

LML LIMITED

AN ISO 9002 COMPANY

Annual Report

2000-2001

**Wheels of
Tomorrow**





DET NORSKE VERITAS MANAGEMENT SYSTEM CERTIFICATE

Certificate No. RIN 300-1 -1726

*This is to certify that
the Quality Management System
of*

LML LIMITED

*at
Kanpur, India*

*has been found to conform to the Quality Management System Standard:
ISO 9002:1994*

This Certificate is valid for the following product or service ranges:

**MANUFACTURING, MARKETING & AFTER SALE SERVICING OF VARIOUS TWO
WHEELER AUTOMOBILE MODELS FOR USE IN PERSONAL TRANSPORT**

Original Certification date:
December 15th, 2000

Place and date:
New Delhi, December 15th, 2000

This Certificate is valid until:
December 15th, 2003

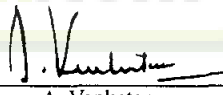


Accredited
by the RVA

for the Accredited Unit:
DNV CERTIFICATION B.V.,
THE NETHERLANDS

*Compliance to the Standard in respect to the indicated is
verified by the DNV approved registered Team Leader*

P. Kundu
Lead Auditor


A. Venkataram
Management Representative

Lack of fulfilment of conditions as set out in the Appendix may render this Certificate invalid.

RT Q 2000-07-01

DNV CERTIFICATION B. V. Haastrechtstraat 7, 3079 DC Rotterdam, The Netherlands. TEL. INT. : +31 10 2922 688, FAX : +31 10 4796 768

**BOARD OF DIRECTORS**

M R B PUNJA, *Chairman*
 A Y GAIKWAD, *IFCI Nominee*
 KULWANT SINGH, *IDBI Nominee*
 S K AGGARWAL
 LALIT KUMAR SINGHANIA, *Whole-time Director*
 SANJEEV SHRIYA, *Whole-time Director*
 DEEPAK SINGHANIA, *Managing Director*

EXECUTIVE DIRECTOR (COMMERCIAL) & COMPANY SECRETARY

K C AGARWAL

AUDITORS

BANSI S. MEHTA & Co., Chartered Accountants, Mumbai
 PARIKH & JAIN, Chartered Accountants, Kanpur

BANKERS

STATE BANK OF INDIA
 BANK OF INDIA
 BANK OF BARODA

REGISTERED OFFICE

C-3, Panki Industrial Estate,
 Kanpur-208 022.

WORKS

- Site Nos. II & III
 Panki Industrial Estate, Kanpur - 208 022
- Co-operative Industrial Estate, Kanpur - 208 022
- 895, Udyog Vihar, Phase I,
 Gurgaon (Haryana)

ADMINISTRATIVE OFFICE

MUMBAI
 714, Raheja Chambers, Nariman Point,

REGIONAL OFFICE

NEW DELHI
 B-17, Greater Kailash Part-I,

SALES OFFICES

MUMBAI
 103-A, Kalpita Enclave,
 Swami Nityanand Marg,
 Andheri (East),

BANGALORE
 56, Mission Road,

KOLKATA

5A, Hazra Road,

AHMEDABAD

61, Geekini House, Parkland Apts.,
 Law Garden, Ellis Bridge,

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LML LIMITED**NOTICE**

NOTICE is hereby given that Twenty-seventh Annual General Meeting of LML Limited will be held on Saturday, the 22nd September, 2001 at 10.00 A.M. at its Registered Office at C-3, Panki Industrial Estate, Kanpur-208 022 to transact the following business :-

ORDINARY BUSINESS

1. To receive, consider and adopt the Audited Balance Sheet as at 31st March, 2001 and the Profit and Loss Account for the year ended on that date together with the Reports of Directors and Auditors thereon.
2. To appoint a Director in place of Mr. M R B Punja, who retires by rotation and is eligible for re-appointment.
3. To appoint a Director in place of Mr. L K Singhania, who retires by rotation and is eligible for re-appointment.
4. To appoint Auditors and fix their remuneration and, to consider, and, if thought fit, to pass with or without modification(s), the following resolution as an Ordinary Resolution :-

"RESOLVED THAT, pursuant to the provisions of Section 224 and other applicable provisions, if any, of the Companies Act, 1956, M/s. Parikh & Jain, Chartered Accountants, Kanpur and M/s. Bansi S. Mehta & Co., Chartered Accountants, Mumbai, the retiring Auditors, be and are hereby appointed as Auditors of the Company, to hold office from the conclusion of this Meeting until the conclusion of the next Annual General Meeting at a remuneration to be fixed by the Board of Directors and/or any Committee thereof."

