

Annual Report 2005 – 2006



Contents	Board of Directors	19
	Highlights of Performance	20
	Directors' Report	21
	Report on Corporate Governance	24
	Auditors' Certificate on Corporate Governance	34
	Management Discussion and Analysis Report	35
	Directors' Responsibility Statement	40
	CEO/CFO Certification	41
	Auditors' Report to the Members	42
	Balance Sheet	44
	Profit and Loss Account	45
	Cash Flow Statement	46
	Statement on Significant Accounting Policies	48
	Schedules to Balance Sheet	50
	Schedules to Profit and Loss Account	58
	Notes to the Accounts	61
	Balance Sheet Abstract and Company's General Business Profile	68
	Annexure to Directors' Report – Particulars of Employees	69

<i>Board of Directors</i>	R J Shahaney, Chairman
	D G Hinduja, Vice Chairman (<i>Alternate : Y M Kale</i>)
	D J Balaji Rao
	F J Colon Martinez (<i>Alternate : G Sagone</i>)
	A K Das (<i>Alternate : I N Chatterjee</i>)
	P N Ghatalia
	S R Krishnaswamy
	E A Kshirsagar
	F Sahami
	A Spare
	S V Young
	R Seshasayee, Managing Director
<i>Chief Operating Officer</i>	V K Dasari
<i>Chief Financial Officer</i>	K Sridharan
<i>Executive Directors</i>	J N Amrolia
	S Balasubramanian
	A Bhat
	A R Chandrasekharan
	R Malhan
	S Nagarajan
	M Natraj
	B M Udayashankar
<i>Executive Director & Company Secretary</i>	N Sundararajan
<i>Auditors</i>	M S Krishnaswami & Rajan
	Deloitte Haskins & Sells
<i>Cost Auditors</i>	Geeyes & Co.
<i>Bankers</i>	Bank of America
	Bank of Baroda
	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
	The Hongkong and Shanghai Banking Corporation Limited
<i>Registered Office</i>	19, Rajaji Salai
	Chennai 600 001
<i>Plants</i>	Ennore and Ambattur, Chennai
	Hosur, Tamil Nadu
	Bhandara, Maharashtra
	Alwar, Rajasthan
<i>Website</i>	www.ashokleyland.com

Highlights of Performance

Rs. Millions

	2005-06	2004-05	2003-04	2002-03	2001-02	2000-01	1999-00	1998-99	1997-98	1996-97
Sales volume										
Vehicles (nos.)	61655	54740	48654	36444	29673	32475	37859	29741	31547	43352
Engines (nos.)	7171	6254	5085	5924	5258	6311	6004	7185	7611	8331
Spare parts and others	7838	5460	4468	4771	5492	5139	2145	2145	2520	2030
Sales value	60531	48108	39273	30740	26304	26067	25987	20451	20143	24825
Profit before tax	4523	3550	2865	1701	1322	1019	933	233	207	1570
Profit after tax	3273	2714	1936	1202	923	917	785	204	184	1249
Assets										
Fixed assets	10847	9790	9211	9398	10098	9613	9458	9547	9026	8399
Investments	3682	2292	1466	1576	1173	1179	1204	625	485	583
Net current assets	8239	9916	6310	7481	9825	10223	10329	10491	13914	13679
	22768	21998	16987	18455	21096	21015	20991	20663	23425	22661
Financed by										
Shareholders' funds - Capital	1222	1189	1189	1189	1189	1189	1189	1189	1189	1189
- Reserves	12830	10296	9005	8406	9131	10496	10145	9852	9763	9704
Loan funds	6919	8804	4990	7175	8884	9330	9657	9622	12473	11768
Deferred tax liability (Net)	1797	1709	1803	1685	1892	—	—	—	—	—
	22768	21998	16987	18455	21096	21015	20991	20663	23425	22661
Basic earnings per share (paise) (Face value Re. 1 each)	274	228	163	101	78	77	66	17	15	105
Dividend (%)	120	100	75	50	45	40	35	10	10	50
Employees (nos.)	11845	12178	12007	11860	13218	13489	14056	14254	14635	15274

Directors' Report

PART-I PERFORMANCE / OPERATIONS

The Directors are pleased to present the Annual Report of the Company, together with the audited Accounts, for the year ended March 31, 2006.

