

Annual Report  
&  
Accounts  
2010-2011



**Hindustan Motors Limited**

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## HINDUSTAN MOTORS LIMITED

### ANNUAL REPORT

**Year Ended March 31, 2011**

#### Board of Directors

Shri C. K. Birla	<b>Chairman</b>
Shri Naresh Chandra	
Shri Pradip Kumar Khaitan	
Dr. Anand C. Burman	
Shri Kranti Sinha	
Shri Yogesh Kr. Rastogi	<b>ICICI Nominee</b>
Shri A. Sankaranarayanan	
Shri Subroto Gupta	<b>IDBI Nominee</b>
Shri Vijay Kumar Sharma	<b>LIC Nominee</b>
Shri Manoj Jha	<b>Managing Director</b>

#### Chief Financial Officer and Company Secretary

Shri 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

Karvy Computershare Private Limited  
Plot Nos. 17 to 24 Vittal Rao Nagar,  
Madhapur, Hyderabad 500 081  
Telephone No. : (040) 4465 5000  
Fax No. : (040) 2342 0814  
E-mail : einward.ris@karvy.com  
          mahendra.singh@karvy.com  
Kolkata Office : (033) 2464 7231, 2464 4891

#### Registered Office

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

## Notice to the Shareholders

NOTICE is hereby given that the Sixty-ninth 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 Thursday, the 4th August, 2011 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, 2011.
- (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 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., (Registration No.301003E) 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 ₹ 25,00,000/- (Rupees Twenty-five 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 7th June, 2011

By Order of the Board  
For HINDUSTAN MOTORS LTD  
**Yogesh Goenka**  
*Chief Financial Officer and  
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 and Shri A. Sankaranarayanan, 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 and Share Transfer Agents, 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 Thursday, the 28th July, 2011 to Thursday, 4th August, 2011 (both days inclusive).
7. (a) Members are requested to notify change of address, if any, with PINCODE to the Company or to its Registrar and 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 Karvy Computershare Private Limited, Hyderabad, the Registrar and Share Transfer Agents of the Company.
10. In all correspondence with the Company or with its Registrar and 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.

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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 and Share Transfer Agents, Karvy Computershare Private Limited.
13. The Ministry of Corporate Affairs (MCA) has taken a "Green Initiative in Corporate Governance" (Circular No. 17/2011 dated 21.04.2011 and Circular No. 18/2011 dated 29.04.2011) allowing paperless compliances by Companies through electronic mode. Companies are now permitted to send various notices /documents to its shareholders through electronic mode to the registered e-mail addresses of shareholders. Keeping in view the underlying theme and the circular issued by MCA, the Company proposes to send all documents to Shareholders like General Meeting Notices (including AGM), Audited Financial Statements, Directors' Report, Auditors' Report etc. to the shareholders through e-mail. **Shareholders holding shares in dematerialized form are requested to register their e-mail ID with their Depository Participants and shareholders holding shares in physical form are requested to register their e-mail ID with Registrar and Share Transfer Agents of the Company i.e., Karvy Computershare Private Limited, Plot Nos. 17 to 24 Vittal Rao Nagar, Madhapur, Hyderabad 500 081 for sending documents through e-mail.**

## Directors' Report to the Shareholders

Your Directors present their Sixty-ninth Annual Report together with annual accounts of the Company for the year ended March 31, 2011.

### Financial Results

During the year under review, the Company's revenue was ₹ 850 Crores compared to ₹ 737 Crores in the previous financial year. The following table gives a summary of the performance.

