

ANNUAL REPORT AND ACCOUNTS 2002-03



Hindustan Motors Limited

HINDUSTAN MOTORS LIMITED ANNUAL REPORT

Year Ended March 31, 2003

Board of Directors

Shri C. K. Birla	Chairman
Shri Pradip Kumar Khaitan	
Dr. Anand C. Burman	
Shri Naresh Chandra	
Shri Kranti Sinha	
Shri A. Karati	ICICI Nominee
Shri R. Vasudevan	IDBI Nominee
Shri A. Sankaranarayanan	Managing Director
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

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HINDUSTAN MOTORS LIMITED**Notice to the Shareholders**

NOTICE is hereby given that the Sixtyfirst 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 Thursday, the 21st August 2003 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 thereon for the year ended 31st March 2003.
- (2) To appoint a Director in place of Shri C K Birla, who retires by rotation and being eligible offers himself for re-appointment.
- (3) To appoint a Director in place of Shri Kranti Sinha, 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:

"RESOLVED 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 provisions of Section 17(1)(d) and other applicable provisions, if any, of the Companies Act 1956 and subject to such permissions and consents as may be needed either under the terms and provisions of any agreement executed by the Company with Term Lending Institutions/ Banks or otherwise howsoever the Company do alter the Object Clause of the Memorandum of Association of the Company by inserting the following new clauses after the existing sub-clause 30 of clause 3 of the Memorandum of Association of the Company:-

31. To develop and maintain in India or abroad a "Software factory" and facilities to service on site and offshore outsourcing of data processing and other projects of all types, nature and magnitude.
32. To market and provide to clients in India and abroad a wide range of facilities management, information systems consulting, software professional services, consultancy and data processing outsourcing services.
33. To provide turnkey systems development, system/network integration and conversion/migration on various software/hardware platforms.
34. To carry out research and development on state-of-the-art technology in application software development and methodologies."

(6) As a Special Resolution :

"RESOLVED THAT pursuant to provisions of Section 149(2A) of the Companies Act 1956 the Company doth hereby approve the commencement of business of Software development and rendition of fee based services as are more particularly described in sub-clauses 31, 32, 33 and 34 of clause 3 of the Memorandum of Association of the Company or any one of them, either in India or elsewhere with effect from such date, under such circumstances and on such conditions as may be decided for the purpose by the Board of Directors of the Company."

(7) As a Special Resolution :

"RESOLVED THAT the Company do take effective steps for voluntary delisting of its Ordinary Shares from Delhi Stock Exchange subject to strict compliance of the terms and provisions of the Securities and Exchange Board of India (Delisting of Securities) Guidelines, 2003 and/or the provisions of any other law for the time being in force, any other statutory guidelines and terms and provisions of the Listing Agreement."

Registered Office:

'Birla Building'

9/1, Rajendra Nath Mukherjee Road

Kolkata 700 001

Dated, the July 8, 2003

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. Members who have shareholdings in multiple accounts in identical names or joint accounts in the same order are requested to send all the share certificate(s) to the Registrars & Share Transfer Agents, M/s Karvy Consultants Limited at 46, Avenue 4, Street No.1, Banjara Hills, Hyderabad - 500034 for consolidation of all such shareholdings into one account to facilitate better service.
4. The Register of Members and Share Transfer Books of the Company will remain closed from 14th August 2003 to 21st August 2003 (both days inclusive).
5. (a) Members are requested to notify change of address, if any, with PINCODE to the Company or to its Share Transfer Agents quoting reference of their folio number and in case their shares are held in dematerialised form, this information should be passed on to their respective Depository Participants.
(b) In case the mailing address mentioned on this Annual Report is without the PINCODE, members are requested to kindly inform their PINCODE immediately.
6. A member desirous of getting any information on the accounts or operations of the Company or share/debenture related matter is requested to forward his/her query(ies) to the Company at least seven days prior to the meeting so that the required information can be made available at the meeting.
7. Pursuant to Section 205A of the Companies Act, 1956, all unclaimed/unpaid dividends up to the financial year ended March 31, 1990 (there being no dividend thereafter up to and including the year 1994-95) have been transferred to the General Revenue Account of the Central Government. Shareholders who have not yet encashed the dividend warrants for the said period are requested to claim the amount from the Registrar of Companies, West Bengal, Nizam Palace, IInd MSO Building, 234/4 A J C Bose Road, Kolkata 700 020 by submitting an application in Form No II.
Consequent upon amendment to the existing Section 205A of the Companies Act, 1956 and introduction of Section 205C, by the Companies (Amendment) Act, 1999, now the amount of dividend remaining unclaimed for a period of seven years from the date the same becoming due for payment shall be transferred to the credit of Investor Education and Protection Fund.
8. The Company, consequent upon introduction of the Depository System, entered into agreements with National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL). Members, therefore, now have the option of holding and dealing in the shares of the Company in electronic form through the depository participants of NSDL or CDSL. Effective 17th January 2000, trading in shares of the Company on any Stock Exchange is permitted only in dematerialised form.

