

# ANNUAL REPORT AND ACCOUNTS 2001-2002



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**Hindustan Motors Limited**



## HINDUSTAN MOTORS LIMITED ANNUAL REPORT

Year Ended March 31, 2002

### Board of Directors

Shri C. K. Birla	Chairman
Shri G. D. Kothari	
Shri Pradip Kumar Khaitan	
Shri A. Sankaranarayanan	Managing Director
Dr. Anand C. Burman	
Shri Kranti Sinha	
Shri S. Doreswamy	IDBI Nominee
Shri A. Karati	ICICI Nominee
Shri B. K. Chaturvedi	Executive Director

### Company Secretary

Shri G. N. Pareek

### 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

Karvy Consultants Limited  
46, Avenue 4, Street No. 1  
Banjara Hills  
Hyderabad 500 034

### Registered Office

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

### CONTENTS

Notice	2
Report of the Directors	7
Management Discussion & Analysis	9
Report on Corporate Governance	11
Auditors' Report	25
Balance Sheet	29
Profit & Loss Account	30
Schedules to Accounts	31
Statement u/s. 212	54
Hindustan Motor Finance Corpn. Limited	55
HM Export Limited	69
Consolidated Accounts	81

**HINDUSTAN MOTORS LIMITED****Notice to the Shareholders**

NOTICE is hereby given that the Sixtieth Annual General Meeting of the Shareholders of HINDUSTAN MOTORS LIMITED will be held at Calcutta Ice Skating Rink, 78, Syed Amir Ali Avenue, Kolkata 700 019, on Wednesday, the 21st August, 2002 at 3 p.m. to transact the following business :-

**AS ORDINARY BUSINESS :**

- (1) To receive, consider and adopt the Audited Statements of Account of the Company together with the Directors' Report as also the Auditors' Report for the year ended 31st March, 2002.
- (2) To appoint a Director in place of Shri Pradip Kumar Khaitan, who retires by rotation and being eligible offers himself for re-appointment.
- (3) To appoint a Director in place of Dr. Anand C. Burman, who retires by rotation and being eligible offers himself for re-appointment.
- (4) To consider and, if thought fit, to pass the following resolution as a **Special Resolution**, relating to the appointment of the Auditors of the Company :

"RESOLVE THAT Messrs. S. R. Batliboi & Co., Chartered Accountants, the retiring Auditors, be and they are hereby re-appointed as Auditors of the Company under Section 224 read with Section 224A and other applicable provisions, if any, of the Companies Act, 1956 to hold office from the conclusion of this meeting until the conclusion of the next Annual General Meeting of the Company at a gross remuneration of Rs. 25,00,000/- (Rupees Twentyfive lacs only) per annum exclusive of reimbursement of out-of-pocket expenses, as may be incurred by the Auditors on travelling, boarding and lodging at the Company's factories and its other branches outside Kolkata which shall also be borne by the Company and that the said remuneration be paid to the Auditors in four equal quarterly instalments."

**AS SPECIAL BUSINESS :**

To consider and, if thought fit, to pass with or without modification, the following Resolutions :-

- (5) **As a Special Resolution :**

"RESOLVED THAT pursuant to the provisions of Article 107 of the Articles of Association of the Company and Sections 198, 269 and 309 read with Schedule XIII and other applicable provisions, if any, of the Companies Act, 1956 and subject to such consents, approvals and permissions as may be needed, Shri A Sankaranarayanan be and he is hereby re-appointed as the Managing Director of the Company liable to retire by rotation for a further period of five years with effect from 8th January, 2002 with liberty to either party to terminate the appointment on three month's notice in writing to the other.

