



Hindustan Motors Limited

ANNUAL REPORT
&
ACCOUNTS 2006-2007

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HINDUSTAN MOTORS LIMITED**ANNUAL REPORT****Year Ended March 31, 2007****Board of Directors**

Shri C. K. Birla	Chairman
Shri Naresh Chandra	
Shri Pradip Kumar Khaitan	
Shri R. Vasudevan	IDBI Nominee
Dr. Anand C. Burman	
Shri Kranti Sinha	
Shri Yogesh Kr. Rastogi	ICICI Nominee
Shri S. C. Jain	
Shri A. Sankaranarayanan	
Shri R. Santhanam	Managing 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 Computershare Pvt. Limited
46, Avenue 4, Street No. 1, Banjara Hills
Hyderabad 500 034

Registered Office

'Birla Building', 10th Floor
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 Sixty-fifth Annual General Meeting of the Shareholders of HINDUSTAN MOTORS LIMITED will be held at Kolkata Ice Skating Rink, 78, Syed Amir Ali Avenue, Kolkata 700 019, on Monday, the 27th August, 2007 at 3.00 PM 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 financial year ended 31st March 2007.
- (2) To appoint a Director in place of Shri Naresh Chandra 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 an **Ordinary 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. 20,00,000/- (Rupees twenty 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 installments."

AS SPECIAL BUSINESS :

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

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

"RESOLVED THAT in terms of provisions of Section 31 of the Companies Act, 1956 and all other applicable provisions of any law for the time being in force and further subject to such provisions and consents as may be needed, the Articles of Association of the Company be altered by deleting the entirety of the existing Article 81 without renumbering the subsequent articles."

Registered Office:
'Birla Building'
9/1, Rajendra Nath Mukherjee Road
Kolkata 700 001
Dated, the 30th May, 2007

By Order of the Board
For HINDUSTAN MOTORS LTD.

G. N. Pareek
Company Secretary

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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. In terms of Article 155 of the Articles of Association of the Company Shri Naresh Chandra and Shri Kranti Sinha, Directors of the Company retire by rotation in the ensuing general meeting and being eligible offer themselves for reappointment. Brief resume of the Directors, nature of their expertise in specific functional areas and names of companies in which they hold directorship and membership/ chairmanship of Board/Committees, as stipulated under Clause 49 of Listing Agreement with the Stock Exchanges in India, are provided in the Report on Corporate Governance forming part of the Annual Report. The Board of Directors of the Company recommends the respective re-appointments of the aforesaid Directors.
3. Members/ Proxies should bring the enclosed Attendance Slip duly filled in for attending the meeting along with a copy of the Annual Report. Corporate members intending to send their authorized representatives to attend the meeting are requested to send a certified copy of Board Resolution authorizing their representatives to attend and vote on their behalf of the meeting.
4. Members who hold shares in dematerialized form are requested to write their Client ID and DP ID Numbers and those who hold the shares in physical form are requested to write their Folio Number in the Attendance Slip for attending the meeting.
5. 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 Computershare Private 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.
6. The Register of Members and Share Transfer Books of the Company will remain closed from 22nd August, 2007 to 27th August, 2007 (both days inclusive).
7. (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 in this Annual Report is without the PINCODE, members are requested to kindly inform their PINCODE immediately.
8. 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.

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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 the 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 details in this regard shareholders may contact M/s Karvy Computershare Private Limited, Hyderabad, the Registrar and Share Transfer Agents of the Company.
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 Explanatory Statements pursuant to Section 173(2) of the Companies Act, 1956, letting out all material facts in respect of Item Nos. 5 and 6 of the Notice are attached.

ANNEXURE TO THE NOTICE**EXPLANATORY STATEMENT**

The following Explanatory Statement relating to Special Business at Item No. 5 of the accompanying Notice sets out all material facts as required under Section 173(2) of the Companies Act, 1956:

Item No 5

In line with the present practice prevailing in corporate world it is proposed to do away with the existing practice of holding of qualification shares by directors by deleting Article 81 which reads as follows:-

"Article 81: The qualification of a Director shall be the holding of shares in the Company of the face value of Rs.5,000/- (Rupees Five thousand), in his own name or jointly with others. Provided that an ex-officio Director or an alternate Director or a legal or technical adviser or a Director nominated pursuant to Article 88 of these Articles shall not be required to hold any qualification shares."