HINDUSTAN MOTORS LIMITED

9. Individual shareholders can now take the facility of making nomination of their holding. The nominee shall be the person in whom all rights of transfer and/or amount payable in respect of shares shall vest in the event of death of the shareholder and the joint-holder(s), if any. A minor can be a nominee provided the name of the guardian is given in the nomination form. Non-individuals including society, trust, body corporate, partnership firm, Karta of Hindu undivided family, holder of Power of Attorney cannot nominate. For further detail in this regard shareholders may contact M/s Karvy Consultants Limited, Hyderabad.
10. In all correspondence with the Company or with its Share Transfer Agents, members are requested to quote their account/folio number and in case their shares are held in the dematerialised form, they must quote their Client ID Number and their DPID Number.
11. The transaction of Special Business for alteration of object clause of Memorandum of Association of the Company by Item No.5 of the above agenda requires consent of the members through postal ballot.

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Annexure to the Notice**EXPLANATORY STATEMENT**

The following Explanatory Statements relating to Special Business at Item Nos. 5, 6 and 7 of the accompanying Notice set out all material facts as required under Section 173 of the Companies Act, 1956 :

Item No. 5

The Company has, of late, started the business of digitization of drawings and designs electronically or by other mechanical means only to utilise its spare capacity available with it. The said activities were grouped under a separate division which was named and known as "Remote Services Division" (RSD). The scope of business under RSD has been enlarged with the setting up of a Software Technology Park which has been registered as such and as a 100% export oriented unit with the Ministry of Information and Technology, Government of India.

With the experience gained in the business and to tap the business opportunity thrown open by globalization of business it is now considered commercially prudent by the Board of Directors to expand the present activities of RSD by utilizing for commercial gain the business related to Software development and/or information system for various industrial applications, rendition of fee based professional services directly or remotely connected with development of Software business in India as well as in various overseas countries.

The proposed new business, more particularly described in the subjoined resolution, under the existing circumstances may conveniently and advantageously be combined with the present business of the Company.

The Board recommends the Resolution under this item of the accompanying Notice for your approval through postal ballot.

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

Item No 6

Shareholders are kindly aware that in terms of the requirements of Section 149(2A) of the Companies Act, 1956 commencement of any new business by a Company requires specific approval of its Shareholders by way of a Special Resolution passed in a General Meeting. Therefore, if and when the Company wants to undertake the business more particularly described in Item No. 5 above it has to take the permission of Shareholders by way of a Special Resolution. Hence, this Resolution.

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

Item No 7

Shareholders are informed that during the financial year 2002-03 there was no transaction in the ordinary shares of the Company on Delhi Stock Exchange (DSE) preceded by transaction of mere 750 ordinary shares during the year 2001-02. The Company's shares are, however, actively traded on National Stock Exchange, Bombay Stock Exchange and, therefore, no prejudices can be said to be caused to them if the shares of the Company are delisted from DSE. Therefore, in the estimation of the Board of Directors of the Company there is no justification in continuing listing of Ordinary Shares of the Company on DSE. Accordingly, the Board of Directors of the Company has approved voluntary delisting of the Company's Ordinary Shares from DSE and recommend passing of the aforesaid resolution by you.

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

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

Your Directors present their sixty-first Annual Report together with the Audited Accounts of the Company for the year ended March 31, 2003.

