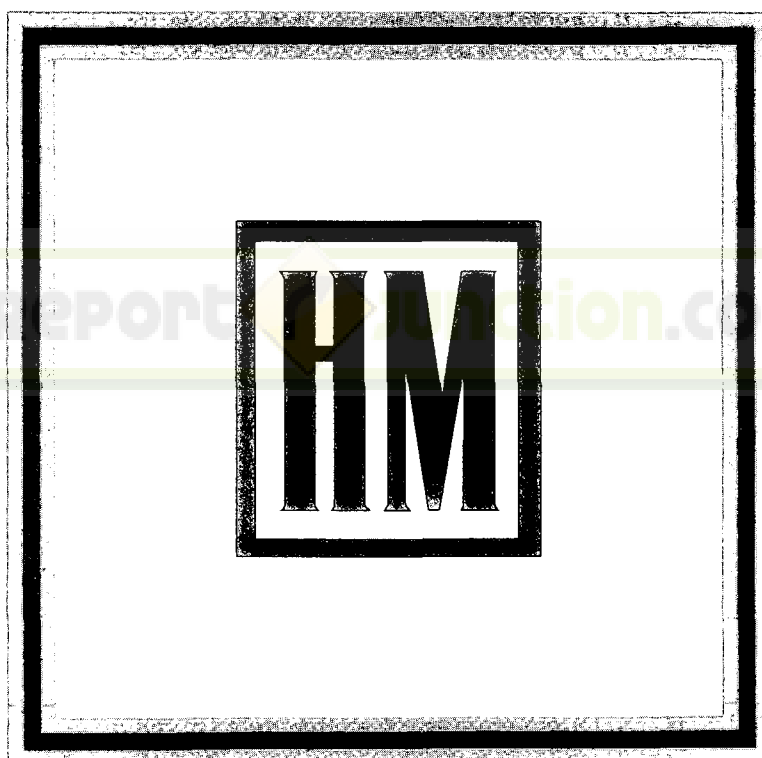


Annual Report and Accounts 1997-98

MD				BKC	
CS				D'Y	
RO				DIV	
TRA				AC	
AGM				SH	
YE					



Hindustan Motors Limited





HINDUSTAN MOTORS LIMITED

ANNUAL REPORT

Year Ended March 31, 1998

Board of Directors

Shri C. K. Birla	Chairman
Shri G. D. Kothari	
Shri A. C. Muthiah	
Shri Pradip Kumar Khaitan	
Shri S. Mukherji	ICICI Nominee
Shri A. Sankaranarayanan	Executive Director
Shri Narayanan Sankar	
Dr. Anand C. Burman	
Shri Kranti Sinha	

Bankers

UCO Bank
Bank of India
United Bank of India
Bank of Baroda
State Bank of India

Auditors

Messrs. S. R. Batliboi & Co.
Chartered Accountants

Share Transfer Agents

MCS Limited
Sri Venkatesh Mangalam
24/26 Hemanta Basu Sarani
Calcutta 700 001

Registered Office

'Birla Building'
9/1, Rajendra Nath Mukherjee Road
Calcutta - 700 001

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HINDUSTAN MOTORS LIMITED

Report of the Directors

To the Shareholders,

The Directors have pleasure in presenting the report and accounts for the year ended 31st March, 1998.

The revenue account shows a profit of Rs. 3935.63 lacs after providing Rs. 2495.74 lacs for depreciation and Rs. 895.00 lacs for taxation. After taking into account the credit balance of Rs. 4116.85 lacs brought forward from the previous year and Rs. 307.70 lacs, Rs. 551.35 lacs written back from Investment Allowance Reserve and Debenture Redemption Reserve respectively, there remains a credit balance of Rs. 8911.53 lacs which your Directors have decided to appropriate in the following manner :

	(Rs. in lacs)
Transfer to General Reserve	3000.00
Transfer to Debenture Redemption Reserve	500.00
Provision for proposed dividend on Ordinary Shares	1074.86
Provision for tax on proposed dividend	107.49
Balance to be carried forward	4229.18
	8911.53

Your Directors recommend for consideration at the Annual General Meeting declaration of dividend of Re 1.00 per Ordinary Share subject to the approval of the Financial Institutions.

During the year under review, the operation of the Company's Automotive Division at Hindmotor was affected by the recessionary conditions prevailing in the economy. Production of Ambassador cars stood at 21,382 nos. as against 24,294 nos. in the previous year. Production of Trekkers was higher at 3725 nos. as against 2574 nos. in the earlier year. Overall production of vehicles stood at 26,684 as compared to 29,039 in 1996-97.

