	M Natraj
	A J Sandil
Secretary	N Sundararajan
Auditors	M S Krishnaswami & Rajan
	Price Waterhouse
Cost Auditor	Geeyes & Co.
Bankers	American Express Bank
	ANZ Grindlays Bank
	Andhra Bank
	Bank of America
	Bank of Baroda
	Bank of India
	Canara Bank
	Central Bank of India
	Citibank N.A.
	Hongkong & Shanghai Banking Corporation Ltd
	ICICI Banking Corporation Ltd
	Indian Overseas Bank
	Punjab National Bank
	Standard Chartered Bank
	State Bank of Bikaner & Jaipur
	State Bank of Hyderabad
	State Bank of India
	State Bank of Travancore
Registered Office	19, Rajaji Salai, Chennai 600 001
Plants	Chennai
	Hosur, Tamil Nadu
	Bhandara, Maharashtra
	Alwar, Rajasthan
	Hyderabad

Highlights of Performance

Rs. Millions

	1998-99	1997-98	1996-97	1995-96	1994-95	1993-94	1992-93	1991-92	1990-91	1989-90 (15 months)
Sales Volume										
Vehicles (nos.)	29741	31547	43352	37399	30410	24226	20571	23422	24698	26451
Engines (nos.)	7185	7611	8331	6537	5258	5666	4069	6337	4517	5405
Spare Parts and Others	2145	2520	2030	1962	1596	1411	1115	1027	935	730
Sales Value	20451	20143	24825	20097	15133	11813	9544	10307	9229	8616
Profit Before tax	233	207	1570	1336	706	353	46	269	414	306
Profit After Tax	204	184	1249	1131	706	353	46	244	263	231
Assets										
Fixed Assets	9548	9026	8399	7142	5904	5021	3268	2723	2005	1634
Investments	625	485	583	781	681	523	277	1607	54	26
Net Current Assets	10491	13914	13679	11284	9000	4463	5686	3435	2426	2092
	20663	23425	22661	19207	15585	10007	9231	7765	4485	3752
Financed by										
Shareholders' Funds - Capital	1189	1189	1189	1189	1189	780	694	315	315	315
- Reserves	9852	9763	9704	9152	8485	3902	3400	1913	1774	1602
Loan Funds	9622	12473	11768	8866	5911	5325	5137	5537	2396	1835
	20663	23425	22661	19207	15585	10007	9231	7765	4485	3752
Earnings per Share (paise)	171	154	1050	951	837	491	79	776	835	805
Dividend (%)	10	10	50	40	35	27	12	27	27	31.5
Employees (nos.)	14254	14635	15274	14545	13616	12596	12307	12338	12329	12021

Directors' Report

The Directors present the Annual Report of the Company together with the audited Accounts for the year ended March 31, 1999.

Financial Results

	1998-99 (Rs. Million)	1997-98 (Rs. Million)
Profit Before Tax	233.18	206.59
Less : Provision for Taxation	29.50	22.50
	203.68	184.09
Add : Transfer from/(to):		
Investment Allowance Reserve	22.12	11.20
Debenture Redemption Reserve	(372.82)	(280.00)
Balance in Profit and Loss Account		
Brought forward from previous year	239.86	175.39
General Reserve	250.00	280.00
Profit available for appropriation	342.84	370.68
Appropriation :		
Proposed Dividend (10%)	118.93	118.93
Tax on Proposed Dividend	13.08	11.89
Surplus - Balance in Profit and Loss Account		
Carried forward to next year	210.83	239.86

Dividend

The Directors recommend a dividend of 10% (Re.1/- per equity share of Rs.10/-) free of tax, for the year ended March 31, 1999.

Sales

Commercial Vehicle industry suffered severely during the year on account of unprecedented long-spell of slow down in the Indian economy with many key sectors posting negative/ lower growth. Total Sale Volume of Commercial Vehicles for the year declined (consecutively for the second year in succession) by 11.6% over previous year. During this period, the Company's sale of vehicles dropped by 5.7%. In the critical medium duty vehicle segment, your Company has been able to consolidate and gain market share. This gain, in a shrinking market, is a reflection of the product strengths and the result of improved market coverage, customer oriented after-market support and financing schemes.

There has been some improvement in the market demand from early 1999. However, given the uncertain political and economic climate, and the situation in Kashmir, this cannot be perceived as the beginning of sustained recovery.

Exports

During 1998-99, the Company exported 2,168 vehicles as against 2,150 vehicles during 1997-98.