Financial results

The Company's performance during the year under review was marginally better than that of the previous year. The net loss for the year under review (after taking credit for deferred tax) has come down to Rs. 26.74 Crs. from Rs. 33.85 Crs. in the previous year. The following table gives the summary of financial performance : --

	(Rupees in Crores)	
	2002-03	2001-02
Gross Sales and services	1074.73	1206.14
Profit before Interest, Depreciation and Taxes	56.08	47.10
Interest	54.86	60.48
Depreciation	41.64	40.56
Loss before taxes	40.42	53.94
Tax adjustments (including Deferred Tax credit)	(13.68)	(20.08)
Loss after taxation	26.74	33.85

The Company had created a deferred tax liability of Rs.11.75 Crores from out of General Reserves during the year 2001-02. Subsequently, during the year under review the Company had approached and obtained the approval of the Hon'ble Calcutta High Court for adjusting the abovementioned liability against the credit balance in the Securities Premium account. This liability has been adjusted in the year under review against the Securities Premium account with a corresponding credit to the Profit & Loss account.

After taking into account the brought forward debit balance of Rs.10.60 Crs. in the Profit & Loss Account and writing back the deferred tax liability of Rs.11.75 Crs. as stated above and debenture redemption reserve of Rs.1.44 Crs., there is a debit balance of Rs. 24.14 Crs., which is proposed to be carried forward. In view of the loss incurred, your Directors do not recommend any dividend for the year under review.

Review of Operations**Automobiles**

The total demand for passenger cars registered an increase of 6.4% as compared to the previous year.

Ambassador and Lancer cars constitute a substantial portion of the sales of your Company's automobile products. While the Ambassador is predominantly sold in commercial, taxi and Institutional segments, the Lancer car competes in mid size premium car segment. In addition to this, your Company sells utility vehicles - RTV and Trekker. Total Sale of vehicles during the year under review was 21050 numbers against 23,396 numbers during the previous year. The Company introduced the well-known premium utility vehicle 'Pajero' during the year under review.

Supplies to Ford and General Motors

As reported last year, the project related to supply of Engines and Transmissions to Ford India Ltd. has started on the expected lines. The Company has commenced supply of Engines and Transmissions to Ford India Ltd. on and from December 2002 and March 2003 respectively. Sale of engines and transmissions to them during the year 2003-04 are expected to be substantially higher. The Company has also entered into similar agreement for supply of power units to General Motors India Ltd. for fitment in their utility vehicle to be launched shortly by them. Regular supplies are expected to commence in the beginning of the year 2004.

The abovementioned two arrangements have paved the way for the Company to be associated with the two largest international automobile producers and this is expected to create synergy with the existing business of the Company. The Company is hopeful that similar arrangements may be tied up with other automobile manufacturers in the future.

Power Products Division

During the year under review, there was an increase in the sale of off-highway transmissions due to higher demand for earthmoving and construction equipments. During the year, 609 numbers of transmissions (including traded transmissions) were sold as against sale of 483 numbers in the previous year. It is expected that the demand for this product will further increase during the current financial year. This division has also started exporting some of the transmission components to Allison Transmissions Division of General Motors, U.S.A.

Awards and Recognition

The Company's Power Unit Plant at Pithampur near Indore has received QS 9000 Certification during the year under review. The Lancer Car Plant too has received ISO 14001 certification in December 2002. The Lancer car topped the sales satisfaction index and also the customer

satisfaction index for mid-size premium cars for the year 2002, according to the survey by JD Power, Asia Pacific.

Corporate Governance

A separate section on Corporate Governance is attached and marked as Annexure 1 and 2. The certificate from the Company's auditors confirming compliance by the Company of norms of Corporate Governance as stipulated in the Clause 49 of the Listing Agreement with the Stock Exchanges is also annexed.

Industrial Relations

The Company has been continuously attempting to improve employee skills and productivity. Industrial relations generally remained cordial and satisfactory. However, one section of the workers' union went on a strike from 19th March 2003 in the Lancer Car Plant demanding wage revision, even though negotiations were on before the Labour Department. An interim settlement was concluded on this issue and the strike was withdrawn.

Foreign Exchange earnings and outgo

Exports during the year amounted to Rs. 12.77 Crs. Vehicles were exported to neighbouring countries such as Bangladesh and Sri Lanka. By achieving further localisation of its various products, the Company has reduced its dependence on imports and thereby restricted the consequent outflow of foreign exchange.

Deposits

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

Statutory Declarations

In terms of the requirement of Section 217 of the Companies Act 1956, Directors' responsibility statement, particulars of employees receiving remuneration in excess of Rs.24 lacs per annum and information relating to conservation of energy, technology absorption and foreign exchange earnings and outgo during the year under review are attached to this report and marked as

Annexures 3, 4 and 5 respectively. A cash flow statement for the year under review is also attached.