RESOLVED FURTHER THAT the existing terms of appointment of Shri A Sankaranarayanan shall *mutatis mutandis* apply to the renewed appointment as well save the following changes only in the remuneration package :-

- |  |   |  |
|--|---|--|
| 1. Salary (Basic) per month                              | : | Rs. 1,87,500/- in a time scale of Rs. 1,87,500 - 30,000 - 3,07,500. Annual increment of Rs. 30,000/- shall be payable on 1st January of each year. |
| 2. Other allowances (per month)                          | : | Rs. 9,100/-  |
| 3. Other reimbursements/perquisites                      | : |  |
| a) Watchman/Gardener/Cleaner/ Servants' salary allowance | : | Rs. 10,000/- per month   |
| b) Housing I   | : | Expenditure by the Company on hiring furnished accommodation for the Director subject to a maximum of 60% of the basic salary                      |
|  |   | Or   |
| Housing II   | : | In case Company owned furnished accommodation is provided no allowance shall be paid   |



Or

- |   |   |  |
|---|---|--|
| Housing III   | : | In case no accommodation is provided by the Company the Director shall be entitled to 60% of the basic salary as and by way of House Rent Allowance.   |
| c) Medical reimbursement  | : | Expenditure incurred for the Director and his family, subject to a ceiling of one month's salary in a year or three month's salary over a period of three years.   |
| d) Leave Travel Assistance  | : | The yearly payment shall be equivalent to one month's salary (basic).  |
| e) Club Fees  | : | Actual fees for a maximum of two clubs.<br>This will not include admission fee and life membership fees.   |
| f) Magazines/Books allowance                                      | : | Rs. 50,000/- per annum.  |
| g) Gas/Electricity/Maintenance allowance                          | : | Rs. 50,000/- per annum.  |
| h) Hospitalisation Insurance                                      | : | As per scheme of the Company provided the premium amount will not exceed a sum of Rs. 4,000/- per annum.   |
| i) Contribution to Provident Fund and Superannuation/Annuity Fund | : | will be as per Scheme of the Company.  |
| j) Gratuity payable   | : | shall be at a rate not exceeding 15 days' salary for each completed year of service or part thereof in excess of six months as per Scheme of the Company.  |
| k) Encashment of unavailed leave                                  | : | at the end of the tenure or at specified intervals will be as per Scheme of the Company.   |
| l) Provision of car with driver                                   | : | for use on Company's business and telephone at residence will not be considered as perquisites. Personal long distance calls on telephone and use of car for private purpose shall be billed by the Company to the Director. |
4. In addition to the above, the Director shall be entitled for an Ex-gratia payment of Rs. 5,00,000/- per annum.
5. Minimum Remuneration : The remuneration as specified at Sl. Nos. 1 to 4 above subject to the approval of the Central Government shall continue to be paid to Shri A Sankaranarayanan as and by way of Minimum Remuneration notwithstanding the loss or inadequacy of profit of the Company during the tenure of his office.
6. The Managing Director shall, subject to superintendence, control and guidance of the Board of Directors of the Company and/or any validly constituted Committee thereof, have the management of the whole or substantially the whole of the affairs of the Company and shall perform such duties and exercise such powers as are presently or may from time to time be entrusted to or conferred upon him by the Board and/or any validly constituted Committee thereof.

RESOLVED FURTHER THAT save as aforesaid and save as would appear from the approval of the Central Government bearing reference No. 1/366/2001-CL.VII dated 7th May, 2002 or such other approval as may be granted by the Central Government in future the other terms of appointment of Shri A Sankaranarayanan shall remain unaltered."

(6) As a Special Resolution :

"RESOLVED THAT subject to such consents, approvals and permissions as may be needed the remuneration package of Shri B K Chaturvedi, Executive Director of the Company be deemed to have been revised with effect from 1st April, 2001 in the following manner :—

- (a) Reimbursement up to a maximum of Rs. 1,20,000/- per annum by way of servants' salary be converted into fixed Servants' Salary allowance of Rs. 10,000/- per month.

**HINDUSTAN MOTORS LIMITED**

- (b) Reimbursement of actual expenditure up to a maximum of Rs. 1,00,000/- per annum towards Soft Furnishing be converted into fixed allowance of Rs. 1,00,000/- per annum towards Soft Furnishing payable in course of a year.
- (c) Reimbursement of actual expenditure up to a maximum of Rs. 50,000/- per annum towards Magazines/Books be converted into fixed allowance of Rs. 50,000/- per annum towards Magazines/Books payable in course of a year.
- (d) Reimbursement of actual expenditure up to a maximum of Rs. 50,000/- per annum towards Gas/Electricity be converted into fixed allowance of Rs. 50,000/- per annum towards Gas/Electricity payable in course of a year.

