

P r o p e l l i n g t h e r u r a l r e v o l u t i o n



Mahindra & Mahindra Limited 55th Annual Report 2000-2001



Propelling the rural revolution

Tilling the land. Harvesting. Taking village produce to markets. Providing a reliable means of transport to millions of villagers, where roads may not exist. Creating avenues of income for the rural population - Mahindra's intense involvement and commitment to rural India is more than half a century old. With winds

of change blowing rapidly across the world, Mahindra is poised to introduce a range of new products and innovative services to help the rural consumer improve his life in many ways. After all, the real India lives in her villages. And rural prosperity is an integral part of the Mahindra vision.

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COMMITTEES OF THE BOARD

Audit Committee

Deepak S. Parekh
Chairman

S.K. Bhatnagar
R.K. Kulkarni
B.R. Gupta

Remuneration/Compensation Committee

Narayanan Vaghul
Chairman

Keshub Mahindra
Nadir B. Godrej
M.M. Murugappan

**Share Transfer and Shareholders/
Investors Grievance Committee**

Keshub Mahindra
Chairman

Anand G. Mahindra
R.K. Pitamber
Bharat Doshi
A.K. Nanda
R.K. Kulkarni

Loans & Investment Committee

Anand G. Mahindra

K.J. Davasia
Bharat Doshi
Alan E. Durante
A.K. Nanda
R.K. Kulkarni

Research & Development Committee

A.S. Ganguly
Chairman

Anand G. Mahindra
K.J. Davasia
Bharat Doshi
Alan E. Durante

MANAGEMENT BOARD

Anand G. Mahindra
Vice-Chairman & Managing Director

K.J. Davasia
President - Farm Equipment Sector

Bharat Doshi
President - Trade & Financial Services Sector

Alan E. Durante
President - Automotive Sector

A.K. Nanda
President - Infrastructure Development Sector

B.M. Kataria
President - Automotive Components Sector

Ulhas N. Yargop
President - Information Technology Sector

Uday Y. Phadke
Executive Vice President - Finance, Accounts & Legal Affairs

Anjanikumar Choudhari
Executive Vice President - Human Resources & Corporate Services

R.R. Krishnan
Managing Director, Mahindra Intertrade Limited

BOARD OF DIRECTORS

Keshub Mahindra
Chairman

Anand G. Mahindra
Vice-Chairman & Managing Director

R.K. Pitamber

Deepak S. Parekh

S.K. Bhatnagar

Nadir B. Godrej

M.M. Murugappan

Lewis W. K. Booth

Philip G. Spender
Alternate Director to Lewis W. K. Booth

Sanjiv Kapoor
Nominee of Unit Trust of India

B.R. Gupta
Nominee of Life Insurance Corporation of India

Narayanan Vaghul

A.S. Ganguly

R.K. Kulkarni

I.C. Jain
Nominee of ICICI Limited

Anupam Puri

K.J. Davasia
Executive Director

Bharat Doshi
Executive Director

Alan E. Durante
Executive Director

A.K. Nanda
Executive Director & Secretary

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Bankers:

- Bank of America N.T. & S.A. • Bank of Baroda
- Bank of India • Canara Bank • Central Bank of India • HDFC Bank Ltd. • Standard Chartered
- Grindlays Bank Ltd. • State Bank of India
- Union Bank of India

Registered Office:

Gateway Building, Apollo Bunder, Mumbai 400 001.

Auditors:

A.F. Ferguson & Co., Allahabad Bank Buildings,
Bombay Samachar Marg, Mumbai 400 001.

Branches:

- 7, Dr. Ishaque Road (Old KYD Street),
Kolkata 700016.
- Jeevan Deep Bldg., No. 8, Parliament Street,
New Delhi 110 001.
- Dhun Bldg., 827, Anna Salai, Chennai 600 002.
- Jagtap Park, 6E, Ramabhai Ambedkar Road,
Pune 411 001.

Advocates:

Ltade & Co., Central Bank Building, Mahatma
Gandhi Road, Mumbai 400 023.

The Changing Face of Rural India

Mahatma Gandhi said "India lives in her villages". Even today, 54 years after independence, seven out of ten Indians live in a village. However, the 21st century Indian village is a far cry from the rural India of Gandhiji's time. The "roti, kapda aur makaan" scenario is gradually giving way to a consumption boom, enabled by a significant reduction in the incidence of rural poverty. As recently as '94-'95, 61% of the rural population fell within the "low income or below" category. Today, that figure is down to 37%. By 2007, it is projected to fall to 20%. The converse figures are even more heart warming. A booming rural middle class is clearly emerging. In five years - between the mid-nineties and today - the rural middle class has grown by 17%. By 2004, 60% of the rural population will be in the middle class income bracket, and by 2007, it is expected that this percentage will be close to 73!