	(₹ in Crores)	
	2010-11	2009-10
Gross sales and services	850.04	736.88
Profit/(Loss) before Interest,		
Depreciation and Taxes	40.14	(4.59)
Interest Payment	27.16	11.04
Depreciation	16.74	17.63
Profit / (Loss) before Tax	(3.76)	(33.26)
Provision for Tax	(4.51)	17.84
Profit / (Loss) After Taxation	0.75	(51.10)

The revenue account shows a profit of ₹ 0.75 Crore after providing ₹ 16.74 Crores for depreciation and taking credit of ₹ 4.51 Crores for deferred tax net of other taxes. There was a debit balance of ₹ 132.28 Crores in the Profit and Loss Account, which was brought forward from last year. After setting off the sums available from reduction of equity share capital by half and writing off securities premium account and considering the results of the year under review, there is a closing debit balance of ₹ 47.76 Crores in the Profit and Loss Account.

During the year, in respect of a sale tax demand on the Company aggregating to ₹ 85.83 Crores, the Hon'ble Supreme Court of India decided the matter in favour of the Company.

During the year, the Company sold 62,18,000 equity shares of ₹ 10/- each (including 48,00,000 to its subsidiary) of AVTEC Limited and its immovable properties at Chennai and Halol, Gujarat and aggregate profit of ₹ 96.80 Crores thereon has been included in the Profit and Loss Account. Consequent to the sale of shares held by the Company in

AVTEC Limited, its holding in AVTEC Limited reduced from 49% to 24.13%.

The Company subscribed to additional 45,50,000 equity shares of ₹ 10/- each at a premium of ₹. 140/- per share of its subsidiary, HM Export Limited during the year aggregating to ₹ 68.25 Crores after obtaining approval of shareholders through postal ballot.

As you are aware that the accumulated losses of the Company at the end of financial year 31st March, 2010 had resulted in erosion of more than fifty percent of its peak net worth during the immediately preceding four financial years and therefore the Company had to report to the Board for Industrial and Financial Reconstruction (BIFR) about such erosion of net worth under Section 23 of the Sick Industrial Companies (Special Provisions) Act, 1985. Your directors are pleased to inform that the accumulated losses of the Company at the end of financial year 31st March, 2011 reduced to less than the fifty percent of its peak net worth during the immediately preceding four financial years and therefore the Company has ceased to be "potentially sick company" under the provisions of Section 23 of Sick Industrial Companies (Special Provisions) Act, 1985. An intimation in this regard shall be made to BIFR.

Due to sale of property at Halol, Gujarat and consequent profit, the Lenders have made a claim of recompense of interest under Corporate Debt Restructuring Scheme. The Company has requested the Lenders to be reasonable in their claim. Pending final decision, provision has been made for ₹ 15 Crores on account of this which has since been paid to Lenders in April, 2011.

A Cash Flow statement for the year under review is also attached to the enclosed Annual Accounts.

### Reduction of Share Capital and writing off Securities Premium Account

As a part of capital restructuring exercise, shareholders of the Company approved capital reduction on 16th November, 2010 through postal ballot which was duly confirmed by the Hon'ble High Court at Calcutta vide its Order dated 15th

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December, 2010 and Certificate of Registration of the said Order was issued by the Registrar of Companies, West Bengal on 11th January, 2011. Pursuant to this, the Company reduced the paid up value of equity shares from ₹ 10/- each to ₹ 5/- each with effect from 11th January, 2011 resulting in reduction of the Share Capital and has set off the sums available from reduction in Share Capital of ₹ 80.59 Crores and writing off the Securities Premium Account to the extent of ₹ 3.71 Crores against the debit balance of Profit & Loss Account as on 31st March, 2010. The nominal value of equity shares was also simultaneously reduced from ₹ 10/- each to ₹ 5/- each by amending the Memorandum of Association of the Company.

The trading in equity shares of the Company was suspended from 27th January, 2011 to give effect to reduction in equity share capital of the Company which recommenced from 21st February, 2011.

### **Review of Operations**

The Company has been focusing on automobile business and auto component business consisting of forgings, castings and stampings with plants at Uttarpara, Tiruvallur and Pithampur. In the automobile business, the main focus is on Ambassador, Lancer, Cedia, Sports Utility Vehicles namely, Pajero, Montero and Outlander and the goods carrying Mini Truck called 'Winner'.