RESOLVED FURTHER THAT save as aforesaid and save as would appear from the approval of the Central Government as and when received the other terms of appointment of Shri B K Chaturvedi shall remain unaltered."

(7) **As a Special Resolution :**

"RESOLVED THAT subject to necessary approval of shareholders and the Central Government first having been received the Leave Travel Concession equivalent to one month's salary payable annually to the Managing Director and the Executive Director in terms of their respective terms of appointment be and the same is hereby converted with effect from 1-4-2002 into fixed Leave Travel Allowance of the equivalent amount."

(8) **As a Special Resolution :**

"RESOLVED THAT subject to necessary approval of shareholders and the Central Government the payment of a sum of Rs. 2,29,705/- in the form of allowance to Shri B K Chaturvedi, during the financial year 2001-02 towards Leave Travel Concession partly qua a Director and partly qua the President of the Company be and the same is hereby approved."

(9) **As a Special Resolution :**

"RESOLVED THAT pursuant to Sections 78, 100 and other applicable provisions, if any, of the Companies Act, 1956 and subject to the confirmation by the Hon'ble Kolkata High Court as provided under Section 100 of the Companies Act, 1956 the Company be and is hereby authorised to utilise the credit balance in the Securities Premium Account of the Company for the purpose of meeting the 'deferred tax liability' provided and/or to be provided by the Company in terms of Accounting Standard-22 i.e. Accounting for Taxes on Income issued by the Institute of Chartered Accountants of India.

RESOLVED FURTHER THAT for the purpose of giving effect to the aforesaid resolution, the Board of Directors of the Company or the Executive Committee of Directors, be and is hereby authorised to do and perform all acts, deeds, matters and things and take all such actions as may be considered necessary and desirable to give effect to the same."

Registered Office :  
'Birla Building'  
9/1, Rajendra Nath Mukherjee Road  
Kolkata - 700 001  
Dated, the 29th June, 2002

By Order of the Board  
For HINDUSTAN MOTORS LTD.

**G N Pareek**  
Company Secretary

**Notes :**

1. A Member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote instead of himself and such proxy need not be a member of the Company. The proxy in order to be effective should be duly stamped, completed and signed and must be deposited at the Registered Office of the Company not less than 48 hours before the time for holding the aforesaid meeting.
2. Members/Proxies should bring the enclosed Attendance Slip duly filled in for attending the meeting.
3. The Register of Members and Share Transfer Books of the Company will remain closed from 17th August 2002 to 21st August 2002 (both days inclusive).



## ANNEXURE TO THE NOTICE

### EXPLANATORY STATEMENT

The following Explanatory Statements relating to Special Business at Item Nos. 5, 6, 7 and 8 of the accompanying Notice sets out all material facts as required under Section 173 of the Act.

#### Item No. 5

Shri A Sankaranarayanan is a highly experienced technocrat and controls the affairs of the Company as a whole including looking after operation of all the manufacturing units of the Company. Prior to his elevation as Managing Director on 23rd January, 2001, Shri Sankaranarayanan was the Executive Director of the Company. He has successfully and in a sustained way contributed significantly towards qualitative improvements of all the units of the Company. His 32 years of experience in manufacturing units including over 18 years with this Company has provided valuable contribution in developing and improving in-house manufacturing capabilities, developing and introducing new products, updating Company's existing product range and mix in achieving import substitution to a large extent, strengthening the in-house R&D activities to continuously innovate and improve Company's products and to constantly introduce various measures to improve cost competitiveness of the products.

The Board of Directors considered that the professional services of Shri A Sankaranarayanan and his in-depth knowledge of Company's product lines would be an asset for the Company in the context of the present fierce competition in the market particularly for automobile products. Being a technically qualified person, his services were also considered necessary by the Board of Directors and accordingly, the Board at its meeting held on 22nd October, 2001 re-appointed Shri A Sankaranarayanan as a whole-time Director designated as Managing Director for a further term of five years with effect from 8th January, 2002 on the salient terms and conditions of the re-appointment as set out in the Resolution under Item No. 5 of the subjoined notice subject to the approval of the shareholders in General Meeting in due course. The said terms of re-appointment of Shri A Sankaranarayanan was subsequently varied by the Board of Directors of the Company at its meeting held on 29th January, 2002 and only the revised remuneration is stated in the resolution. The Company has received a Notice pursuant to Section 257 of the Companies Act, 1956 from a member signifying his intention to propose the name of Shri A Sankaranarayanan as a Director of the Company, liable to retire by rotation. The Board of Directors of the Company considered that the appointment of Shri A Sankaranarayanan as Director of the Company will prove beneficial to the Company.