By Order of the Board of Directors

K C AGARWAL

*Executive Director (Comm.) &
Company Secretary*

Place : New Delhi
Date : 26th June, 2001

NOTES :

1. A member entitled to attend and vote at the meeting is entitled to appoint a PROXY to attend and, on a poll, to vote instead of himself / herself. A blank form of proxy is enclosed and, if intended to be used, should be returned to the Registered Office of the Company not less than forty-eight hours before the scheduled time of the Meeting. A proxy so appointed need not be a member.
2. Information under Clause 49 of the Listing Agreement regarding re-appointment of Directors is appended hereinbelow.
3. The Register of Members and the Share Transfer Books will remain closed from Tuesday, the 18th September, 2001 to Saturday, the 22nd September, 2001 (both days inclusive).
4. Company's shares are being compulsorily traded in Demat form w.e.f. 17th January, 2000. Members are requested to send Dematerialisation Request Form (DRF) alongwith Share Certificates/Option letter through their Depository Participant for demat of shares to **LML Shares Registry**, C-10, Panki Industrial Estate, Site-II, Kanpur - 208 022.
5. Members are requested to notify change in their address, if any, to **LML Shares Registry**, quoting their folio number(s).



6. Members, who are holding Shares in identical order of names in more than one Folio, are requested to write to **LML Shares Registry**, enclosing their share certificates for consolidation in one Folio.
7. Company has established a Trust for easy **marketability** of its **odd lot shares**. Shareholders may dispose off their ODD LOT SHARES through the Trust. Kindly send your ODD LOT SHARES alongwith duly signed Transfer Deed(s) at the following address for sale in the market :-

LML Limited - Odd Lot Shares Trust
 C-10, Panki Industrial Estate, Site-II, Kanpur - 208 022
 Tel : 0512-691381-85
 Fax : 0512-691393, 691985 & 691191

8. Members seeking any information with regard to Annual Accounts are requested to write to the Company at least one week in advance so as to enable the Company to keep information ready.
9. Shareholders, who wish to **nominate** a person, may furnish us required details in the prescribed Form.

INFORMATION UNDER CLAUSE 49 OF THE LISTING AGREEMENT REGARDING RE-APPOINTMENT OF DIRECTORS

Item No. 2

Mr. MRB Punja, aged 75 years is Ex-Chairman of IDBI and is a Director of the Company since 15th November, 1988 and Chairman since 16th May, 1989. He has vast experience of 50 years in finance, general corporate management and business.

Mr. Punja is Director of Adeep Auto P. Ltd., Adeep Autotech P. Ltd., Adeep Locks Ltd, Adeep Roloforms Ltd, Agrim Automach P. Ltd., Andhra Petrochemicals Ltd, Apollo Tyres Ltd., Chowgule Steamships Ltd, Deepak Nitrite Ltd., Delite Engineering P. Ltd., Gujarat Flourochemicals Ltd., Hindoostan Spg. & Wvg. Mills Ltd., Polychem Ltd., Seshasayee Paper & Boards Ltd., Suprajit Chemicals P. Ltd., Suprajit Engineering Ltd., Sushruta Medical Aid & Research Hospitals Ltd. and Tamil Nadu Petroproducts Ltd.

He is Chairman of (i) Audit Committees of LML Limited and Deepak Nitrite Ltd., (ii) Share Transfer and Shareholders / Investors' Grievance Committee of LML Limited. He is also member of Audit Committee of Hindoostan Spg. & Wvg. Mills Ltd. and Share Transfer Committee of Suprajit Engineering Ltd.