Sale of automobiles during the year under review consisting of Ambassador, Winner, Lancer, Cedia, Sports Utility Vehicle and other Utility Vehicles is 10097 compared to 11003 nos. during the previous financial year. Though the overall growth of automobile industry was better than expected, the sale of Ambassador was affected due to slow down in orders from Kolkata taxi replacement market, implementation of BSIV emission norms in 13 major cities while the Company did not have any BSIV diesel engine and lower orders from government customers. The Sports Utility Vehicle - Outlander was well received in the market and the Company was able to sell 1243 nos. as against 411 nos. in the previous year. The support provided by the foreign collaborator by reducing the kit prices as well as the benefit from increased volume of Outlander were more than offset by adverse movement in foreign exchange rates affecting the profitability of vehicles sold from the Company's Chennai Car Plant. In addition,

the Company minimized pressure on margins by way of increase in sale price of vehicles, aggressive cost reduction and value engineering measures.

During the year, your Company launched a new model Lancer EVO X, a luxury sedan with next generation technology, Pajero meeting BSIV emission norms and an improved version of Montero from the Chennai Car Plant. From the Uttarpara Plant, an improved version of Ambassador, called Ambassador Discovery with improved interiors and upgraded variants of Mini Truck, Winner were introduced. These new products are expected to generate favourable response in the market place and increase the sales of your Company in the current financial year.

On the component business front, several new customers and orders were acquired and these products are under development for both castings and forgings business which are expected to add to the Company's component business in the current financial year.

The Company's branch in Japan, engaged in engineering design related software work was closed during the year. Your Company is taking steps, subject to necessary compliances and approvals, to close the Company's subsidiary in USA, also engaged in engineering design related software.

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

### **Outlook for 2011-12**

The Indian economy is expected to grow at a higher rate during 2011-12. However, due to higher borrowing cost and surge in commodity prices, the growth in automobile industry is expected to be moderate during the current financial year. The Company is preparing to launch new variants of Ambassador in the fast growing Commercial vehicles segment, during the current financial year.

The Company also plans to launch a complete new generation of its popular Sports Utility Vehicle, Pajero called Pajero Sports, 7-seater Outlander, upgraded Montero, two new variants of Ambassador - one as a pickup and another as a commercial passenger carrier for more than 7 passengers as well as facelift of the Winner and introduce a passenger carrier of Winner during the current financial year. The new variants of Ambassador along with recently launched new

variants of Winner from Uttarpara plant; utilisation of Pithampur plant for manufacturing of Winner and Winner variants; and Outlander 7-seater, Pajero Sports BU and Pajero BSIV from Chennai Car Plant are likely to augur well for the Company. The Company is also strengthening its distribution network by expanding its dealerships as well as opening new warehouses to ensure timely deliveries. The Company continues to focus on cost reduction efforts and improvements in operational efficiencies as well as value engineering activities to improve the margins. With these initiatives, the Company expects improved performance in the current financial year.

As regards component business, those customers and products that were acquired during the year under review will come in the regular production stream in the current financial year and will add to the business of the Company.

#### **Industrial Relations**

Industrial relations generally remained cordial and satisfactory.

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.

The Company is taking steps to start an Industrial Training Centre in Hindmotor, West Bengal to help in improving the employability of the local youths as well as have a steady source of trained personnel to it, its dealer and the industry generally.

#### **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 applicable Accounting Standards prescribed by Companies (Accounting

Standards) Rules, 2006. 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 2010-11 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. Steps are being taken to close the business of Company's subsidiary in USA subject to necessary compliances and approvals.

#### **Auditors**

The report by the Auditors is self-explanatory. 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.

#### **Subsidiaries**

The Company has sold 143 shares of ₹ 10/- each of its subsidiary HM Export Limited during the year under review which has changed the status of subsidiary from wholly owned subsidiary to subsidiary only.