Auditors

The observations made by the auditors in their report are self-explanatory. The relevant notes to the accounts clarify the points. Your directors request you to reappoint the present auditors for another term of one year as specified in the proposed resolution contained in the notice convening the Annual General Meeting.

Directors

During the year under review, Shri G.D. Kothari resigned from the Board of Directors of the Company with effect from 24th July 2002 after a long and fruitful association of 35 years with the Company. The Board places on record its high appreciation of the valuable services rendered by him during his tenure as a Director of the Company. Shri Naresh Chandra has been co-opted as a Director to fill in the vacancy caused by the resignation of Shri G.D. Kothari.

During the year under review, IDBI nominated Shri R Vasudevan as their nominee director with effect from 23rd October 2002 in place of Shri S. Doreswamy. The Board places on record its high appreciation of the valuable services rendered by Shri S. Doreswamy as a Director of the Company.

At the ensuing Annual General Meeting of the Company, Shri C.K. Birla and Shri Kranti Sinha retire by rotation from the Board of Directors of the Company and being eligible offer themselves for re-appointment.

Appreciation

Your Directors wish to thank the Central and State Governments, customers, suppliers, business associates, shareholders, Banks and Financial Institutions for their continued support and the faith reposed in your Company. Your Directors also place on record their appreciation of the services rendered by the employees of the Company.

For and on behalf of the Board of Directors

9/1, Rajendra Nath Mukherjee Road
Kolkata - 700001, The 19th May, 2003

C. K. Birla
Chairman

HINDUSTAN MOTORS LIMITED**Annexure - 1 to the Directors' Report****MANAGEMENT DISCUSSION AND ANALYSIS****Industry structure and development**

During the year under review, while the GDP of the country registered a growth rate of only 4.4% as compared to 5.6% in the previous year, the index of industrial production increased by 5.8% compared to 3.2% in the previous year.

The Company is predominantly involved in the automobile business and hence its performance is normally influenced by the macro-economic growth rate, demand for passenger cars in the aggregate as well as the relative competitive position of the Company. The overall demand of passenger vehicles registered a growth rate of 4.88% in the year under review.

	2001-02	2002-03
Passenger cars	509088	541738
Utility vehicles	104253	114316
Multi-purpose vehicles	61775	52024
Total passenger vehicles	675116	708078

Source – Society of Indian Automobile manufacturer-Flash data-March 2003

As against this sale of Company's passenger vehicle was lower at 21050 numbers as compared to 23396 numbers in the previous year primarily due to introduction of newer models by some of the competitors and this had an impact on the market share of the Company. A major portion of the demand for the Ambassador car continues to be from the taxi segment, fleet operators and the Institutional segment. The Lancer car caters to the demand of the mid size premium segment.

The demand of off-highway transmission manufactured by Hosur Plant of the Company has increased due to higher demand of the parent product viz., the earthmoving and construction equipments. During the year, 609 numbers of transmissions (including traded transmissions) were sold as against the sale of 483 numbers during the previous year. It is expected that due to newer applications of the off-highway transmissions, the demand will continue to grow further.

Opportunity and threats

In order to comply with the emission control norms and regulatory changes, passenger vehicles with alternate fuel options such as CNG and LPG are likely to have increased their presence on the Indian roads in the near future. The Company is fully geared to cater to this demand, and has already sold vehicles with these fuel options. The Company has also introduced 'Pajero', the premium utility vehicle from

Mitsubishi Motors during the current year, both on CBU basis as well as locally assembled from CKD imports.

The introduction of new models by existing players and the possible entry of new players will continue to pose threats for sustaining the sale volumes of the existing models. The Company is taking necessary actions to make the Lancer car available with a higher capacity engine. The Company has also completed the work for introducing a restyled Ambassador car, which is likely to be available for sale shortly. During the year under review, the Company has developed the utility vehicle (Trekker) with a full metal body. These new variants in the product range will offer enough opportunities for growth.

Apart from being an automobile vehicles manufacturer, the Company has been looking for supply of components and aggregates to other automobile manufacturers. This will enable the Company to look for more avenues of growth. The recent tie-ups with Ford and General Motors are a step in this direction. The Company would continue to look for such opportunities.

With the picking up of the demand for construction and earthmoving equipment in the recent past, which is likely to be maintained in future also, sale of automatic transmissions produced by the Company's Power Products Division is also expected to pick up. Based on experience in other developing countries, buses and trucks in India are also likely to switch over to automatic transmissions instead of manual transmissions. Since the Company already has an arrangement with Allison Transmissions Division of General Motors for supply of on-highway automatic transmissions, some further growth opportunity is also likely to result in.