Production

Production had to be curtailed significantly in alignment with the reduced market demand leading to lower capacity utilisation and, at the same time, planned reduction in inventory levels. With the increase in demand from January 1999, the Company has reverted to full working.

Profitability

Due to poor market conditions and consequent lower volumes, the profitability of your Company came under severe pressure. Your Company responded to the unprecedented situation through management action in the areas of market consolidation, material management, operational efficiencies and reduction in working capital. Concerted efforts helped your Company post operational profit during the year.

Dispute Regarding Central Sales Tax

In respect of litigation with Government of Tamil Nadu regarding sales tax on sales of chassis in other States, Sales Tax Appellate Tribunal (STAT), Tamil Nadu, which was hearing the case as remanded by the Supreme Court, has given its order modifying the tax liability marginally to Rs.436.33 million but waiving the penalty in toto.

Your Company has preferred an appeal against the said order and the Supreme Court was pleased to grant stay of the order of STAT.

Year 2000 Issue (Y2K)

The Year 2000 issue refers to any possible risks in your Company's business operations (including suppliers and customers) arising due to possible difficulties in the computer systems from the commencement of the Year 2000. A competent team has been coordinating your Company's plans to deal with this problem professionally.

- State of preparedness

Year 2000 remediation programme encompasses (a) I.T. infrastructure (b) I.T. applications (c) Plant & Machinery and other supporting installations across the Company, and (d) Customer / Supply base/ Service providers. Year 2000 teams have already identified facilities that need software/ hardware upgrades or replacements and in most cases the remediation process has either been completed or initiated.

- Risks

An assessment of internal risks on account of Year 2000 issue has been carried out and covered by the remediation programme currently under progress. Assessment of external risks is on and actions are being initiated for remediation. It is estimated that the entire remediation process will be completed by October 1999.

- Costs

Your Company has assessed the future cost for replacement/ modifications at Rs.13.5 million to be incurred during 1999-2000.

- Contingencies

Your Directors do not foresee any disruption in your Company's activities and consequently the assumption of going concern also will not get vitiated due to Year 2000 issues since sufficient steps have been taken. However contingency plans will be put in place wherever relevant.

Debenture Series V and VIII

The Debenture Series V were fully redeemed during the year. The proceeds of Debenture Series VIII issue have been fully utilised for normal capital expenditure as well as the working capital needs, as per the objectives of the issue.

Cost Audit

As directed by Government of India, the cost accounts pertaining to Motor Vehicles and Diesel Engines for the year ended March 31, 1999 will be audited by the approved Cost Auditor and report will be submitted to the Government.

Industrial Relations

Industrial relations during 1998-99 were very satisfactory. The Management received good co-operation from the employees and the Unions especially in the matter of the unavoidable lay-offs which had to be suffered during the latter half of the year.

Research and Development

The Company incurred an expenditure of Rs.116.50 million towards R & D during the year.

Corporate Governance

The Company has always believed in objective appraisal of operating performance and in transparency, both of which facilitate enhancement of shareholder value. A comparison of the Company's practices with the norms of Corporate Governance recommended by Confederation of Indian Industry, is given elsewhere in this Annual Report.

Directors

Mr. F. Sahami, Mr. S.C. Chawla and Mr. A.K. Das retire by rotation at the ensuing Annual General Meeting, and are eligible for re-appointment. The necessary resolutions are being placed before the members for their approval.

Mr. S.M. Datta who has been a Director of the Company since 1995 retires by rotation at the ensuing Annual General Meeting, and is not seeking re-appointment. The Board wishes to place on record its appreciation of his valuable contribution during his tenure as a Director of your Company.

Mr. R. Jagannath who was appointed as an Additional Director of the Company vacates office at the ensuing Annual General Meeting. Notice under Section 257 of the Companies Act, 1956 has been received from a member proposing his re-appointment. The necessary resolutions are being placed before the members for their approval.

Auditors

M/s M S Krishnaswami & Rajan and M/s Price Waterhouse retire at the ensuing Annual General Meeting and are eligible for re-appointment.

The Company has received confirmation that their appointment will be within the limits prescribed under Section 224(1B) of the Companies Act, 1956.

Other Information

The particulars prescribed by the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 are furnished in the Annexure to this Report.

Acknowledgement

The Directors wish to 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 LRLIH Ltd., Hinduja Group and IVECO. The Directors also wish to thank all the employees for their contribution, support and co-operation during a very difficult year.

