

Annual Report
&
Accounts
2008-2009

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Hindustan Motors Limited

HINDUSTAN MOTORS LIMITED

ANNUAL REPORT

Year Ended March 31, 2009

Board of Directors

Shri C. K. Birla	Chairman
Shri Naresh Chandra	
Shri Pradip Kumar Khaitan	
Dr. Anand C. Burman	
Shri Kranti Sinha	
Shri S. C. Jain	LIC Nominee
Shri Yogesh Kr. Rastogi	ICICI Nominee
Shri A. Sankaranarayanan	
Shri Subroto Gupta	IDBI Nominee
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-seventh 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 Friday, the 24th July, 2009 at 2.30 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, 2009.
- (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 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.22,00,000/- (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."

AS SPECIAL BUSINESS :

- (5) To consider and, if thought fit, to pass with or without modification, the following resolution 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 including from the Central Government, as may be needed, Shri R. Santhanam be and he is hereby re-appointed as the Managing Director of the Company not liable to retire by rotation for a period of five years with effect from 24th May, 2009 at a remuneration and on the terms and conditions set out below:-

- | | |
|---|---|
| 1. Salary (Basic) per month | Rs.3,00,000/- in a time scale of Rs.3,00,000-Rs.30,000-Rs.4,50,000/-. Annual increment of Rs.30,000/- shall be payable on 1st April of each year. |
| 2. Perquisites (including allowances):- | |
| a) Watchman/Gardener/Cleaner/Servants' salary allowance | Rs.10,000/- per month |
| b) Other allowances | Rs.10,000/- per month |
| c) Leave Travel Allowance | The yearly payment in the form of allowance shall be equivalent to one month's salary (basic). |
| d) Magazines/Books allowance | Rs.50,000/- per annum. |
| e) Gas/Electricity/Maintenance allowance | Rs.50,000/- per annum |
| f) Housing I | Expenditure incurred by the Company on hiring furnished accommodation for the Managing Director subject to a maximum of 60% of the basic salary relevant for the concerned period |

OR

Housing II

In case Company owned and furnished accommodation is provided no allowance shall be paid

OR

Housing III

In case no accommodation - owned or hired - is provided by the Company the Managing Director shall be entitled to 60% of the basic salary relevant for the concerned period as and by way of House Rent Allowance

- g) Medical reimbursement
Expenditure incurred by the Managing Director and his family, subject to a ceiling of one month's salary (basic) in a year or three months salary (basic) over a period of three years
- h) Club Fees
Actual fees for a maximum of two clubs. Admission fee and life membership fee shall not be paid by the Company.
- i) Hospitalisation Insurance Scheme
As per the scheme of the Company provided the premium amount does not exceed a sum of Rs.4,000/- per annum
- j) Contribution to Provident Fund and Superannuation/Annuity Fund will be as per Scheme of the Company.
- k) 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.
- l) Encashment of unavailed leaves at the end of the tenure or at specified intervals will be as per Scheme of the Company.
- m) Provision of car with driver for use in relation to 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 Managing Director.
3. In addition to the above, the Managing Director shall be entitled for a Performance Variable Pay of a maximum of Rs. 15,00,000/- per annum. The exact quantum payable will be based on extent of achievement against the deliverables as decided by the Board of Directors and/or Remuneration Committee of Directors of the Company from time to time.

MINIMUM REMUNERATION : The remuneration specified at Sl. Nos.1 to 3 above subject to approval of Central Government shall be paid to Shri R. Santhanam as and by way of Minimum Remuneration notwithstanding any loss or inadequacy of profit in any financial year during the tenure of his employment as Managing Director.

RESOLVED FURTHER THAT the tenure of employment of Shri R. Santhanam as Managing Director of the Company is terminable by either side with a notice period of three months or payment of basic salary in lieu thereof".

Registered Office:
'Birla Building'
9/1, Rajendra Nath Mukherjee Road
Kolkata 700 001
Dated, the 2nd June, 2009

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 Pradip Kumar Khaitan and Dr. Anand C. Burman, 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(s) 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 - 500081 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 Friday, the 17th July, 2009 to Friday, the 24th July, 2009 (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 get their shares dematerialised at the earliest.
12. Securities and Exchange Board of India vide its circulars dated 27th April, 2007 and 25th June, 2007 has made it mandatory with effect from 2nd July, 2007 for every participant in the securities/capital market to furnish income tax Permanent Account Number (PAN). Accordingly, all the shareholders (including joint holders) holding shares in physical form are requested to submit copy of their PAN Card duly attested by the Notary Public/Gazetted Officer/Bank Manager under their official seal stating their full name and address, registration number to our Registrar & Share Transfer Agents, M/s Karvy Computershare Private Limited.