As per general exemption granted vide Government of India, Ministry of Corporate Affairs' general circular no. 2/2011 dated 8th February, 2011, the Company has not attached the annual accounts of its all the three subsidiaries namely Hindustan Motor Finance Corporation Limited, HM Export Limited and Hindustan Motors Limited, USA to this Annual Report. As required by the said circular, the relevant information for each subsidiary has been disclosed in the Consolidated financial statements attached to this Annual Report.

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The Company will make available the annual accounts of subsidiaries and the related information to any member of the Company who may be interested in obtaining the same. The annual accounts of subsidiaries will also be kept for inspection by any member of the Company at the registered office of the Company and that of respective subsidiaries. The Consolidated financial statements presented by the Company include the financial information of its subsidiaries.

The Company will pledge 45,50,000 equity shares of ₹ 10/- each held in its subsidiary, HM Export Limited in favour of Lenders, as additional security to the Lenders under the Corporate Debt Restructuring package.

### **Directors**

At the ensuing Annual General Meeting, Shri C. K. Birla and Shri A. Sankaranarayanan, 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

16th May, 2011

**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 8.6% as per the Economic Survey tabled by the Government. The index of industrial production was lower at 7.8% in this year compared to 10.1% in the previous year. Sale of Passenger Vehicles in the country grew by 29.16% compared to 25.67% in the immediate preceding year.

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

Domestic Sales - Nos	2009-10	2010-11	% age Increase
Passenger Cars	1528337	1982702	29.73
Utility Vehicles	272740	324212	18.87
Multi-purpose Vehicles	150256	213507	42.10
<b>Total Passenger Vehicles</b>	<b>1951333</b>	<b>2520421</b>	<b>29.16</b>

Source : Society of Indian Automobile Manufacturers - Flash Report

Sale of Company's vehicles during the year was 10097 numbers compared to 11003 numbers in the previous financial year. The Company operates in niche segments only. The decline in number of vehicles sold was mainly due to slowdown in order from Kolkata taxi replacement market, implementation of BS-IV emission norms with effect from 1st April, 2010 in 13 major cities while Company was not having any BS-IV compatible diesel engine thus losing sale in these major markets and decline in order from government customers inspite of increase in volume of the Sports Utility Vehicle, Outlander which was well received in the market. The support provided by the foreign collaborator by reducing the kit prices and benefit from the increased volume of Outlander were more than offset by adverse fluctuation in foreign exchange severely affecting profitability of Chennai Car Plant operations. The Company took

measures like increase in sale price of vehicles as well as value engineering and cost reduction initiatives etc.

During the year, the Company's Chennai Car Plant launched improved version of Montero in July, 2010, a new luxury sedan Lancer EVO X in November, 2010 and Pajero meeting the BS-IV emission norms in March, 2011. The Company also launched an improved version of Ambassador, called Ambassador Discovery with improved interiors in November, 2010 and upgraded variants of Mini Truck, Winner in February, 2011. These new products are expected to receive favourable response in the market.

#### Opportunities & Threats

The economy is expected to continue to grow during the current financial year. The forecast of GDP growth rate for 2011-12 is 9 +/- 0.25 %. In view of the higher GDP and good industrial production growth rates, demand for the passenger vehicles is expected to continue to grow during 2011-12. With the continuous increase in capacities and introduction of newer models, competition will remain high. The higher borrowing cost, continuous increases in fuel prices, surging prices of commodities, higher import duties and removal of government incentives could impact demand during the current financial year.

The Company is hopeful of registering growth in sales during the current year both from its Chennai Car Plant as well as from the Uttarpara Plant. The Company expects to increase its market share in the growing SUV segment with its existing models as well as by introducing new models in the segment. The Company will launch a complete new generation Pajero, called Pajero Sports, a new version 7-seater Outlander, upgraded Montero, new variants of Ambassador for use in commercial vehicle segment, a facelift model of Winner - Winner XD Plus (Diesel and CNG Versions)