Financial performance

Turnover of the Company was marginally lower at Rs. 1074.73 Crs. during the year under review as compared to Rs.1206.14 Crs. in the previous year. The continued thrust on cost reduction, man power rationalisation and other value engineering initiatives has enabled the Company to improve its operating profit before interest and depreciation to Rs. 56.08 Crs. compared to Rs.47.10 Crs. in the previous year. Repayment of certain loans together with lower interest rate has resulted in reduction in the interest burden from Rs.60.48 Crs. to Rs. 54.86 Crs.

Pursuant to the requirements of the Accounting Standard, the Company has disclosed segment-wise results. Automobiles constitute the major segment in terms of turnover. The automatic transmission business segment continues to contribute significantly to the operating results of the Company.

(Rupees in lacs)

	Automobiles	Transmissions	Others	Total
Segmentwise Net Revenue	82264	6941	7	89212
Segment Results (Profit before interest & tax)	184	1568	(51)	1701
Segment Capital employed	42985	6107	316	49408

Risks and Concerns

The Company is exposed to external business risks, internal risks and financial risks. External business risks arise out of cyclical nature of demand in automobile industry, entry of new manufacturers, introduction of new models by existing players as well as dismantling of trade barriers. Internal risks basically cover operational efficiency and ability to withstand competition. Financial risks are basically in the nature of exposure to foreign exchange fluctuations and interest rate variations.

The Company is guarding itself against these risks by laying down appropriate strategy for product positioning, which is supplemented by business plans, review mechanism and action plans.

Internal Control Systems and their adequacy

The Company has established internal control systems, which provide reasonable assurance with regard to safeguarding of the Company's assets, promoting operational efficiency and ensuring compliance with various statutory provisions. The Internal Audit department reviews internal control systems in various business processes and also verifies compliance of the laid down policies and procedures. Reports of the internal auditor are reviewed by the senior management and are also placed before the Audit Committee of the Directors. The statutory auditors also review their findings with the senior management and the Audit Committee.

Outlook for the year 2003-04

Reduction in the excise duty rates on passenger cars in the Union Budget 2003 is likely to pave the way for a growth of around 8% in the demand for passenger cars in the year 2003-04. During the current financial year 2003-04 the Company plans to propel growth by initiating product

improvements and aggressive marketing efforts. "Ambassador Classic" and a new model "Ambassador Aviga" are expected to penetrate not only the non-institutional market but will also strengthen the Company's position in the institutional market/government sales. The full body Trekker as well as Porter (the pick up version of Trekker which is under development) will be in the market by August 2003 and will open new market opportunities for the Company in the utility vehicle segment. Likewise, Lancer production line is also to be strengthened by significant changes in the current year edition, which coupled with introduction of 1.8 Litre automatic Transmission vehicle is expected to increase sales of these vehicles in the premier segment of the car market. MTV is also being redesigned with a wider wheel base. The product has been tested and certified and is expected to be in the market by July 2003. To give greater product focus and to improve the market share the marketing organization is being restructured including creating position at Sales Executive levels for direct customer contact and wider coverage of the product. Greater emphasis on services is planned by "Operation Vishwas" which is expected to lead to greater customer satisfaction. It is reasonably expected that these new product initiatives, product improvements on existing products as well as new marketing steps will increase the sale of the Company's products. The Company will continue to focus on operational improvements, manpower rationalisation and cost reduction efforts for improving the margins.

Human resources development/Industrial relations

The Company has in place an integrated Performance Management System by which the goals and objectives of individual employees are synchronized with those of the business unit. The Company is also adopting a system of executive profiling by which the performance and competence of the individuals are taken note of. The requirements of the organization are then matched with this profile. This process has helped in career progression and succession planning. Each plant is fully equipped to take care of the education and training requirements of the employees.

Some minor irritants in Chennai Car Plant at Trivellore, as stated hereinabove, notwithstanding the industrial relations in all the units were generally cordial and satisfactory. The Company had 7889 employees as on 31st March 2003. The Company has been continuously pursuing man power rationalisation from time to time. These efforts should make the Company more competitive.

For and on behalf of the Board of Directors

9/1, Rajendra Nath Mukherjee Road
Kolkata - 700001, The 19th May, 2003

C. K. Birla
Chairman