Financial Results

	2005-2006	2004-2005
	Rs. Millions	Rs. Millions
Profit before tax	4,523.00	3,550.10
Less: Provision for taxation	1,249.80	836.00
	3,273.20	2,714.10
Add: Transfer from/(to):		
Debenture redemption reserve	68.33	89.17
Balance profit from last year	1,784.13	1,339.24
General Reserve	(1,000.00)	(1,000.00)
Profit available for appropriation	4,125.66	3,142.51
Appropriation:		
Proposed dividend	1,597.86	1,189.29
Tax on dividend	224.10	169.09
Balance profit carried to Balance sheet	2,303.70	1,784.13
Basic Earnings per Share (Face Value Re.1/-)	2.74	2.28

DIVIDEND

The Directors recommend a dividend of 120% (Rs.1.20 per equity share of Re.1/-) for the year ended March 31, 2006. This Dividend will also be payable on the shares arising from conversion of Foreign Currency Convertible Notes (FCCNs) issued in April 2004, to the extent converted upto the Book Closure Dates.

BUSINESS OPERATIONS

The year 2005-06 continued to be a good year when the Company achieved several new records and milestones riding on the overall economy and buoyancy in the market. The highlights 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.

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, Foreign Exchange are furnished in **Annexure-A** to this Report.

PART – II CORPORATE MATTERS

CORPORATE GOVERNANCE

Your Company has consistently adopted high standards of Corporate Governance even before the SEBI Guidelines on this subject were mandated in the year 2000.

The revised and more stringent Guidelines stipulated by SEBI through the Listing Agreements with Stock Exchanges became effective from January 1, 2006. The Code of Conduct for the Board and the Senior Management was adopted by the Company in March 2005. Your Board has implemented the necessary actions, and your Company is fully compliant with the revised Guidelines from April 1, 2005. All the Directors (and also the members of the Senior Management – of the rank of General Managers and above) have confirmed in writing about their compliance and adherence with the Code of Conduct. The details are furnished in **Annexure-B** to this Report.

The Statutory Auditors of the Company have examined the Company's compliance, and have certified the same, as required under SEBI Guidelines. Such 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 - **Annexure-G** to this Report.

Directors' Report

DOWNSTREAM BUSINESS SUPPORT ACTIVITIES

ASHLEY TRANSPORT SERVICES LIMITED

The activity in this Company had to be curtailed during the year in order to revamp and strengthen some of the controls and operating procedures required for this pioneering business venture.

GULF ASHLEY MOTOR LIMITED

This Company was formed primarily to strengthen the dealer network and customer servicing in the Eastern parts of the country. The initiative has started yielding good results as reflected by the increased sales and market share for this Company in these regions.

FOREIGN CURRENCY CONVERTIBLE NOTES (FCCNs)

The Foreign Currency Convertible Notes (FCCNs) for USD 100 mn. issued in April 2004 are convertible into shares of the Company (Fixed Exchange Rate USD 1 = Rs.44.10); Conversion Price (reset in 2005) of Rs.31/- per share of face value Re.1/- each. The market price of the Company's equity shares in the Indian Stock Market has improved considerably in the last few months. Starting from February 2006, the Company has received 9 requests upto March 31, 2006 for conversion of 22700 FCCNs into 32292576 equity shares. From April 1, 2006 upto April 29, 2006, the Company has received 3 more requests for conversion of 8050 FCCNs into 11451773 equity shares. These requests have been approved and conversions have taken place. 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 tradable in the Indian Stock Exchanges. The details of the enhanced share capital as on March 31, 2006 and the corresponding revised shareholding pattern are given, as part of the Corporate Governance Report (Annexure-B) to this Report.