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

Except Shri Yogesh Kumar Rastogi, Shri S C Jain, Shri R Vasudevan all other Directors are to be deemed to be interested in the proposed Resolution.

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Directors' Report to the Shareholders

Your Directors present their Sixty-fifth Annual Report together with audited accounts of the Company for the year ended March 31, 2007.

Financial Results

During the year under review, the Company's revenue was Rs. 806 Crores compared to Rs. 553 Crores in the last financial year of nine months period. On an annualized basis, the revenue grew by 10%.

The following table gives a summary of performance. The Company's results are not comparable with that of previous financial year as the same was for nine months period.

	(Rupees in Crores)	
	12 month- period ending 31st March 2007	9 month- period ending 31st March 2006
Gross sales and services	806.37	553.05
Profit/(Loss) before Interest, Depreciation, and Taxes	52.75	-10.20
Interest payment	16.73	8.84
Depreciation	23.23	18.00
Profit/(Loss) before Tax	12.79	— 37.04
Provision for Tax	—0.51	6.65
Profit/Loss After Taxation	13.30	—43.69

In terms of a Development Agreement entered by the Company during the year, the Company has transferred a part of its land admeasuring 61.509 acres at Hindmotor by handing over physical possession thereof against payment to the developer, and profit of Rs. 55.75 Crores thereon has been included in the Profit and Loss Account. In terms of the said agreement, the Company will transfer the balance land admeasuring 252.491 acres in 4 more lots in the future periods at predetermined rates, over a period of 24 months. The Company has agreed not to compete with the developer in a similar development either for a period of five years from the date of agreement or three years from the date of the completion of the development of the property, whichever is earlier. As consideration the Company would receive non-compete fee @ 4% of the sale proceeds of the developed property as and when sold by the developer.

There was a debit balance of Rs.86.46 Crores in the Profit and Loss Account, which was brought forward from last year. After considering the results of the

current year, there is a closing debit balance of Rs. 73.16 Crores in the Profit and Loss Account.

A cash flow statement for the year under review is also attached to the enclosed Annual Accounts.

REVIEW OF OPERATIONS

The Company's unit at Uttarpara has been focusing on auto component business and supplying castings, forgings and stampings to other manufacturers. Steps have been taken to modernize the facilities in order to increase its output and reduce costs.

In August 2006, the Company introduced a new model of premium Sports Utility Vehicle from Mitsubishi Motors, Japan under the name of 'Montero'. This product has been received well in the market. The Ambassador cars continued with a steady demand during the year. Sale of automobiles during the year under review consisting of Ambassador, Lancer, Sports Utility Vehicle and other utility vehicles is 13775 nos. compared to 11856 nos. during the previous financial year of nine months period.

The margins in the automobile business remained under pressure due to input cost increases and competitive pressure on selling prices of vehicles. The Company could minimize pressure on margins by way of cost reduction and value engineering measures.

The Company's Remote Services Division, engaged in providing engineering services is confident of stepping up the sales revenue in the near future.

A detailed Management Discussion & Analysis Report (MDAR) forms part of this report as Annexure-1.

Outlook for next year

The sales from range of Passenger Cars, Sports Utility Vehicle, Components and other products should enable the Company to achieve higher sales volume as well as better profitability. The Remote Services Division is planning to focus on Japanese business, which should give better results in the coming year. The Uttarpara unit is focusing on component business and the initiatives taken for ramping up capacity and reducing costs should benefit the Company in the next year. The sale of two lots land at Uttarpara will be made during the next year. With these initiatives, the Company expects the results for the next financial year to be substantially better.

Industrial Relations

Industrial relations generally remained cordial and satisfactory. However, on 13th March 2007, one of the

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five employees' unions of Uttarpara plant went on illegal flash strike. They stopped the movement of both materials and people necessitating declaration of "suspension of work" with effect from 11th April 2007. Based on bipartite settlement between the Management and Unions, the management announced resumption of work from 10th May 2007. Normalcy has been restored since then. Routine wage agreements were signed with the unionized employees for Lancer Car Plant and RTV. Human resources initiatives such as skill level upgradation, training, appropriate reward & recognition systems and productivity improvement continue to be focus area.