Item No. 3

Mr. L K Singhanian, aged 57 years is a Post Graduate and has wide experience of 38 years in cotton / synthetic yarns and two wheeler industry. He has widely travelled and is actively involved in day to day affairs of the Company since 27th September, 1988 as Deputy Managing Director and w.e.f. 28.03.1995 as Whole-time Director.

He is member of Share Transfer and Shareholders / Investors' Grievance Committee of LML Limited.

By Order of the Board of Directors

K C AGARWAL

*Executive Director (Comm.) &
 Company Secretary*

Place : New Delhi

Date : 26th June, 2001



MANAGEMENT DISCUSSION AND ANALYSIS

A) INDUSTRY OVERVIEW & MACRO ECONOMY

Opening up

India has irreversibly integrated itself into the global economy. During the short to medium term, the country may face certain difficulties till re-adjustments are accomplished socially and economically. Thereafter, benefit of growth and prosperity would be significant to the society and industry.

The two wheeler industry of India, the second largest in the world, produces virtually all types of two wheelers. The industry provides employment to millions of people, both directly and indirectly, and forms the vital backbone to address the needs of mobility of the nation with an estimated 37 million two wheelers currently on the Indian roads.

The Quantitative Restrictions (QR) on import of two wheelers have ceased, effective 1st April, 2001. Impact of duty structure announced by the Government for the two wheeler sector is approx. 116% (for new vehicles) and 177% (for second hand vehicles).

Budget 2001

Finance Minister has provided certain impetus to the automobile industry so that it can once again start to move. This is "welcome" since the automobile industry has a crucial role as the engine for industrial growth and it is seen worldwide as a barometer of a nation's economy.

Reduction of 8% in the rate of excise duty on vehicles with engine displacement above 75cc, together with the consequential effect of sales tax has brought in a significant price reduction in the ex-showroom prices of two wheelers in the market. This proactive action is expected to increase demand, and replacement buying may get improved. However, the state of macro-economy will really determine the overall health of the market.

Two-wheeler segment

As expected and also indicated in our previous year's analysis - Metal Bodied Geared Scooters (MBGS) continued facing a very severe and rapid decline in its share of the total two wheeler market, mainly attributable to (a) shift in consumer preference towards motorcycles and gearless scooters, and (b) general state of economy influencing the urban working class since MBGS are purchased and used essentially by these people. While LML recognized this trend quite early and took steps to enter into these segments, it could not do so on account of circumstances and events beyond its control.



The share of the two wheeler market between the four main categories of two wheelers has been as follows during the last 15 years :-

(Nos./Lacs)

Category	1985-86		1990-91		1995-96		1999-2000		2000-01	
	No.	% age	No.	% age	No.	% age	No.	% age	No.	% age
Geared Scooters (Metal Body)	4.60	39.32	8.35	46.20	10.79	40.59	9.73	25.80	6.22	16.60
Gearless Scooters (Plastic Body)	0	0	0.77	4.30	1.44	5.42	2.81	7.40	2.80	7.47
Motorcycles	2.60	22.22	4.68	25.90	8.09	30.44	17.97	47.60	21.56	57.56
Mopeds	4.50	38.46	4.26	23.60	6.26	23.55	7.26	19.20	6.88	18.37
Total	11.70	100.00	18.06	100.00	26.58	100.00	37.77	100.00	37.46	100.00

Source : SIAM and other secondary sources

Chart - 1 Market Scenario (1985-86)

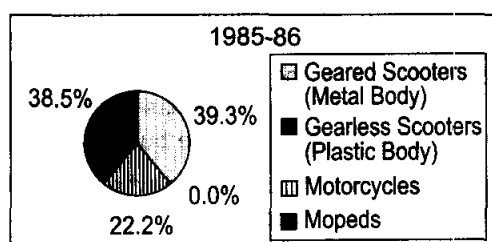
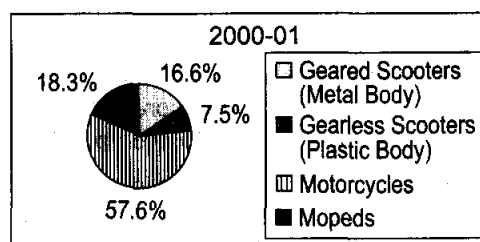


Chart - 2 Market Scenario (2000-01)



It is reasonably expected that the dominant two-wheeler category would continue to be motorcycles, and the growth would be led by it followed by gearless scooters, geared scooters, mopeds and step through.