On behalf of the Board of Directors

Chennai
July 21, 1999

R J SHAHANEY
Chairman

(A) Conservation of Energy

The Company continues to take measures for conservation and optimum utilisation of energy through a series of audit programmes and continuous monitoring of processes and manufacturing methods. The Company has also taken advice on energy conservation measures *from the CII, Energy Conservation Cell.*

(B) Technology Absorption

Research and Development (R&D)

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

   – Enlarging product range including development of various vehicles for use by Army.

   – Work related to improvement of customer acceptance by reducing cost of operation and improving durability.

   Apart from the above, systems and processes are being improved towards reaching International Standards.

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

   – Improved market share.

3. **Future Plan of Action :**

   – Apart from meeting Legislative requirements, to work on variety reduction and Value Engineering and to develop new models.

4. **Expenditure on R & D :**

	(Rs. Million)
(a) Capital	43.88
(b) Revenue (excluding depreciation)	72.62
Total	116.50
Total R & D Expenditure as % of total turnover	0.57

Technology Absorption, Adaptation and Innovation

— 1512 vehicle is in commercial production.

— Tipper version of the 'Bison' vehicle has been developed and is undergoing trials prior to launch.

— Viking Bus with weveller suspension at the front and air suspension at the rear has been well accepted and bulk production has commenced.

— *Modified clutch assembly to improve durability has* been tested and is expected to be introduced in bulk on certain models during the current year.

— Trial production of Euro-1 engines has commenced.

— 10 buses powered by CNG are operating in Mumbai and have covered upto 1,25,000 kms. CNG engines is now being developed to stringent emission norms and tests are in progress.

(C) Foreign Exchange Earnings and Outgo

The details of earnings and outgo of foreign exchange are given in Schedules 1.6 to 1.9 of Notes to the Accounts. The Company continues to strive to improve its export earnings.

Management Review

Recession continued to affect the commercial vehicle industry through 1998-99. Ashok Leyland weathered it by drawing from its inherent strengths and resilience and, most importantly, from the commitment and ingenuity of its people.

Commercial Vehicle Industry

Barring agricultural sector, all the major freight generating sectors - manufacturing, fertilizers, cement, steel, mining and foreign trade - under-performed compared to the previous year. This caused a further fall in the demand for commercial vehicles in the goods segment.

The passenger segment that had managed to grow, though marginally, through the recessionary phase in 1997-98, registered negative growth during 1998-99. The loss was mainly in the State-run transport corporations who could not convert their requirements into sales for want of funds support from the State Governments. This was partially made up by slightly better off-take from the private passenger sector.

For the commercial vehicle industry, it has been two successive years of negative growth, whilst for the medium and heavy commercial vehicles (M&HCV) segment, 1998-99 registered a 44.9% loss from the peak volume of 1996-97.

For sheer severity and longevity, this recession is without parallel in Indian commercial vehicle industry.

Domestic Market

In a dwindling market, the Company attempted to maximise sale through two strategies that have been successful in the last few years - increased market coverage and new product introductions.

The Company continued with aggressive market coverage to expand in North and East, while consolidating in the strongholds of South and West. Market coverage has been enhanced by establishing new dealerships in new markets, consolidating existing dealerships through branch networks and, simultaneously, increasing after-market support through service and parts outlets.

Customising products and offering suitable variants for specific applications helped the Company convert technological leadership into market leadership in more product segments and regions.

Customer satisfaction is now being tracked systematically in respect of several dealerships and models.

The Company's market share in the all-important M&HCV segment registered an all-time high of 34.5%, up from the 32.1% the previous year.

Defence Supplies

Wide reporting of the Kargil operations have brought into national notice the crucial — but otherwise silent — service rendered by Stallion 4x4, the specialised vehicle which had been developed by the Company for the Indian Army. Several other modern, special application vehicles for Defence needs are at various stages of trials and induction.

The Company has also transferred technology to a manufacturing unit in the Government sector for vehicle assembly and manufacturing under a licence arrangement.

International Market

Recession in world markets and heightened price competition from ASEAN markets due to their depreciated currencies cast their shadow on Indian exports. Export of commercial vehicles from India was down 28.2% during 1998-99. However, the Company marginally increased export sales, compared to previous year.

Efficiencies

Adverse market conditions brought internal processes under pressure. The inbound supply-chain system was tightened to achieve demand-based supply and JIT delivery. This, in conjunction with an improved demand forecasting system and alignment of production to market demand, helped the Company reduce inventory.

Through strategic sourcing, improved supply-chain management, rationalisation of supplier base, indigenisation at supplier end and total cost approach, savings have been achieved in material costs.