SUBDIVISION OF SHARES

During the year 2004-05, your Company's shares were subdivided (from a face

value of Rs.10/- each to a face value of Re.1/- each) w.e.f. July 7, 2004. Such action has resulted in substantially increasing the shareholders base of the Company; the number of shareholders as on March 31, 2006 has increased to 137244 (from about 72000 before subdivision).

DIRECTORS

The present term of Mr R Seshasayee, Managing Director is due to expire on March 31, 2007. Over the past eight years, he has not only led the Company in achieving consistently good operating results, but has also built up the organisation in terms of technological self-reliance, strengthening marketing infrastructure, breakthroughs in wage settlements, manpower reduction, labour productivity etc. The Remuneration Committee and the Board have considered it essential to continue to retain his leadership of the Company, and have decided, subject to the approval of shareholders at this General Meeting, to foreclose/overlap the last year of his current term and has re-appointed him as Managing Director for a period of three years from June 1, 2006 to May 31, 2009 with a suitable revision in the terms of remuneration. The necessary resolutions relating to this re-appointment are being placed before the shareholders for approval.

Mr S V Young has been appointed as an Additional Director at the Board Meeting held on July 26, 2005.

Mr H Klingele ceased to be a Director of the Board effective January 31, 2006, after serving on the Board for about 18 years. The Board wishes to place on record its deep appreciation of Mr Klingele's active involvement and support, particularly in Technical and Exports related matters.

Mr A Spare (who was hitherto Alternate Director) was appointed as a Director in the casual vacancy caused by the resignation of Mr H Klingele.

Mr F J Colon Martinez, Mr E A Kshirsagar, Mr S R Krishnaswamy and Mr R J Shahaney, Directors retire by rotation at the forthcoming Annual

General Meeting and are eligible for re-appointment. The necessary resolutions are being placed before the shareholders for approval.

COST AUDITOR

The Government has stipulated Cost Audit of the Company's records in respect of motor vehicles as well as engines. M/s Geeyes & Co., Cost Auditors have carried out these assignments. Their findings have been very 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 were entirely satisfactory.

AUDITORS

M/s M S Krishnaswami & Rajan and M/s Deloitte Haskins & Sells, Chartered Accountants 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. 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 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, Iveco and all the shareholders. The Directors also wish to thank all the employees for their contribution, support and continued co-operation through the year.

On behalf of the Board of Directors

Chennai
April 29, 2006

R J SHAHANEY
Chairman

(A) CONSERVATION OF ENERGY

All manufacturing plants have implemented various conservation of energy initiatives leading to significant savings in cost during 2005-2006. Few of such key initiatives are:

- Elimination of non-productive energy consumption by continuous systematic monitoring through installation of microprocessor based digital energy meters in substations and auto controller/sensing to avoid idle running of equipment thus conserving electricity and replacement of high capacity pumps of machines/equipments with optimum capacity pumps.
- Maintaining power factor always at 'ideal condition' achieved through optimum use of capacitor banks and incentives obtained from State Electricity Board.
- Systematic monitoring of recorded KVA Max. Demand and restricting the same close to minimum payable KVA demand.
- Value addition in terms of modifications, realignments and system improvements in major power consuming equipments to achieve reduced power consumption.
- Implementing various other energy saving measures in office lighting, street lighting etc.

(B) TECHNOLOGY ABSORPTION

Research and Development (R & D):

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

- Bharat Stage - III engine with "COMMON RAIL FUEL INJECTION SYSTEM" has been developed and durability trials have commenced.
- 152 KW (207 PS) rating on 'H' series 6 cylinder engine at Bharat Stage - II level has been extended to cover additional power ratings and commercial production will commence shortly.

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

- Wider range of vehicles, enhanced value equation and greater customer satisfaction.

3. Future Plan of Action

- Continue improvements in processes, skill building and addition of infrastructure.