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 of the Companies Act, 1956.

Item No 5

Shri R. Santhanam was appointed as Managing Director of the Company with effect from 24th May, 2004 for a period of five years and accordingly his term expired on 23rd May, 2009.

The Board of Directors of the Company (Board) at its meeting held on 13th May, 2009 re-appointed Shri R. Santhanam as a whole-time Director designated as Managing Director for a further term of five years with effect from 24th May, 2009. The salient terms and conditions of the re-appointment are as set out in the Resolution under Item No.5 of the subjoined notice.

The remuneration payable to Managing Director has also been approved by Remuneration Committee of Directors at its meeting held on 13th May, 2009.

The re-appointment is subject to the approval of the shareholders in General Meeting and Central Government.

The information required pursuant to para 1(C)(iv) of Section II of Part II of Schedule XIII of the Companies Act, 1956 are as under:

I. GENERAL INFORMATION

- (1) Nature of Industry:

Manufacture of Automobiles and Components namely Castings, Forgings and Stampings

- (2) Date or expected date of commencement of commercial production:

The Company, incorporated in the year 1942, is an existing operating Company.

- (3) Financial performance based on given indicators:

Rs. In lacs

Financial Year ended	31.03.2009	31.03.2008	31.03.2007
Gross Sales & Services	76412.30	85300.76	80637.01
Profit/(Loss) before Interest, Depreciation and Taxes	(952.34)	8698.54	5275.09
Interest Payment	1234.67	2002.82	1673.14
Depreciation	2065.95	2114.52	2323.31
Profit/(Loss) before Tax	(4252.96)	4581.20	1278.64
Provision for Tax	(367.30)	1497.05	(51.00)
Profit after Tax	(3885.66)	3084.15	1329.64
Equity Share Capital	16125.68	16125.68	16125.68

- (4) Export performance and net foreign exchange collaborations:

Rs. In lacs

Financial Year ended	31.03.2009	31.03.2008	31.03.2007
Foreign Exchange Earnings (FOB value of Export)	64.27	31.70	309.96

- (5) Foreign investments or collaborators, if any:

The Company has a wholly owned subsidiary in USA. The Company has License Agreements and Component Supply Agreements with Mitsubishi Motors Corporation, Japan for manufacture/ assembly of cars and utility vehicles.

II. INFORMATION ABOUT THE APPOINTEE**(1) Background details:**

Education: Shri R. Santhanam, Managing Director of the Company is a Mechanical Engineer from IIT-Madras, MBA from IIM-Kolkata and a fellow of Advanced Management Programme from Harvard Business School.

Career: During the initial years of his career Shri R. Santhanam worked with Tata Motors, Eicher Motors Limited, TVS Suzuki Ltd. & Escorts Ltd. In the year 1993, Shri Santhanam joined Hindustan Motors Limited as Vice President Marketing and remained with the Company till May, 2000 when he resigned as Executive Vice President – Automobile Division. Thereafter he joined Mahindra & Mahindra as Executive Vice President – Marketing and Customer Operations and was made Managing Director and CEO of Mahindra Holiday Resorts Ltd. in October, 2001 and had played key role in turning around the business and making it a success. He was appointed as President of Hindustan Motors Limited with effect from 21st April, 2004 and Managing Director with effect from 24th May, 2004.

Shri Santhanam has rich and vast experience in automobile industry.

(2) Past remuneration:

<i>Rs.in lacs</i>		
2008-09	2007-08	2006-07
74.55	70.32	64.05

(3) Recognition or Awards:

- i) Elected Member of Confederation of Indian Industries Regional Council – Southern Region;
- ii) Elected Member of Executive Committee – Association of Indian Automobile Manufacturers;
- iii) One of the founder Members of Society of Indian Automobile Manufacturers.

