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Hindustan Motors Limited

HINDUSTAN MOTORS LIMITED

ANNUAL REPORT

Year Ended March 31, 2008

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 S. C. Jain	LIC Nominee
Shri Yogesh Kr. Rastogi	ICICI Nominee
Shri A. Sankaranarayanan	
Shri R. Santhanam	Managing Director

Chief Financial Officer &

Company Secretary

Yogesh Goenka

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

M/s Karvy Computershare Pvt. Limited
Plot Nos. 17 to 24 Vittal Rao Nagar,
Madhapur, Hyderabad 500 081
Telephone No : (040) 23420818-828
Fax No. : (040) 23420814
E-mail : mahendra.singh@karvy.com

Registered Office

'Birla Building', 10th Floor
9/1, Rajendra Nath Mukherjee Road
Kolkata 700 001

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Notice to the Shareholders

NOTICE is hereby given that the Sixty-sixth 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 Tuesday, the 5th August, 2008 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, 2008.
- (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 A. Sankaranarayanan who retires by rotation and being eligible offers himself for re-appointment.
- (4) To appoint a Director in place of Shri S. C. Jain who retires by rotation and being eligible offers himself for re-appointment.
- (5) 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 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.2200000/- (Rupees Twenty two 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."

Registered Office:
'Birla Building'
9/1, Rajendra Nath Mukherjee Road
Kolkata 700 001
Dated, the 8th May, 2008

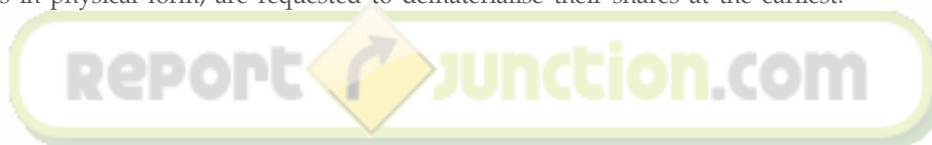
By Order of the Board
For HINDUSTAN MOTORS LTD

Yogesh Goenka
Chief Financial Officer &
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/herself 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 Articles 90 and 91 of the Articles of Association of the Company Shri C. K. Birla, Shri A. Sankaranarayanan and Shri S. C. Jain , Directors of the Company retire by rotation in the ensuing Annual General Meeting and being eligible offer themselves for re-appointment. Information about such Directors 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 in 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 Registrar & Share Transfer Agents, M/s Karvy Computershare Private Limited at Plot Nos. 17 to 24 Vittal Rao Nagar, Madhapur, Hyderabad - 500 081 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 Tuesday, the 29th July, 2008 to Tuesday, the 5th August, 2008 (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.
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 folio number and in case their Shares are held in the dematerialised form, they must quote their Client ID and their DP ID Numbers.
11. The shares of the Company are in compulsory demat segment. Those members who still continue to hold shares in physical form, are requested to dematerialise their shares at the earliest.



Directors' Report to the Shareholders

Your Directors present their Sixty-sixth Annual Report together with audited accounts of the Company for the year ended March 31, 2008.

Financial Results

During the year under review, the Company's revenue was Rs 853 Crores compared to Rs 806 Crores in the last financial year. During the year the revenue grew by 6%.

The following table gives a summary of the performance.

	<i>(Rupees in Crores)</i>	
	<u>2007-08</u>	<u>2006-07</u>
Gross sales and services	853.01	806.37
Profit/(Loss) before Interest, Depreciation and Taxes	86.99	52.75
Interest payment	20.03	16.73
Depreciation	21.15	23.23
Profit/(Loss) before Tax	45.81	12.79
Provision for Tax	14.97	(-)0.51
Profit/Loss After Taxation	30.84	13.30

In September 2006, the Government of West Bengal had allowed the Company to develop 314 acres of land at Hindmotor as Integrated IT Township & Auto Ancillary Park. In accordance with the Order, the Company has transferred a part of its land admeasuring 126.90 acres by handing over physical possession thereof against payment to the developer, and profit of Rs 103.20 Crores thereon has been included in the Profit and Loss Account. The Company is scheduled to transfer further 125.591 acres land during the financial year 2008-09 against payment.