Technology Absorption, Adaptation and Innovation:

- 6×2 Tipper for Mining Sector, scheduled for launch shortly.
- Upgraded version of Stallion, undergoing various trials with Indian Army.
- High Mobility Vehicle 6×6 has completed various user trials with the Army.
- A Field Articulated Tractor 6×6 vehicle has been developed for use by the Army.
- Two versions of the Ecomet i.e. 912 and 1112 have been launched in the Market.

4. Expenditure on R & D

Capital	Rs. Millions
Revenue	485.55
(excluding depreciation)	563.85
Total	<hr/> 1,049.40
Total R & D Expenditure as % of total turnover	1.7%

(C) FOREIGN EXCHANGE EARNINGS AND OUTGO

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.

Annexure B to Directors' Report - Report on Corporate Governance

1) ASHOK LEYLAND 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, who have all affirmed in writing their adherence to the 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, 2006, categorised as indicated:

i) Non-executive Directors

- a) Promoter Group
- Mr F J Colon Martinez (*Alternate : Mr G Sagone*)
Mr A K Das (*Alternate : Mr I N Chatterjee*)
Mr D G Hinduja (*Vice Chairman*) (*Alternate : Mr Y M Kale*)
Mr F Sahami
Mr A Spare
- b) Connected with Associate Companies
- Mr R J Shahaney (*Chairman*)
- c) Independent
- Mr D J Balaji Rao
Mr P N Ghatalia
Mr S R Krishnaswamy (*representing LIC as shareholder*)
Mr E A Kshirsagar
Mr S V Young

ii) Executive Director

- Managing Director
- Mr R Seshasayee

Equity Shares held by Directors

Name of the Director	No. of equity shares	There are no other shares or convertible instruments held by any other Director(s)
Mr R J Shahaney Mr R Seshasayee	11730 11236	

- b) **Attendance at Board Meetings and last A.G.M. and details of memberships of Directors in other Boards and Board Committees**

Details of Board Meetings held during the year 2005-06

Date of Meeting	Board Strength	No. of Directors present
April 28, 2005	11	11
July 26, 2005	12	12
October 22, 2005	12	12
January 31, 2006	12	12
March 29, 2006	12	7

- The time gap between any two meetings did not exceed four months.
- The last Annual General Meeting was held on July 26, 2005.

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 26, 2005	MEMBERSHIPS AS ON 31/3/2006 IN	
			Other Boards (excluding Ashok Leyland) (Note 5)	Other Board Committees (excluding Ashok Leyland) (Note 6)
Mr R J Shahaney	5	Yes	4 (4 as Chairman)	1 (1 as Chairman)
Mr D J Balaji Rao	5	Yes	7	8 (4 as Chairman)
Mr F J Colon Martinez	1	No	1	Nil
Mr A K Das	3	Yes	5	1
Mr P N Ghatalia (Note 1)	5	Yes	7	7 (3 as Chairman)
Mr D G Hinduja	4	Yes	4	Nil
Mr H Klingele (Note 2)	4	Yes	Nil	Nil
Mr S R Krishnaswamy	5	Yes	1	Nil
Mr E A Kshirsagar	5	Yes	4	4 (1 as Chairman)
Mr F Sahami	4	Yes	1	1
Mr S V Young (Note 3)	3	Not Applicable	1	Nil
Mr A Spare (Note 4)	Nil	Yes. As Invitee	1	Nil
Mr R Seshasayee	5	Yes	6 (3 as Chairman)	1
Alternate Directors :				
Mr I N Chatterjee	1	No	3	3 (1 as Chairman)
Mr Y M Kale	Nil	No	3 (1 as Chairman)	2 (1 as Chairman)
Mr G Sagone	4	Yes	1	Nil
<p>Note 1: Appointed as a Director effective April 1, 2005.</p> <p>Note 2: Ceased to be a Director effective January 31, 2006.</p> <p>Note 3: Appointed as a Director effective July 26, 2005.</p> <p>Note 4: Appointed as a Director effective January 31, 2006.</p> <p>Note 5: The above excludes Foreign companies, Private Limited Companies and Alternate Directorships.</p> <p>Note 6: Only Audit Committee, and Shareholders/Investors Grievance Committee are reckoned for this purpose.</p>				