During the two years the overall growth in the two wheeler market slackened due to the possible deferment of buying by the replacement category of customers. This would be largely on account of the general absence of the 'feel good' factor in the economy. This depression may create a significant surge in the demand with the turn-around in the economy in the period thereafter, and the industry could witness high growth rates much beyond the levels so far seen.

The probable inter-segment weightage distribution may show a scenario in next 5 years as follows :-

Category	2001-02 % age	2002-03 % age	2003-04 % age	2004-05 % age	2005-06 % age
Geared Scooters (Metal Body)	13.20	12.00	10.50	10.00	10.00
Gearless Scooters (Plastic Body)	12.31	13.50	14.50	16.00	16.50
Motorcycles	58.74	59.50	61.00	62.00	62.50
Mopeds	15.75	15.00	14.00	12.00	11.00
Total	100.00	100.00	100.00	100.00	100.00



Chart - 1 Market Scenario (2001-02)

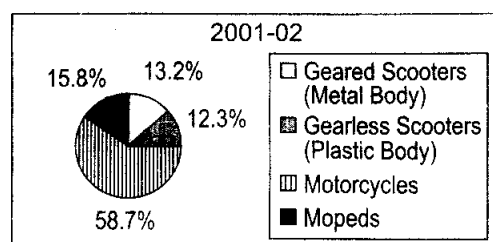
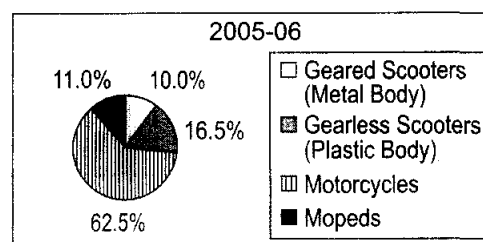


Chart - 2 Market Scenario (2005-06)



Considering the rationalization of excise duty structure in the last budget, we believe that the popular engine displacement of two wheelers (save and except mopeds) would be between, 100-175cc for motorcycles and 100-150cc for gearless and geared scooters.

B) OUR STRATEGY

Responding to consumer preferences

LML recognized and had foreseen the shift from MBGS in 1997 when it planned the manufacture of gearless scooters and motorcycles. The level of preparation and action which we were then able to take enable us now to execute the plans at a faster pace and thereby ensure that a full range of two wheelers are soon made available in the market. The Company has readjusted the vehicle readiness and introduction plan in a manner considered optimal for the business.

Renewed product profile will allow us to achieve a coverage of 84% of the two wheeler market, with about 75% of its production foreseen to be in 4 stroke technology. New product line uses contemporary technology and almost 95% indigenous inputs.

Technology, Research & Development

LML has created a good R&D set up for upgradation and development of two wheelers, sourcing need-based engineering assistance and technology in specified areas from external sources.

The Company's R&D facilities have been recognized by the Department of Science & Technology, Government of India. These comprise a CAD Centre, electronic data base for technical information and documentation, engine and vehicle dynamometers, rapid prototyping and test component production facilities, vehicle endurance testing rigs, emission lab and a modern Vehicle Testing Area (VTA). The VTA comprises contemporary facilities for measurement of acceleration, braking distance, speed, rolling friction etc., vehicle handling (on serpentine track), ground clearance, 'figure of eight', Belgium Pave, sinusoidal and speed brakers, water wading track, dust tunnel, gradient tracks etc.

The capability of the Company to develop more and more products in-house gives several advantages such as :-

- i) Significantly lower product development cost, both in terms of initial cost and recurring cost;
- ii) Better control of the deliverables; and



iii) Products developed are designed to Indian market and usage needs - ab-initio.

Significant number of vehicles / upgrades have been planned during the next three years using such efforts.