During the year an improved version of Ambassador Diesel model with an improved engine, Ambassador car fitted with 2000 cc. Isuzu Diesel engine and Trekkers with significant product improvements were introduced. Sales of these vehicles are expected to improve in the current year.

The Company's project for the manufacture of Lancer cars in collaboration with Mitsubishi Motors Corporation of Japan is progressing satisfactorily. With the near completion of Civil Works, the plant is almost ready to commence operations. Trial

production has commenced and regular production is likely to commence by September, 1998. Several components have been developed with local vendors meeting the quality standards of our collaborator and supplies of these components have commenced. Lancer car has received a very positive response in the Auto Expo and several other road shows. Customers are eagerly waiting for the launch of the product.

As mentioned in last year's report, the Company has undertaken a project at Indore for the manufacture of Rural Transport Vehicle in collaboration with OKA Motor Company of Australia, as part of the Company's strategy to cater to the rural market. Regular production is expected to commence by July 1998. With the expected growth of the rural economy and higher disposable income, demand for this product will increase in the years to come.

Production at the Earthmoving Equipment Division at Tiruvallur and Pondicherry showed a further increase during the year. Overall production was 646 units as against 609 units in the previous year. Even though off-take of these equipments was sluggish in cement and steel sectors, purchases by the coal sector showed considerable increase. Demand for these equipments especially from the coal sector is likely to increase in the coming years.

The Power Products Division of the Company at Hosur produced 940 transmissions during the year. Production was lower than the previous year due to lesser off-take by some of the Original Equipment Manufacturers. However, this trend is likely to reverse and the Division expects to sell higher quantity in the current year. The Division had also exported a few transmissions to the UK, USA and Singapore and exports will increase in the coming year.

As indicated in the last year's report, Automatic Transmission for buses, a new product developed by this Division, has been tested and found suitable by the Original Equipment Manufacturers.

The quality movement was sustained at all the Divisions of the Company. Manufacturing systems engineering programmes were fully implemented at the Earthmoving Equipment Division and the Power Products Division. The same is being extended at Hindmotor and Indore plants. Employees' Suggestion Scheme and Quality Circle movements continue to gather momentum and several Quality Circle projects have won awards from various



forums. There is substantial progress in the development of multi-point Fuel Injection for Isuzu Petrol Engines to meet emission norms by the year 2000. The regular production of these engines will commence by the end of 1998.

To part finance the cost of the various projects including the manufacture of Lancer cars, Rural Transport vehicles and expansion/modernisation of the existing Divisions, the Company has been sanctioned Term Loans by Financial Institutions. Out of the sanctioned Term Loans of Rs. 320 crores, the Company has so far drawn Rs. 191.30 crores. Also, it is proposed to raise Rs. 54 crores by the issue of Ordinary Shares and/or Fully Convertible Debentures to the members on a Rights basis on the terms and conditions to be decided by the Board. The Authorised capital of the Company is being increased from Rs. 160 crores to Rs. 220 crores to facilitate the issue of Fully Convertible Debentures and/or Equity Shares and/or Preference Shares as the Board of Directors may decide from time to time. The relations between the management and employees during the year remained cordial.

The notes referred to by the Auditors in their report are self-explanatory and do not require any further explanation.

A statement giving particulars of employees as required under Section 217(2A) of the Companies Act, 1956, read with the Rules made thereunder is annexed. In addition, information required by Section 217(1) (e) of the Companies Act, 1956 read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988, is also given as an Annexure to this report.

The latest accounts of the subsidiary companies, namely, Hindustan Motor Finance Corporation Limited and HM Export Limited are given in the annexures.

On 26th November 1997 Shri G. P. Birla retired as the Chairman of the Company. Shri G. P. Birla had joined the Board of Directors in March 1969 and had been the Chairman since January 1982. The guidance, support and advice received from Shri G. P. Birla

during his tenure as Director/Chairman gave the Company a new horizon of corporate excellence and increased momentum in its activities. The Board places on record its high appreciation of the valuable services rendered by him. Shri C. K. Birla has been appointed as the Chairman of the Company. Dr. Anand C Burman of Dabur Group of Companies has been co-opted as a Director to fill in the vacancy caused by the retirement of Shri G. P. Birla.

Shri Rahulkumar Bajaj and Shri Rasesh N Mafatlal resigned from the Board of Directors of the Company effective 25th August 1997 and 26th November 1997 respectively. In the casual vacancy caused by the resignation of Shri Rahulkumar Bajaj, Shri Narayanan Sankar, Chairman of Sanmar group of Companies has been co-opted as a Director. On 13th April 1998 Shri S G Guhagarkar resigned from the Board of Directors of the Company and Shri Kranti Sinha, Zonal Manager, LIC, Central Zone, Bhopal has been co-opted in his place.