There was a debit balance of Rs.73.16 Crores in the Profit and Loss Account, which was brought forward from last year. After considering the results of the year under review, there is a closing debit balance of Rs. 42.32 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 has traditionally been focused on the automobile business with Plants in Uttarpara & Pithampur focusing on Ambassador range of cars and utility vehicles respectively and the Plant in Chennai focusing on Mitsubishi range of products consisting of Lancer, Cedia, Pajero & Montero.

The Company's unit at Uttarpara, in addition to the car business, has in recent years embarked on

developing a set of auto component businesses namely supplying of castings, forgings and stampings to other manufacturers in the automobile and component industries. Steps have been taken to modernize the facilities in order to increase its output and reduce costs.

These initiatives did suffer a temporary setback when the operations were affected due to industrial unrest in the first 40 days of the financial year. Normalcy was restored on 10th May, 2007 and since then the situation has been peaceful.

During the year your Company introduced a number of new models - a new variant of the Ambassador air conditioned metered taxi for Kolkata market from the Uttarpara Plant and Cedia with Auto LPG, New Pajero & Montero A/T from its Chennai Car Plant. All these products have been received well in the market and are expected to increase the sales of your Company in the current financial year.

The Ambassador cars continued to enjoy steady demand during the year from its traditional customer base such as Tourist taxi and Institutions etc.

Sale of automobiles during the year under review consisting of Ambassador, Lancer, Cedia, Sports Utility Vehicle and other Utility Vehicles is 12714 nos. compared to 13775 nos. during the previous financial year.

The margins in the automobile business remained under pressure due to increase in input costs, specifically the sharp increase in steel prices 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 new branch of your Company has been opened in Japan in order to avail the business opportunities in engineering services.

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

Outlook for 2008-09

Based on the expected growth rate of the economy and the passenger vehicle industry, sales from range of Sports Utility Vehicles, Passenger Cars, Components and other products should enable the Company to achieve higher sales volume. Dealer development activities are in place so as to strengthen the distribution channel commensurately. The initiatives at Uttarpara Plant to develop Foundry, Forge & Stamping Units into focused business units should benefit the Company in current financial year. The Company continues to focus on cost reduction efforts and improvements in

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operational efficiencies as well as value engineering activities. The sale of balance two lots of land at Hindmotor will be made during the current financial year. With these initiatives, the Company expects improved results in current financial year.

Investment

The Company has invested US \$ 300000 as share capital in its wholly owned subsidiary, Hindustan Motors Limited, USA during the year under review.

Industrial Relations

Operations of the Company's Uttarpara Plant was adversely affected due to the labour unrest during the period March-May 2007. Consequently, the initiatives taken by the Company for developing the auto component business did suffer a temporary setback. After resumption of work from 10th May, 2007, normalcy has been restored and the industrial relations situation is cordial.

During the year under review, the Company had introduced Voluntary Early Retirement Schemes at its Uttarpara Plant and around 600 employees have opted for early retirement till 31st March, 2008. Human resources initiatives such as skill level upgradation, training, appropriate reward & recognition systems and productivity improvement are the key factors continuously being focused for development of the employees of the Company.

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 Annexure-2. The Company has complied with all the requirements of corporate governance. The certificate from the Auditors of the Company confirming compliance to 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. 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 (2A) of the said Section are also given as 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 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 2007-08 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 has not made any provision in respect of disputed insurance claim, which is identified as "doubtful" in the accounts, as the same is subjudice and the Company is reasonably confident of recovering the amount. 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 statement pursuant to Section 212 of the Companies Act, 1956 in respect of the three wholly owned subsidiary companies, namely Hindustan Motor Finance Corporation Limited, HM Export Limited and Hindustan Motors Limited, USA and their latest Annual accounts are attached to this Annual Report.

Directors

At the ensuing Annual General Meeting, Shri C.K. Birla, Shri A. Sankaranarayanan and Shri S.C. Jain, Directors of the Company, retire by rotation and being eligible offer themselves for re-appointment.

Appreciation

Your Directors acknowledge and thank the customers, shareholders, dealers, vendors, state government authorities, 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
8th May, 2008

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 registered a GDP growth rate of 8.7% as per the Economic Survey tabled by the Government. The index of industrial production increased by 9.0% in this year compared to 11.6% in the previous year. Sale of Passenger Vehicles in the country grew by 12.17% during the year compared to 20.70 % in the immediate preceding year.