Corporate Governance

The Company continues to remain committed for high standards of corporate governance. The report on corporate governance as per the requirement of the listing agreement with stock exchanges forms part of this report as Annexur-2. The certificate from the auditors of the Company confirming compliance of the conditions of the Corporate Governance requirements is also annexed.

Statutory Declaration

The Company has complied with all the Accounting Standards prescribed by The Institute of Chartered Accountants of India along with the recently revised AS 15 which is also explained in the Notes Schedule to the account in Para 21. In terms of the requirement of Section 217 of the Companies Act, 1956, Directors' Responsibility Statement is enclosed as Annexure-3 to this report. The particulars of employees to be disclosed as per the provisions of sub-section 2(A) of the said Section are also given as Annexure-4.

Additional Information relating to conservation of energy, technology absorption, foreign exchange earning and outgo as required under sub-section (1)(e) of the said Section is also given as Annexure-5 to this report.

There has been no material change and commitments affecting the financial position of the Company which have occurred between the end of the financial year 2006-07 and the date of this report.

There has also been no change during the financial year under review in the nature of Company's business or in the Company's subsidiaries or in the nature of business carried on by them.

Auditors

The report by the Auditors and the remarks therein are self-explanatory. The Company is reasonably confident of recovering amounts in respect of certain debts, claims and advances in due course, which are identified as "doubtful" in the accounts and hence no provision has been made in relation thereto. Your Directors request you to re-appoint auditors for another term beginning the conclusion of the ensuing Annual General Meeting till the conclusion of the subsequent Annual General Meeting and approve their remuneration as specified in the proposed resolution attached to the notice.

Subsidiary Companies

The latest accounts of the three wholly owned subsidiary companies, namely Hindustan Motor Finance Corporation Limited, HM Export Limited, Hindustan Motors Limited, USA, are attached to this report.

Directors

During the year under review, Shri Yogesh Kumar Rastogi was nominated as a Director w.e.f. 3rd January 2007 to fill in the casual vacancy caused by withdrawal of nomination of Shri A Karati by ICICI Bank Ltd. as its nominee on Company's Board. The Board places on record its appreciation of the valuable services rendered by Shri Karati during his tenure as Director of the Company. Shri Naresh Chandra and Shri Kranti Sinha retire by rotation and being eligible offer themselves for reappointment.

Appreciation

Your Directors acknowledge and thank the customers, shareholders, business associates, banks and financial institutions for the support extended to the Company. Your Directors also record their appreciation for the commitment and dedication of the employees of your Company.

For and on behalf of the Board of Directors

New Delhi
30th May, 2007

C. K. Birla
Chairman

Annexure-1 to the Directors' Report**MANAGEMENT DISCUSSION & ANALYSIS REPORT****Industry Structure & Development**

During the year under review the overall economy performed well and the GDP registered a growth rate of 9.2% as per the Economic Survey tabled by the Government. The index of industrial production increased by 11.3% in this year compared to 7.8% in the previous year. Sale of Passenger Vehicles in the country grew by 20.7% during the year compared to 7.67% in the immediate preceding year.

The table below summarises the growth in sale of passenger vehicles:

Domestic sales -Nos	12 Month ending 31st March 2006	12 Month ending 31st March 2007	% age increase
Passenger Cars	882208	1076408	22.01
Utility Vehicles	194502	220199	13.21
Multi-purpose Vehicles	66366	83091	25.20
Total Passenger Vehicles	1143076	1379698	20.70

Source: Society of Indian Automobile Manufacturers – Flash Report March 2007

Sale of Company's vehicles during the year was 13775 numbers compared to 11856 numbers in the previous financial year of 9 months.

The Company launched a new model in the premium Sports Utility Vehicle market, branded as "**Montero**" in August 2006. This product was received well in the market. The Company has been continuously bringing out new features and variants in its product range.

The Ambassador Car caters to niche segments in the market and the demand was steady during the year. The Lancer and Cedia are also having steady demand in the market. Demand for Pajero has been on the rise from 2006-07.

Opportunities & Threats

The growth of passenger vehicles during 2007-08 is expected to be in the region of 10-12% lower than of 20.7% achieved in the last year. While GDP Growth is expected to slow down - 8.5% is still a good rate.