The Board places on record its high appreciation of the valuable services rendered by all of them during their tenure as the Directors of the Company.

Under Article 90 of the Articles of Association read with Section 256 of the Companies Act, 1956, Shri A. C. Muthiah and Shri S. Mukherji retire from the Board of Directors of the Company by rotation and being eligible offer themselves for re-appointment.

At the ensuing Annual General Meeting, Shri Narayanan Sankar who has been appointed as a Director to fill in the vacancy caused by the resignation of Shri Rahulkumar Bajaj vacates his office of Director. A Notice under Section 257 of the Companies Act, 1956 has been received from one of the shareholders signifying his intention to propose him for the office of Director whose office will be determined by rotation.

At the Annual General Meeting, the members are required to appoint auditors for the current year and to fix their remuneration. The Auditors, Messrs. S. R. Batliboi & Co., who retire at the forthcoming Annual General Meeting offer themselves for re-appointment.

**C. K. Birla
G. D. Kothari
Pradip Kumar Khaitan
A. Sankaranarayanan
Anand C. Burman
DIRECTORS**

HINDUSTAN MOTORS LIMITED**Annexure to the Directors' Report**

[Additional information given as required under Section 217(1)(e) of the Companies Act, 1956, read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988.]

A. ENERGY CONSERVATION :

The Company continues to accord high priority to conservation of energy. Apart from continuing and enhancing conservation initiatives such as solar energy, timing devices and energy efficient light fittings started earlier, new thrust areas were compressor running with soft start devices, flat belts, dryers and leakage arresting. In several plants sirens were linked to lights and fans to switch off automatically. Significantly higher power savings at Rs. 214 lakhs were achieved.

B. TECHNOLOGY ABSORPTION :**1. In-House R & D :**

- a) 100% introduction of energy efficient/higher power HM Stride diesel engine for all Ambassador Diesel Cars & Trekkers.
- b) Ambassador Car with 2.0 Ltr Diesel Engine and MSG 5T Gear Box introduced.
- c) Power Steering and factory fitted Air Conditioners introduced in Contessa Classic 2.0 DLX.
- d) Prototype of Cycling Transmission (CT-100) developed and tested for Backhoe Loader, Crane and Locomotive application.
- e) Prototype of 320 HP Track type Dozer completed and being tested in field.
- f) Development work of Systems & Components to meet Indian Automobile Emission Regulations of 1998 has been completed.
- g) Prototypes of Turbo charged 2.0 Ltr Diesel Engine completed.
- h) Four speeds gearbox with transfer case with addition in torque boost developed for Rural Transport Vehicle.
- i) The Company has spent Rs. 749 lacs for its R&D Centres which form 0.58% of total sales turnover.

2. Technology imported during the last 5 years :

Technology for	Year of import	Has technology been fully absorbed	If not fully absorbed, areas where this has not taken place, reason therefor and future plans of action
Manufacture of Backhoe Loader	1994	Absorbed for in-house manufacturing	The technology transfer is for complete machine less transmission. Localisation efforts have ensured 65% absorption during 1997-98
Manufacture of Mitsubishi Lancer	1996 and on going	Project under implementation	—
Manufacture of Rural Transport Vehicle	1996	Project under implementation	—
Multi Point Fuel Injection for Isuzu petrol engine	1996	Project under implementation	3 Prototypes tested

C. FOREIGN EXCHANGE EARNINGS AND OUTGO :

The relevant information has been provided in Notes 17, 18 & 19 of Schedule 22 to the Accounts.



Auditors' Report

TO THE MEMBERS OF
HINDUSTAN MOTORS LIMITED, CALCUTTA

We have audited the attached Balance Sheet of HINDUSTAN MOTORS LIMITED, Calcutta as at 31st March, 1998 and the Profit & Loss Account annexed thereto for the year ended on that date. We report as follows :