The re-appointment and remuneration payable to Shri A Sankaranarayanan as Managing Director require the approval of the Company in General Meeting in terms of Part III of Schedule XIII of the Companies Act, 1956 and the remuneration so payable to him also requires the approval of the Central Government under Section 309 of the Act (Approval of Central Government has since been received on 7th May, 2002).

Accordingly, your Directors recommend the resolution set out in Item No. 5 of the convening Notice.

An abstract of the terms of re-appointment as also the abstract of variation in the terms of re-appointment of Shri A Sankaranarayanan as Managing Director has already been circulated on 5th November, 2001 and 7th February, 2002 respectively to the Members as required under Section 302 of the Companies Act, 1956.

Shri A Sankaranarayanan is deemed to be concerned or interested in the Resolution, which pertains to variation in the terms of his appointment and remuneration payable to him.

None of the other Directors is in any way concerned or interested in the Resolution.

#### Item No. 6

The present remuneration to Shri B K Chaturvedi includes reimbursement by way of servants' salary, expenditures towards soft furnishing, magazines/books and gas/electricity which by their very nature are not allowed to be carried forward for payment during the subsequent year(s) if not fully availed during a particular year and thus leading to lapse of such entitlements. The remuneration package, therefore, stands reduced to that extent. In order to permit Shri B K Chaturvedi to utilise the full quantum of his remuneration package the Board of Directors at its meeting held on 29th January, 2002 decided to convert the aforesaid heads of payment which are in the nature of reimbursements into fixed allowances payable monthly or during the course of a year without there being any increase therein otherwise subject to the approval of shareholders in General Meeting and of the Central Government in due course.

Accordingly, your Directors recommend the resolution set out in Item No. 6 of the convening Notice.

An abstract of variation in the terms of appointment of Shri B K Chaturvedi has already been circulated on 7th February, 2002 to the Members as required under Section 302 of the Companies Act, 1956.

Shri B K Chaturvedi is deemed to be concerned or interested in the Resolution, which pertains to variation in the terms of his appointment and remuneration payable to him.

None of the other Directors is in any way concerned or interested in the Resolution.



**HINDUSTAN MOTORS LIMITED**

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**Item No. 7**

As a part of their respective remuneration packages the Managing Director and Executive Director are annually entitled to Leave Travel Concession/ Assistance equivalent to their one month salary during the tenure of their appointments. The said appointments are in the nature of reimbursement of expenses which at times cause hardship to them in as much as according to the Income-tax Act as also according to the Scheme of the Company only reimbursement of travelling expenses to and from their places of operations in India are reimbursed thereby leaving a major portion of the said entitlement unrealised by them. The conversion of the said facility from reimbursement mode to allowance mode, if approved by the shareholders, will be subject to deduction of Income-tax at source.

The Board of Directors of the Company recommends the Resolution set out in Item No. 7 of the convening Notice. Abstract of the variation in the remuneration terms of the Managing Director and Executive Director has duly been circulated individually to Shareholders on 29th June, 2002 under the provisions of Section 302 of the Companies Act, 1956. Shri A Sankaranarayanan and Shri B K Chaturvedi can be deemed to be concerned or interested in the resolution, which pertains to variation in the terms of their respective appointments though the total remuneration package remain unaltered.

None of the other directors is in any way concerned or interested in the Resolution.

**Item No. 8**

In anticipation of the approval of the Board of Directors of the Company, Shareholders and the Central Government a sum of Rs. 2,29,705/- was paid to Shri B K Chaturvedi, Executive Director in the year 2001-02 towards his leave travel entitlement in the form of an allowance covering his entitlement towards Leave Travel Concession partly for that year and partly for the year before that. For the reasons explained in Explanatory Statement pertaining to Item No. 7 the Board of Directors of the Company has approved the said payment and accordingly recommends the Resolution set out in Item No. 8 of the convening Notice for your approval. Abstract of the variation in the remuneration terms of the Executive Director has duly been circulated individually to Shareholders on 29th June, 2002 under the provisions of Section 302 of the Companies Act, 1956.