However the source of anxiety is the high interest rate for retail finance and consequent impact on retail sales.

As per published report, the potential for growth and export opportunities in the auto component business is substantial. As per estimates, the auto component business has grown by 21% during the last year. In the current financial year, the growth is expected to be around 10-15%. The Company is taking number of initiatives to develop the auto component business for supplying to OEMs and to export markets. There has been some setback in the Company's growth plans due to the recent labour unrest at its Uttarpara plant. However, adequate steps are being taken to develop the auto component business to contribute significantly to the overall revenue of the Company in the coming years.

Financial Performance

The results for the current financial year are for 12 month period and therefore not comparable with those of the previous financial year, which consisted of nine months.

Total turnover of the Company during the year was Rs. 806 Crores against Rs. 553 Crores in the previous financial year. This indicates a growth of 10%, on an annualized basis. The profit before interest, depreciation and taxation for the year was Rs. 53 Crores, including other income of Rs. 82 Crores, which includes profit from sale of immovable properties in the States of West Bengal and Tamil Nadu. The Company is predominantly in automobile and auto component business. The segment-wise results are indicated in the notes schedule to the accounts.

Risks & Concerns

In the normal course of business, the Company is exposed to external risks such as overall demand fluctuations in the market segment in which it operates, relative market share for its products due to

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the impact of competition as well as internal risks such as variations in operational efficiency and cost structure. The Company is also exposed to financial risks in the form of foreign exchange fluctuations and interest rate variations. The Company is taking appropriate steps to guard itself against these identified risks.

The Company has put in place a risk management policy to identify the nature and magnitude of risk associated with the Company and to take steps for mitigating the impact of such risks. These are reviewed periodically and placed before the Board.

Internal Control Systems

The Company has established suitable internal control systems, which provide reasonable assurance with regard to safeguarding the Company's assets, promoting operational efficiency and ensuring compliance with various legal and regulatory 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.

For and on behalf of the Board of Directors

New Delhi
30th May, 2007

C. K. Birla
Chairman



Annexure-2 to the Directors' Report**REPORT ON CORPORATE GOVERNANCE****1. Company's philosophy on Corporate Governance**

The Company's philosophy on Corporate Governance has been developed with a tradition of fair and transparent governance and disclosure practices, many of which were in existence even before they were mandated by legislation. Transparency, integrity, professionalism and accountability- based values form the basis of the Company's philosophy for corporate governance. The Company strives to improve the corporate governance practices to meet stakeholders' expectations and strictly complies with regulatory guidelines on corporate governance.

2. Board of Directors**(a) Composition of Board**

As on date the Board of Directors of the Company consists of ten Directors out of which nine i.e., 90% are Non-Executive Directors as against the minimum requirement of 50% as per Clause 49 of the listing agreement. The Non-Executive Directors are eminent professionals, drawn from amongst persons with experience in business & industry, finance & law. The Company has a Non-Executive Chairman. The composition of Board of Directors is as follows:-

Name of Directors	Category	No. of other Directorships	No. of other Board Committee(s) of which he is a member*	No. of other Board Committee(s) of which he is a Chairman
Shri C K Birla – Chairman	Promoter – Non Executive	12	-	-
Shri Pradip Kumar Khaitan	Not Independent – Non Executive	13	2	-
Shri A Sankaranarayanan	Independent* - Non Executive	4	1	1
Dr. Anand C Burman	Independent – Non Executive	12	2	1
Shri Kranti Sinha	Independent – Non Executive	4	6	3
Shri Yogesh Kr. Rastogi	Independent – Non Executive – ICICI Nominee	1	-	-
Shri R Santhanam	Managing Director	-	-	-
Shri Naresh Chandra	Independent –Non Executive	14	9	-
Shri R. Vasudevan	Independent –Non Executive – IDBI Nominee	6	2	1
Shri S C Jain	Independent –Non Executive - LIC Nominee	2	-	-

*includes the membership / chairmanship only of Audit Committee(s) and Shareholders' / Investors' Grievances Committee

Shri A Karati had ceased to be a Nominee Director of ICICI and Shri Yogesh Kr. Rastogi was appointed as Director as a nominee of ICICI w.e.f. 03.01.2007.