(4) Job profile and his suitability:

The Managing Director is entrusted with substantial power of management of the whole or substantially the whole of affairs of the Company subject to superintendence, control and directions of the Board. He will also perform such duties and exercise such powers as have been or may from time to time be entrusted or conferred upon him by the Board.

Shri R. Santhanam is a Senior Corporate Executive of proven caliber and excellence and is having wide ranging experience in industrial production planning, product designing, marketing and customer relations including market research. Shri R. Santhanam has been successfully managing the overall affairs of the Company as the Managing Director since 24th May, 2004. Shri Santhanam is responsible for the day-to-day operations of the Company under the superintendence, direction and control of the Board. He has successfully and in a sustained manner contributed significantly towards qualitative improvements at all the units of the Company. Under the leadership of Shri R. Santhanam the Company has been successful in achieving Financial and Corporate Debt Restructuring, taking approval from West Bengal Government for alternate use of land for revival of Uttarpara Plant, launching of new products and revamping of existing products for growth at Chennai Car Plant and resolving issues relating to industrial relations and reduction in fixed cost.

The professional services of Shri R. Santhanam and his in-depth knowledge of Company's product lines would be very valuable for the Company in the context of the present global slowdown, depressed market conditions and sluggish demand particularly for automobile products. With sufficient past experience in successfully managing the affairs of the Company, Shri R. Santhanam is best suited for the position.

(5) Remuneration proposed:

As referred in Item No.5 of the Notice of the Annual General Meeting

(6) Comparative remuneration profile with respect to industry, size of the Company, profile of the position and person:

The executive remuneration in the industry has increased manifold in last few years. Having regard to type of industry, trends in industry, size of the Company, the responsibilities, academic background and capabilities of Shri R. Santhanam, the proposed remuneration is lower than the remunerations being paid to such senior executives by both domestic and multinational organizations in the Corporate Sector.

(7) Pecuniary relationship directly or indirectly with the Company, or relationship with the managerial personnel, if any:

Shri R. Santhanam has no pecuniary relationship with the Company other than his remuneration as Managing Director of the Company. He is purely a professional executive of the Company. There is no managerial personnel related to Shri Santhanam.

III. OTHER INFORMATION**(1) Reasons of loss or inadequate profit:**

The Company has primarily been focused on the automobile business with its Plants in Uttarpara and in Chennai. During the last couple of years, the Company's performance has been severally affected due to increased competition and lower off-take of its products specially the Ambassador, Lancer and Cedia. The Ambassador car is predominantly sold in taxis, institutional and commercial segment and the sales have been declining due to competition from mid-size car and utility vehicles. The Lancer car was introduced in 1998 and the Cedia was introduced in 2006, both are facing stiff competition from newer models in the mid-size segment. The Company introduced new models, Pajero, Outlander and Montero in the Sports Utility Vehicles segment but the volumes started increasing from 2007. The increase in volume could not fully compensate for the adverse foreign exchange fluctuations during the year 2008-09. The Company also diversified into auto component business of manufacturing and selling castings, forgings and stampings but the downturn in the automobile industry is adversely affecting the sales of such components. Operations of the Company's Uttarpara Plant were also adversely affected due to labour unrest during the period March to May 2007. Consequently, the initiatives taken by the Company for developing auto component business suffered a setback. In addition to above factors, fixed overheads, adverse exchange rate fluctuations, high input cost and competitive selling price have also affected the operations of the Company both in terms of top line and bottom line. The situation has been further aggravated by the unprecedented economic meltdown resulting in lower demand for the Company's products.

(2) Steps taken or proposed to be taken for improvement:

The Company has been relentlessly making efforts to increase revenue by introducing new products and new features in existing products as well as to reduce costs and make its operations profitable. The Company has taken following initiatives to improve its performance:-

- a) Introduction of new models in Chennai Plant;
- b) Introduction of new diesel as well as alternate fuel driven Mini Truck, Winner in the growing market segment;
- c) Embarking on developing a set of auto component business namely supplying of castings, forgings and stampings to other manufacturers in the automobile and other industries;
- d) Modernization of manufacturing facilities to improve efficiency and reduce costs;
- e) Reduce the input and other overheads by value engineering, rationalisation of work force and other cost reduction measures;
- f) Taking necessary steps to make the engines of its vehicles meet the emission norms of Bharat Stage-IV before the date set for the purpose by the Government;

- g) Thrust being given to dealer development activity to strengthen the distribution network;
- h) Revenue from development of Integrated IT Township and Automotive Ancillary Park.