Asset Management

Optimum utilization of resources contributed significantly to the financial performance in the year. Focus on better inventory management and debtor management yielded net current asset reduction of Rs.3.42 billion during 1998-99. The entire loan repayment obligations and capital expenditure requirements were met out of funds realised from asset reduction and internal accruals. The Company also prepaid Rs.440 million in loans during the year.

Employee Involvement

Open channels of communication and transparency made for a well aware and empathetic workforce. The Company has several cross functional teams and small group activities addressing a wide variety of quality, product and cost saving improvement measures.

A major fillip to the Company's TQM journey was the QS 9000 certification it won during the year, making Ashok Leyland the first automotive manufacturer in India to win this honour.

India 2000 Norms

The India 2000 norms for emission regulation, generally conforming to the Euro 1 norms, will come into force from April 1, 2000, setting the immediate technology agenda for Indian commercial vehicle industry.

All the three engine platforms viz., Leyland, Hino and IVECO are set to meet these norms, with turbocharged and non-turbocharged options, well ahead of the deadline. To Ashok Leyland's customers, this will mean the advantages of product familiarity and choice based on operational requirements and economics.

Ahead of legislative pressures, the Company has been working on alternate fuels since last decade. Having brought out India's first CNG bus in 1997, the Company is in a position to meet the emerging demand for CNG buses from the National Capital Region of Delhi where all eight-year old buses have to run on clean fuels from April 1, 2000 and all buses, from April 1, 2001, as per Supreme Court directive.

Outlook

The prospects for the commercial vehicle sector and for Ashok Leyland are closely linked to the performance of the key economic segments of the economy. The best news is the robust growth forecast of agricultural production. Pick-up in the construction sector is already translating favourably in allied sectors, pointing to a revival in the medium term. Deferment of fleet replenishment through the recession has also created a potential demand. These are factors that point to an upward trend in business volumes in the current year.

The Company will continue its efforts to get stronger, more efficient and be ready for the new millennium.

July 21, 1999

R. SESHASAYEE
Managing Director

Report on Corporate Governance

Your Company has always believed in transparency and conscientious discharge of its responsibilities towards the shareholders.

Whilst individual corporates have evolved and practised their own codes of good conduct, the comprehensive code of Corporate Governance developed by the Confederation of Indian Industry (CII) is a welcome step that will help spread such good practices. It is a matter of pride and satisfaction that most of the present-day recommendations on good Corporate Governance have been actually practised by your Company over the past several years, as will be evident from the table, given below. At the same time, the Management and the Board would like to assure the shareholders that the management practices will be constantly reviewed and monitored to ensure that the principles of good Corporate Governance will be upheld at all times, so as to maximize long term shareholder value.

	Code Recommended By CII (Condensed)	Ashok Leyland Practices
1	Full Board to meet at least a minimum of 6 times a year at regular intervals, with structured Agenda.	• 6 Board Meetings were held during the year, with agenda circulated in advance, facilitating adequate discussions. • Additionally, there were 28 meetings of the Audit Committee, Remuneration Committee and Share Transfer Committee.
2	At least 30% of the Board strength should consist of professionally competent, independent non-executive Directors, where Chairman is a non-executive Director.	• Of the 15 Directors on the Board, all except Managing Director and one Wholetime Director inducted from 1-4-99, are non-executive Directors.
3	No Director to be a Director in more than 10 listed Companies.	• This is so, in respect of all Directors except one.
4	a) Non-executive Directors to carry clearly defined responsibilities and participate actively.	• The Audit and Remuneration Committees of the Board consist exclusively of non-executive Directors. • Several non-executive Directors take active part in specific Projects/ Committees.
	b) Directors (except experts in technology etc.) to possess reasonable knowledge of Finance/Accounts and Company Law.	• All Directors possess reasonable knowledge of Finance and Company Law.
5	a) Company should pay Commission to non-executive Directors in addition to Sitting Fees.	• The Company has so far not paid any commission to non-executive Directors.
	b) Company should consider offering Stock option to Directors.	• There is no Stock Option Scheme in the Company presently.
6	At the time of re-appointment, attendance record of directors should be disclosed and where adverse (less than 50%), to be incorporated in the resolution.	• Attendance in Board meetings is being borne in mind before proposing re-appointment.
7	The Board Agenda should cover the following topics, along with adequate background papers	• Business plans, periodic reviews and significant developments are placed before the Board along with necessary background papers.
	– Long term plans as well as annual operating plans and budgets	• Detailed presentations are also made at Board Meetings on specific issues.