Shri B K Chaturvedi can be deemed to be concerned or interested in the Resolution.

None of the other directors is in any way concerned or interested in the Resolution.

**Item No. 9**

The Institute of Chartered Accountants of India has prescribed new Accounting Standard-22 (AS-22) covered by Section 211(3)(c) of the Companies Act, 1956 on treatment of 'Accounting for Taxes on Income'. The said Accounting Standard has been made effective from 1st of April, 2001 and the difference between the taxable income and the accounting income resulting as deferred tax is to be charged and/or credited to Revenue Reserve in the Books of Accounts of the Company with effect from 1st April, 2001.

The deferred tax is the tax effect of timing differences. The timing differences are differences between taxable income and accounting income and do not result in payment of deferred tax liability. The deferred tax liability under AS-22 is merely an accounting entry.

The Company has a credit balance of Rs. 14.92 crores in the Securities Premium Account as on 31st March, 2002. With the consent and approval of Shareholders and subject to the confirmation by the Hon'ble Kolkata High Court under Section 100 of the Companies Act, 1956, the Company can utilise the credit balance in Securities Premium Account as aforesaid for any purpose other than those prescribed under Section 78 of the Companies Act, 1956.

The Resolution aims to enhance the efficiency of the Balance Sheet of the Company by using and applying the unutilised Securities Premium Account which is being carried over from year to year and the proposed reduction of Share Capital will be merely a book entry. The action will be in the interest of shareholders and all concerned.

Since the application of the Securities Premium Account for the above purpose would amount to reduction of Share Capital under Section 78 read with Section 100, it is necessary to obtain the approval of members of the Company in General Meeting by passing a Special Resolution for reduction of Capital in that behalf under Section 100 and such reduction of Share Capital would have to be got confirmed by the Hon'ble High Court at Kolkata.

The Board recommends the above Resolution for the approval of members.

None of the Directors is concerned or in any way interested in this Resolution except to the extent of their shareholding in the Company.



## Directors' Report to the Shareholders

Your Directors present their sixtieth Annual Report together with the Audited Accounts of the Company for the year ended March 31, 2002.

### Financial Results

The Revenue Account shows a loss of Rs. 3385.31 lakhs after providing Rs. 4056.14 lakhs for depreciation, Rs. 11.00 lakhs for wealth tax and after taking credit for Rs. 2019.25 lakhs for deferred tax asset. After taking into account the credit balance of Rs. 501.52 lakhs brought forward from the previous year, making provision for taxation for previous years amounting to Rs. 0.59 lakhs and transferring Rs. 1824.78 lakhs from General Reserve, there remains a debit balance of Rs. 1059.60 lakhs, which has been carried forward. In view of the loss incurred, your Directors do not recommend any dividend for the year under review.

### Review of Operations

#### Automobiles

In view of the general slowdown in the economy, the total demand for passenger cars remained more or less static at the same level as in the previous year. However, new models were introduced by various manufacturers, which resulted in lower demand for some of the existing models.

Sales of Vehicles at the Company's Uttarpara Plant were lower at 14705 Nos. as against 19992 Nos. in the previous year.

The Lancer Car manufactured by the Company continues to be well received in the market and has continued to retain its position in the premium car segment. However, as a result of the slow down in the car market, sales of the Lancer Car during the year were lower at 6440 Nos. as against 7634 Nos. in the previous year. The Company has progressed further in developing indigenous sources for various components as a result of which the localisation level of the Lancer Car has gone up. This, together with cost reduction activities and favourable exchange fluctuations, has resulted in better product margins for Lancer Cars.

In continuing with the trend to use more of environment-friendly fuel, such as Compressed Natural Gas (CNG) and Liquefied Petroleum Gas (LPG), the Company has introduced Ambassador Cars and RTV with LPG option in addition to CNG.

Sales of Multi-Utility Vehicles manufactured at Indore (RTV) increased to 2251 Nos. during the year against 574 Nos. in the previous year.