The Company supports and pursues the mission of a clean and green environment as a fundamental Corporate Philosophy. Company's products are emission compliant using catalytic converter technology on scooters and a four stroke engines on motorcycles. Our efforts also continue on new technology such as fuel injection, alternate fuels like LPG and electric powered vehicles. The commercial production of vehicles (employing such technologies) have so far been miniscule in the world but a number of manufacturers and companies are working on them. Prototype vehicles using LPG are under test apart from consumer tests on electric vehicles and a pre-feasibility study on fuel injection system.

Manufacturing flexibility & ISO & QS Certification

Manufacturing facilities recently set up and those which are being created provide flexibility to adjust the product mix according to the market movement - we had a mass manufacturing base for MBGS which had a coverage of 46.2% of the market in 1990-91 but reduced to 16.6% in the year 2000-01. The product line which is being implemented by the Company would enable it to achieve a product coverage of 84% during the next three years and the manufacturing facility would enable the Company to cope up with movements within the overall capacity of 5,50,000 vehicles per annum. Company's manufacturing facilities have recently received ISO-9002 Certification from DNV. Its electronic components manufacturing facilities which received the ISO-9001 Certification earlier has now received QS-14001 Certification.

Global sourcing

To achieve the twin objectives of reduction in cost and improvement in quality, the Company has commenced activity for global sourcing of components from countries like Japan, Taiwan, Korea and China. Some of the components (e.g. carburetors, disc brakes, timing chain, electric motors) are those where manufacturing facilities in India are either not available or have very long lead time for development, specific to our product designs, apart from higher costs.

Dealer network & E-proximity

Your Company's all India distribution network now extends to 381 dealers and 552 sub-dealers. Our spare parts distribution network comprises of 2496 wholesalers / retailers including dealers and sub-dealers. Our Dealer network is one of the most exclusive chains in India, popularly known as "LML WORLD". The network is being revamped and upgraded to enable the new range of vehicles to be displayed, retailed and serviced effectively. The upgradation of the dealer network is being done in respect of overall space of the showroom, workshop facilities, service technicians (trained by the Company) and with IT connectivity through V-SAT.

52 dealers have already been upgraded including those where V-SAT facilities have been installed and work is expected to be completed by next year. Concurrently with the upgradation, the Company would also take up the activity for ISO-9003 Certification of its dealers so that all procedures and systems are unified, and move on-line with its regional offices and central marketing and sales department located now at Kanpur.



C) EXPORT THRUST

The export market presents an excellent opportunity for certain category of vehicles, which we are making / contemplating to make. LML has its own global dealer network (with presence in 32 countries), and has achieved export performance of 10423 vehicles during the year under review.

Apart from being economically beneficial, exports bring to the Company the added advantage of constant awareness of what is happening in the two wheeler market in the world. The product plan of the Company takes the export thrust into account so that during product development and industrialization, we can try to achieve highest commonality in technology and component design.

Having received certification for our MBGS from TUV, Germany, we have since commenced exports to Europe. In spite of the fact that our present product line-up is very limited (both in terms of vehicles and engine displacement), we have still been able to achieve the distinction of becoming the largest exporter of MBGS in India. Overseas market has also witnessed a significant and substantial shift from metal body geared scooters to motorcycles and gearless scooters. It is our expectation that export income will contribute significantly after the arrival of the full product range to our export business during the coming years.

D) FINANCIAL PERFORMANCE

(Rs. in crores)

	2000-01	1999-2000
Gross Sales	628.2	729.4
Net Sales	513.4	589.7
Operating Profit	5.8	44.8
Operating Margin	1.1%	7.6%
Other Non-operating Income	9.5	9.9
Profit before Interest, Depreciation & Taxation	15.3	54.7
Interest	33.6	24.9
Cash Profit / (Loss)	(18.3)	29.8
Depreciation	23.0	22.8
Taxation	—	0.8
Net Profit / (Loss)	(41.3)	6.2

Adversities faced

The performance in the year (2000-01) was affected due to the virtual collapse in the MBGS category, which resulted in significant compression of our sale volumes and profits. The impact of interest and depreciation on account of the unutilized capacity of MBGS further aggravated the problem. We were also unable to pass on the full impact of cost increases due to market pressures in this