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

Domestic Sales-Nos	2006-07	2007-08	% age Increase
Passenger Cars	1076582	1203531	11.79
Utility Vehicles	220306	243589	10.57
Multi-purpose Vehicles	83091	100865	21.39
Total Passenger Vehicles	1379979	1547985	12.17

Source: Society of Indian Automobile Manufacturers – Flash Report

Sale of Company's vehicles during the year was 12714 numbers compared to 13775 numbers in the previous financial year. The principal reason for lower sales numbers was the disruption of operations at the Company's Uttarpara Plant due to industrial unrest. Normalcy was restored from 10th May, 2007.

During the year, the Company's plant at Chennai introduced two models of Premium Sport Utility Vehicles from Mitsubishi Motors, Japan. A new model of 'Montero' was launched in June 2007 and an upgraded model with automatic transmission was launched in January 2008. Pajero was upgraded during the year and was launched in the market in February 2008. In line with the Company's policy of introducing low emission cars, Cedia was introduced with Auto LPG in July 2007. The Sports Utility Vehicles cater to the premium segment and the demand for such vehicles is increasing with the steady growth in economy.

The Ambassador Car caters to niche segments in the market and the demand was steady during the year. The Company launched Ambassador air conditioned metered taxi in Kolkata during the year under review.

Opportunities & Threats

The growth of passenger vehicles during 2008-09 is expected to be in the region of 8-10% lower than the 12.17% achieved in 2007-08. The GDP growth rate too is expected to be lower at 8.0%. With the increase in capacities, introduction of newer models, and entry of additional players, competition is expected to increase further. The reduction in excise duty for small cars from 16% to 12% and increase in threshold limit of exemption of personal income tax in the current year Union Budget augur well for the industry, however the continued high rate of interest and increase in petroleum and steel prices are causes for concern.

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 ~15% during the last year. In the current financial year, the growth is expected to be around 10-15%. Even though the Company's plan suffered due to some of the unfortunate events during the industrial relations disturbance in the beginning of the year, the Company is taking number of initiatives to develop the auto component business for supplying to OEMs and to export markets. Adequate steps are being taken to develop its Foundry, Forge & Stamping Units as outward looking business units and over time these three businesses are expected to contribute significantly to the overall revenue of the Company. In order to focus and grow each of the auto component business lines namely, Forgings, Stampings and Castings, the Company has started branding them separately as Accu Forge, Accu Stamp and Accu Cast respectively.

Financial Performance

Total turnover of the Company during the year was Rs.853 Crores against Rs.806 Crores in the previous financial year. This indicates a growth of 6% compared to previous financial year. The profit before interest, depreciation and taxation for the year was Rs. 87 Crores, including other income of Rs. 119 Crores which includes profit from sale of immovable properties in the State of West Bengal.

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Transfer of 314 acres land for Integrated IT Township & Auto Ancillary Park at Hindmotor, in five lots is proceeding in accordance with the approval of Government of West Bengal and periodic progress reports have been filed with the Government. The West Bengal Government's subsequent recommendation for reservation of 14 acres area for the economically weaker sections of the society too is being complied with.

The Company is predominantly in automobile and auto component business. The segment-wise results are indicated in the notes schedule to the accounts.

The Outlook for the year 2008-09 and status on Human Resources/Industrial Relations are given in the Directors' Report.

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, reduction in relative market share for its products due to 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
8th May, 2008

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 have ten members comprising of one Executive Director and nine Non-Executive Directors. The Non-Executive Directors account for ninety percent of Board's strength against minimum requirement of fifty percent as per Clause 49 of the listing agreement. There are eight independent Directors. 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 who is also a Promoter of the Company. 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	11	-	-
Shri Naresh Chandra	Independent - Non Executive	14	8	-
Shri Pradip Kumar Khaitan	Not Independent - Non Executive	15	5	1
Shri R. Vasudevan	Independent - Non Executive - IDBI Nominee- Lender	7	4	1
Dr. Anand C. Burman	Independent - Non Executive	15	2	1
Shri Kranti Sinha	Independent - Non Executive	2	4	3
Shri S. C. Jain	Independent - Non Executive - LIC Nominee	2	1	-
Shri Yogesh Kr. Rastogi	Independent - Non Executive - ICICI Nominee-Lender	1	-	-
Shri A. Sankaranarayanan	Independent - Non Executive	3	1	1
Shri R. Santhanam	Managing Director	-	-	-

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