(3) Expected increase in productivity and profits in measurable terms:

With the above steps being taken by the Company, the productivity and profitability of the Company is expected to improve in the coming years.

IV. DISCLOSURES

The shareholders of the Company have been informed of the remuneration package of Shri R. Santhanam and all elements thereof are given in the Corporate Governance Report annexed to the Directors' Report which should be read in conjunction with the Notice of 67th Annual General Meeting.

The re-appointment and remuneration payable to Shri R. Santhanam as Managing Director require 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 prior approval of the Central Government under Section 309 read with Schedule XIII of the Act.

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

An abstract of the terms of re-appointment of Shri R. Santhanam Managing Director has been circulated to the Members as required under Section 302 of the Act.

Except Shri R. Santhanam, no other Director is in any way concerned or interested in the aforesaid Resolution.

A copy of the Notice with Explanatory Statement and the Minutes of the Meetings of the Board of Directors and Remuneration Committee both held on 13th May, 2009 and a copy of the Agreement between the Company and Shri R. Santhanam in this connection will be kept open for inspection by the Shareholders at the Registered Office of the Company situated at "Birla Building", 10th Floor, 9/1 R. N. Mukherjee Road, Kolkata – 700 001 between 10 AM and 12 Noon on any working day of the Company.

Directors' Report to the Shareholders

Your Directors present their Sixty-seventh Annual Report together with annual accounts of the Company for the year ended March 31, 2009.

Financial Results

During the year under review, the Company's revenue was Rs. 764 Crores compared to Rs. 853 Crores in the last financial year. The following table gives a summary of the performance.

	<i>(Rupees in Crores)</i>	
	2008-09	2007-08
Gross sales and services	764.12	853.01
Profit/(Loss) before Interest,		
Depreciation and Taxes	(9.52)	86.99
Interest Payment	12.35	20.03
Depreciation	20.66	21.15
Profit / (Loss) before Tax	(42.53)	45.81
Provision for Tax	(3.67)	14.97
Profit / (Loss) After Taxation	(38.86)	30.84

In accordance with the Order of the Government of West Bengal in September 2006 wherein the Company was allowed to develop 314 acres of land at Hindmotor as Integrated IT Township & Auto Ancillary Park, the Company has further transferred a part of its land admeasuring 62.80 acres by handing over physical possession thereof against payment to the Developer and profit of Rs. 56.32 Crores thereon has been included in the Profit and Loss Account during the year. The Company shall be transferring the balance 62.791 acres land during the financial year 2009-10 against payment.

There was a debit balance of Rs. 42.32 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 81.17 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 and Outlander.

The Company's unit at Uttarpara, in addition to the car business, has in recent years embarked on developing a set of auto component business 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.

The initiatives taken by the Company suffered a setback due to the recent global economic conditions, lack of retail finance and drop in demand of automobiles.

During the year your Company introduced a number of new models – Outlander and new Montero from its Chennai Car Plant and a new goods carrying vehicle, 'Winner' from the Uttarpara 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.

Sale of automobiles during the year under review consisting of Ambassador, Lancer, Cedia, Sports Utility Vehicle and other Utility Vehicles is 9211 nos. compared to 12713 nos. during the previous financial year. The sale of Company's product was adversely affected by the recent global meltdown, reduced credit availability and the downturn in the automobile industry. As a result, the sale of vehicles from November 2008 onwards dropped sharply.

The margins in the automobile business remained under pressure due to increase in input costs, adverse foreign exchange rates and competitive pressure on selling prices of vehicles. The Company could minimize pressure on margins by way of aggressive 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 by using the business opportunities through its branch in Japan.

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

Outlook for 2009-10

In view of the recent slowdown in the economy as well as in the automobile industry, the Company is taking various initiatives to improve the sales of its products and expects to marginally improve the performance in the current financial year. Dealer development activities are in place so as to strengthen the distribution channel commensurately. The Company continues to focus on cost reduction efforts and improvements in operational efficiencies as well as value engineering activities to improve the margins. The sale of last lot of land at Hindmotor will be made during the current financial year. With these initiatives, the Company expects improved performance in the current financial year.