Your Directors are pleased to announce that during the year, the Company has entered into an arrangement with Ford India Limited for the supply of engines and transmissions to Ford India from the Company's Pithampur Factory. Supplies are expected to commence towards the end of the year 2002.

In order to widen the product range, the Company has concluded a license agreement with Mitsubishi Motors Corporation for the introduction of the well-known premium utility vehicle Pajero. Booking for this vehicle has already started. The Company expects to start selling Pajero from the middle of the year 2002.

Demand for Ambassador cars in the taxi and institutional segment is expected to pick up substantially in the current financial year. The Company has also introduced variants of the Lancer car to cater to the requirements of a wider customer base. This is expected to result in additional volumes. The utility vehicle (RTV) will be sold and serviced in more locations, which is expected to result in increased sales of this vehicle in the current year.

#### Power Products Division

Due to continued recessionary trends in the mining industry particularly in the Coal Sector, demand for earthmoving and material handling equipment continued to be lower during the year, affecting the sale of automatic transmissions from this division to original equipment manufacturers. Sales of such transmissions were, therefore, lower at 483 Nos. (including traded transmissions) against 706 Nos. in the previous year. However, during the year under review, the Division was successful in seeking orders for export of components from its collaborators, Allison Transmission, a division of General Motors, USA. The supplies are stated to begin in January 2003.

In terms of the marketing arrangement with Allison Transmission Division, the Company has sold a few of on-highway transmissions for use in buses. The demand for such transmissions is likely to pick up substantially in the coming years.

#### Corporate Governance

A separate section on Corporate Governance is included in the Annual Report under Annexure 1 and 2. The Certificate from the Company's auditors confirming the compliance of terms of Corporate Governance as stipulated in the Clause 49 of the Listing Agreement with the Stock Exchanges is annexed thereto.



**HINDUSTAN MOTORS LIMITED****Foreign Exchange Earnings and Outgo**

Exports during the year amounted to Rs. 10.18 Crores. Utility vehicles manufactured by the Company were exported to Bangladesh during the year. By achieving significant localisation level in Lancer Cars, the Company has reduced its dependence on imports and the consequent outgo of foreign exchange.

**Deposits**

The Company has not accepted any fixed deposits in terms of the Companies (Acceptance of Deposits) Rules, 1975.

**Human Relations Development**

The Company continues to place emphasis on measures to improve employee skills and productivity. Suggestion schemes launched by the Company, aided by cross-functional teams, continue to increase employee involvement. Industrial relations remained cordial during the year. Around 1400 employees opted for the voluntary retirement schemes in Uttarpara factory during the year under review.

**Auditors**

The observations made by the Auditors in their Report are self-explanatory. The relevant notes to the Accounts also clarify the points referred to by the Auditors. There are, therefore, no further comments necessary under Section 217A(3) of the Companies Act, 1956. Your Directors request you to re-appoint Auditors, for another term of one year, beginning from the conclusion of the ensuing Annual General Meeting till the conclusion of the following Annual General Meeting and approve their remuneration as specified in the proposed resolution attached to the notice convening the Annual General Meeting.

**Statutory Declarations**

In terms of the requirements of Section 217 of the Companies Act, 1956, a Directors' responsibility statement is given in the Annexure-3 to this report. The particulars of employees to be disclosed as per the provisions of sub-section (2A) of the said Section

are also given in the Annexure-4.

Additional information relating to conservation of energy, technology absorption, foreign exchange earnings and outgo as required under sub-section (1)(e) of the same said Section read with Companies (Disclosure of particulars in the report of the Board of Directors) Rules, 1988 has also been given in Annexure-5. A cash flow statement for the year 2001-02 is also attached.

**Additional Disclosure in view of New Accounting Standards**

In terms of the requirements of the newly introduced Accounting Standards, disclosures have been made relating to segment results and transactions with related parties. A consolidated financial statement inclusive of the results of the two subsidiary companies is also attached.

**Directors**

At the ensuing Annual General Meeting of the Company Sarvashree Dr. Anand C Burman and Pradip Kumar Khaitan retire by rotation from the Board of Directors of the Company and being eligible offer themselves for re-appointment. Shri A Sankaranarayanan's terms of appointment as Managing Director expired on 8.1.2002 and the Board at its meeting held on 22.10.2001 had, subject to necessary approvals, approved the reappointment of Shri A Sankaranarayanan as Managing Director for a further period of five years on a revised remuneration package.