1. As required by the Manufacturing and Other Companies (Auditor's Report) Order, 1988, issued by the Company Law Board in terms of Section 227(4A) of the Companies Act, 1956, we enclose in the Annexure a statement on the matters specified in paragraphs 4 & 5 of the said order.
2. Further to our comments in the Annexure referred to in Paragraph (1) above;
 - (i) we have obtained all the information and explanations which to the best of our knowledge and belief, were necessary for the purpose of our audit;
 - (ii) in our opinion, subject to Note Nos. 1(I) (c) to (e) and 1(IX)(b) on Schedule 22 regarding non-accounting of certain expenses/income on accrual basis, proper books of account, as required by law, have been kept by the Company so far as appears from our examination of such books;
 - (iii) the Balance Sheet and Profit & Loss Account referred to in this report are in agreement with the books of account as submitted to us;
 - (iv) in our opinion and to the best of our information and according to the explanations given to us, the said Statements of Account, subject to the following notes on Schedule 22 whose impact on the Company's profit is indicated in the respective notes below :
 - (a) Note No. 1(I)(c) regarding treatment of certain expenses as Deferred Revenue Expenditure and Note Nos. 1(I)(d) & (e) regarding accounting of certain expenses/income on acceptance/cash basis.
 - (b) Note No. 8 regarding non-provision of leave liability for employees (amount indeterminate) as the same is accounted for on payment basis.
 - (c) Note No. 10 regarding non-provision of disputed/doubtful debts, claims, advances etc. aggregating to Rs. 692.33 lacs, the impact whereof on Company's profit is not presently ascertainable.

and read together with other "NOTES" appearing thereon, give the information required by the Companies Act, 1956, in the manner so required and give a true and fair view -

- a) in the case of Balance Sheet, of the state of affairs of the Company as at 31st March, 1998 and
- b) in the case of Profit & Loss Account, of the Profit of the Company for the year ended on that date.

36, Ganesh Chandra Avenue,
Calcutta 700 013, May 20, 1998

S. R. Batliboi & Co.
Chartered Accountants
Per R. K. Agrawal
Partner

HINDUSTAN MOTORS LIMITED**Annexure to the Auditors' Report**

(Referred to in Paragraph (1) of our Report of even date to the members of Hindustan Motors Limited as at and for the year ended 31st March, 1998)

1. The Company has maintained proper records of Fixed Assets showing full particulars including quantitative details and locations thereof. We are informed by the management that a major portion of Fixed Assets has been physically verified during the year and discrepancies so far noticed between the book records and the physical inventory, which were not material having regard to the size of the company and the nature of its business, have been duly adjusted in the books.
2. None of the Fixed Assets of the Company has been revalued during the year.
3. As informed to us, the stocks of finished goods, stores & spares, components, raw materials and service parts for sale etc. except for materials-in-transit have been physically verified at reasonable periods during the year. As regards materials lying with outside parties, confirmation certificates have been obtained in some cases and for the balance, efforts are being made for their receipt. As far as we can ascertain and according to the information and explanations given to us, the discrepancies noticed on such physical verification between the physical stock and book records, were not significant in relation to the size of the Company's operations and the same have been properly dealt with in the books of account. The procedures followed by the management for such verification are, in our opinion, reasonable and adequate in relation to the size of the Company and the nature of its business.

On the basis of our examination, we are satisfied that the valuation of abovementioned stocks is fair and proper in accordance with the normally accepted accounting principles, and is on the same basis as in the previous year.

4. In our opinion, the rate of interest and the terms and conditions on which loans have been obtained from the Directors (through Debentures) and Companies listed in the register maintained under Section 301 of the Companies Act, 1956 are prima facie not prejudicial to the interest of the Company. Further, as informed to us, there is no company under the same management as defined under Section 370(1-B) of the Companies Act, 1956.
5. As informed, no loan has been given to any company, firm or other parties listed in the register maintained under Section 301 of the Companies Act, 1956.
6. Loan given during the year to a subsidiary has been recovered as per stipulations, along with interest due thereon. Further, advances in the nature of loans given to employees and others are generally being recovered as per stipulations wherever applicable, together with interest where chargeable.
7. On the basis of our evaluation of the internal control procedures and according to the information and explanations given to us, and having regard to the explanation that some of the items purchased are of a special nature and alternate sources do not exist for obtaining quotations thereof, it appears that there are adequate internal control procedures commensurate with the size of the Company and the nature of its business for the purchase of stores, raw materials including components, plant and machinery, equipment and other assets and for the sale of goods.
8. As far as we can ascertain on the basis of our selective checking and according to the information and explanations given to us and also read with our comments in para (7) above, it appears that the transactions of purchase of goods and materials and sale of goods, materials and services, made in pursuance of contracts or arrangements entered in the register maintained under Section 301 of the Companies Act, 1956, and aggregating to Rs. 50,000 or more during the year in respect of each party, have been made at prices which are reasonable having regard to the prevailing market prices for such goods, materials or services or the prices at which transactions for similar goods or services have been made with other parties.
9. As explained to us, the Company has a regular procedure for the determination of unserviceable or damaged stores, raw materials, spares and components etc. (including traded goods) and adequate provision for loss thereof has been made in the accounts in respect of the items so determined.