Secretarial Standards

The Institute of Company Secretaries of India (ICSI) has laid down Standards on secretarial practices relating to meetings of the Board and Board Committees, General Meetings, Dividends etc. Though these Standards are so far only recommendatory, the secretarial and the operating practices of the Company are in line with the above Secretarial Standards.

All the information required under Annexure-1 to Clause-49 of the Listing Agreements with Stock Exchanges are being placed before the Board at every meeting, with the current status duly updated.

3) AUDIT COMMITTEE

a) Constitution

The Audit Committee of the Company was constituted in July 1987 with Terms of Reference, which covered most of the aspects stipulated by SEBI in the year 2000. These were comprehensively reviewed once again by the Company's Board in the year 2000, and the Audit Committee has been mandated with the same Terms of Reference as specified in Clause 49 of the Listing Agreements with Stock Exchanges. The Terms of Reference also fully conform to the requirements of Section 292A of the Companies Act, 1956.

Annexure B to Directors' Report - Report on Corporate Governance

b) Composition, names of members and Chairperson

The composition of the Audit Committee :

Independent Directors	Promoter Group Director
Mr E A Kshirsagar (Chairman) Mr D J Balaji Rao Mr P N Ghatalia (from April 28, 2005)	Mr F Sahami

All the members of the Audit Committee have expertise in Finance as well as in general management.

Mr E A Kshirsagar, Mr P N Ghatalia and Mr F Sahami had been senior partners in leading firms of Chartered Accountants.

Mr Balaji Rao had been the Deputy Managing Director of the then ICICI Ltd., (now ICICI Bank) and the Managing Director of Infrastructure Development Finance Company Ltd.

c) Meetings and Attendance

Audit Committee Meetings held during the year 2005-06 and Attendance Details

Attendance :	Date of Meeting	Committee Strength	No. of Directors present
	April 27, 2005	3	3
	July 25, 2005	4	4
	October 22, 2005	4	4
	January 31, 2006	4	4

- Mr N Sundararajan, Company Secretary is the Secretary to the Committee. He is also the Head of the Internal Audit function, and has attended all the above Meetings of the Committee.
- Mr K Sridharan, Chief Financial Officer, attended all the above meetings of the Committee.

The Statutory Auditors of the Company and the Cost Auditors are invited to join the Audit Committee Meetings. The Audit Committee discusses with the Statutory Auditors on the "Limited Review" of the quarterly/half-yearly accounts, the Audit Plan for the year, matters relating to compliance with Accounting Standards, the Auditors' observations arising from the annual audit of the Company's accounts, and other related matters. The Committee also reviews at every meeting the significant observations arising from the reports of the Internal Audit Department and the adequacy of the follow up action taken by the Management. The Committee discusses with the Cost Auditor about the Annual Cost Audit Reports, his observations and allied matters.

4) REMUNERATION COMMITTEE

- a) The Remuneration Committee consists entirely of non-executive Directors. Mr D J Balaji Rao, independent Director is the Chairman of the Committee. Mr R J Shahaney and Mr F Sahami are the other members.

Mr N Sundararajan, Company Secretary is the Secretary to this Committee.

The Committee is mandated with the following Terms of Reference :

- Determination and approval of the quantum of commission and special allowance payable to the Managing Director; and
- Determination and approval of the annual increments to the Managing Director .

Within the overall limits approved by the shareholders, the above determinations are based on the overall performance of the Company during the relevant financial year, and on the Committee's assessment of the personal contribution and achievements of the Managing Director.

- b) The Committee met once during the year on April 27, 2005. All the members were present at this meeting.