**Appreciation**

Your Directors wish to acknowledge and thank the Central and State Governments for their support and guidance. Your Directors also thank our shareholders, customers, business associates, financial and investment institutions and commercial banks for the faith reposed by them in your Company and its Management. Your Directors also place on record their deep sense of the appreciation for dedication and commitment of the employees of your Company.

For and on behalf of the Board of Directors

9/1, Rajendra Nath Mukherjee Road  
Kolkata-700 001, The 15th May, 2002

**C. K. Birla**  
Chairman



## Annexure – 1 to the Directors' Report

### MANAGEMENT DISCUSSION AND ANALYSIS

#### Industry structure and Development

The year under review witnessed a growth of GDP at 5.4% in comparison to 4% of the previous year. However, the index of industrial production has escalated by only 2.3% in this year compared to 5% in the previous year. The company is predominantly in the Automobile business and hence the performance of the Company is influenced by macro-economic growth, demand for passenger cars in total as well as relative competitive position.

There was a decline in total car demand by about 8% during the year 2000-01. With the reduction of excise duty on passenger cars by 8% in the union budget of 2001, it was expected that the demand for passenger cars would go up by at least 10%. However, this did not materialise and the demand for passenger cars remained more or less static at the same level of 5,70,000 vehicles. Introduction of newer models by many manufacturers also had an impact on the market share of existing products.

While the Lancer car produced by the Company caters to the demand in the premium segment, the demand for Ambassador car is dependent on the taxi-segment, fleet operators, Government departments and the institutions. Slower growth in the information technology sector together with lower growth rate in the economy had an impact on the demand for premium cars. Lower level of tourist traffic also affected the demand for cars in the taxi segment.

Sales of passenger cars by the Company during the year came down to 19634 Nos. against 25595 Nos. in the previous year.

#### Opportunities and threats

Due to the regulatory changes in terms of emission norms and pollution control initiatives, opportunity arose for sale of passenger cars with CNG as fuel option. The Company utilised this opportunity and introduced passenger cars as well as utility vehicles with this fuel option. Anticipating that LPG would also be made as an alternate fuel for automobiles, the Company had taken action to offer this fuel option. The current policy allows manufacturers to import on a CBU basis, vehicles of the type, whose equivalent models are currently not produced in the country.

Utilising this opportunity, the Company is planning to introduce Pajero on a CBU basis and to subsequently take up its manufacture.

Introduction of new models by other manufacturers and entry of new players in this industry are likely to pose threats for sustaining the volumes of existing models. The Company is taking necessary action to make the Lancer car available in a wider variety and price options, thereby catering to a larger customer base. Apart from meeting the changing emission standards, the Company has offered the option of power steering and improved interiors in its Ambassador car. This, coupled with a wider reach in terms of distribution set up, especially in the semi-urban and rural areas, will offer opportunities for growth. The Company is also planning to utilise the opportunities for growth in the utility vehicles segment by offering the existing vehicles, Trekker and RTV, in wider variants.

The automatic transmissions for off-highway and on-highway applications are used in construction equipment, earthmoving equipment, trucks and buses. While the demand for construction and earthmoving equipment is currently low, it is expected to pick up with increase in infrastructure building activities. As experienced in other countries trucks and buses have moved to automatic transmissions from manual transmissions and this trend is likely to pick up in India. The Company has tied up an arrangement with Allison Transmission Division of General Motors, USA for supply of these on-highway transmissions.

#### Financial Performance

Turnover of the Company during the year is lower at Rs. 1206.69 Crores compared to Rs. 1684.15 Crores in the previous year. The operations of the previous year included the turnover from Earthmoving Equipment Division (EED), which was sold to Caterpillar India Private Ltd., in February 2001. Exclusive of the turnover of this division, the turnover of the Company has come down by 11%.

The operating profit of the Company (PBIDT), exclusive of the profit arising from sale of EED, was Rs. 25.57 Crores during the previous year. This has gone upto Rs. 47.10 Crores during the current year. Cost management initiatives together with better management of foreign exchange risks have enabled