10. As informed to us, the Company has not accepted any deposit from the public within the purview of Section 58A of the Companies Act, 1956, and the Companies (Acceptance of Deposits) Rules, 1975.
11. In our opinion, reasonable records have been maintained by the Company for the sale and disposal of realisable scraps, where significant. As informed to us, there is no by-product arising out of the manufacturing process of the Company.
12. The Company has an internal audit system commensurate with the size and nature of its business.
13. We have broadly reviewed the books of account maintained by the Company pursuant to the Order made by the Central Government for the maintenance of Cost records relating to motor vehicles, under Section 209(1)(d) of the Companies Act, 1956, and are of the opinion that prima facie the prescribed accounts and records have been maintained. We have not, however, made a detailed examination of the records with a view to determining whether they are accurate or complete.
14. The Company has generally been regular in depositing Provident Fund and Employees' State Insurance dues with the appropriate authorities and as informed to us, there was no arrear of such dues as at 31st March, 1998.
15. According to the information and explanations given to us and the books and records examined by us, there are no undisputed amounts payable in respect of Income Tax, Sales Tax, Customs Duty and Excise Duty outstanding as at 31st March, 1998 for a period exceeding six months from the date they became payable.
16. The Company has a policy of authorising expenditure based on reasonable checks and balances. The policy is intended to ensure that expenses are authorised on the basis of contractual obligations or accepted business practices having regard to the Company's business needs and exigencies.
In terms of these observations, we have not come across any expenses charged to Revenue Account which, in our opinion and judgement and to the best of our knowledge and belief, could be regarded as personal expenses.
17. The Company is not a sick industrial company within the meaning of the Sick Industrial Companies (Special Provisions) Act, 1985.

36, Ganesh Chandra Avenue,
Calcutta 700 013, May 20, 1998

S. R. Batliboi & Co.
Chartered Accountants
Per R. K. Agrawal
Partner

HINDUSTAN MOTORS LIMITED**Balance Sheet as at March 31, 1998**

		Rupees in lacs	
	Schedule	March 31, 1998	March 31, 1997
SOURCES OF FUNDS			
A. SHAREHOLDERS' FUNDS			
a. Share Capital	1	10757.08	10757.05
b. Reserves & Surplus	2	19266.17	16572.31
		<u>30023.25</u>	<u>27329.36</u>
B. LOANS			
a. Secured	3	43157.39	32170.32
b. Unsecured		2051.88	1622.67
		<u>45209.27</u>	<u>33792.99</u>
		<u>75232.52</u>	<u>61122.35</u>
APPLICATION OF FUNDS			
A. FIXED ASSETS			
a. Gross Block	4	52654.11	50553.42
b. Less : Depreciation		25939.22	23868.28
c. Net Block		26714.89	26685.14
d. Capital Work-in-progress		1864.44	559.94
e. Expenditure on New Projects		14950.91	4320.05
		<u>43530.24</u>	<u>31565.13</u>
B. INVESTMENTS			
	5	<u>3058.57</u>	<u>2803.57</u>
C. CURRENT ASSETS, LOANS & ADVANCES			
a. Inventories	6	25491.29	23146.23
b. Sundry Debtors	7	15323.80	13798.81
c. Cash and Bank Balances	8	5382.21	4331.94
d. Other Current Assets	9	1977.42	1404.60
e. Loans & Advances	10	4233.35	3160.65
		<u>52408.07</u>	<u>45842.23</u>
D. LESS : CURRENT LIABILITIES & PROVISIONS			
a. Current Liabilities	11	23364.73	18292.12
b. Provisions		1216.38	1306.66
		<u>24581.11</u>	<u>19598.78</u>
NET CURRENT ASSETS			
		<u>27826.96</u>	<u>26243.45</u>
E. MISCELLANEOUS EXPENDITURE			
(To the extent not written off/adjusted)	12	816.75	510.20
		<u>75232.52</u>	<u>61122.35</u>

ACCOUNTING POLICIES AND NOTES ON ACCOUNTS 22

Schedules 1 to 12 and 22 referred to above form an integral part of the Balance Sheet.

In terms of our attached Report of even date.

S. R. Batliboi & Co.

Chartered Accountants

Per R. K. Agrawal

Partner

36, Ganesh Chandra Avenue,
Calcutta 700 013, May 20, 1998**G.N. Pareek**
Secretary**C. K. Birla**
G. D. Kothari
Pradip Kumar Khaitan
A. Sankaranarayanan
Anand C. Burman
DIRECTORS