It is not surprising that this shift in rural prosperity manifests itself in higher aspirations and a changing lifestyle. The rural areas have seen a steady increase in the penetration of consumer durables like televisions, radios and wrist watches. Exposure to urban media is also creating a revolution of rising expectations. The National Council of Applied Economic Research, (NCAER) - a highly respected organisation, forecasts that by 2007 the consuming class in India will triple. With over 65% of India's total population in the villages, and 73% of this rural population having metamorphosed into the middle class, the prospects of catering to these rising expectations

are mind boggling. Rural India is a consumer explosion waiting to happen.

We, in M&M, see this as an unparalleled opportunity. We have walked hand in hand with rural India for the last 55 years - so much so that M&M and rural India have become almost synonymous terms. We have helped the villager to reach remote hamlets where there is no public transportation. We have been the farmer's friend, serving his transportation and income generation needs and becoming his partner in prosperity. We have witnessed and participated in his upward mobility through our involvement with the lives of generations of rural families. Examples are many. Like the Kad family of Haveli taluka in Pune district, Maharashtra. One of our oldest customers, "Appa" Baliba Kad and his brothers, started out in the early fifties with nothing but 3 acres of non-irrigated land, and a trusted Mahindra tractor. Today, the Kad brothers have 80 acres of land. Their sons are college graduates and run their own businesses. The family owns three M&M utility vehicles, motorcycles, a car, and of course, a series of Mahindra tractors. They are well and truly middle class. Like Ram Singh of Khairtal village in Alwar District, Rajasthan. Unable to afford anything else, he purchased a second hand Armada on hire purchase and started a people transport business. Within 6 months he returned and bought a new vehicle. In 3 years he has built up a fleet of five vehicles and earns a good income. Or take the case of the Reddy family of Ongole District in Andhra Pradesh, who have used Mahindra products for three generations, and have, over the years, bought



and used 50 Mahindra tractors! For them, M&M is a part of their family's past, present and future. Such stories can be duplicated from every corner of India.

Such a relationship is not born overnight. The trust and confidence of the rural consumer have been hard earned and are well deserved. That explains why, in spite of increasing competition, we continue to be market leaders, year after year. The secret of our success has always been respect for the rural customer and a desire to give him the best value. We have given him the best of R&D. Five years ago, we started preparing to give the Indian farmer a world class tractor. Today our latest offering - the Arjun - is performing as valiantly as the hero after whom it is named, beating the competition on all fronts. We have given the rural customer the best of marketing. Long before anyone else got excited about rural India, we recognised the power of the rural consumer. We revamped our dealerships to provide him with not only a product, but also better-than-urban standards of service. We provided rural credit to enable him afford the best. We went that extra mile to provide additional inputs like weather reports, demonstration farms and agricultural advice, which enhanced rural productivity.

We have even provided tractor driving courses for women! For more than half a century, we have not just sold products - we have grown a relationship.

That was the best investment we could have ever made. The rural customer has repaid us with his patronage, and, more importantly, with his trust and faith. M&M to him, symbolises a better life. Our products have become an integral part of his endeavours. They plough his fields. They transport his family. They take him to outposts where no roads exist. They haul his goods. They help earn his living. They carry guests to his celebrations - marriages, births and other joys. They take him on pilgrimage. They defend his borders. They enhance his income. They change the quality of his life. M&M brings him the best.

We are proud of this special relationship. We are energized by this trust. We are overjoyed to have been his partner in prosperity and his helpmate in climbing the economic ladder. And, as the rural consumer emigrates to the middle class, we will grow with him and become a bridge between him and the consumer revolution. The next decade will see M&M transforming into a window to the increasingly attractive world of rural India.

Directors' Report to the Shareholders

Your Directors present their Report together with the audited accounts of your Company for the year ended 31st March, 2001.

Financial Highlights

(Rs. in lakhs)

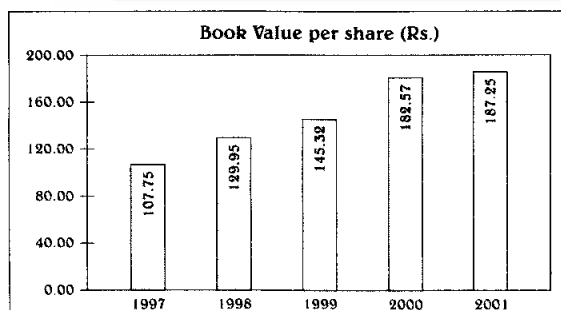
	2001	2000
Income	435290	440918
Profit before Depreciation, Interest, Provision for Contingencies, Extra-ordinary Items and Taxation	33726	55908
Less : Depreciation	14009	12327
Profit before Interest, Provision for Contingencies, Extra-ordinary Items and Taxation	19717	43581
Less : Interest (net)	6216	7463
Profit before Provision for Contingencies, Extra-ordinary Items and Taxation	13501	36118
Less : Provision for Contingencies	646	1428
Profit before Extra-ordinary Items and Taxation	12855	34690
Add : Extra-ordinary Items	-	358
Profit before Taxation	12855	35048
Less : Provision for Taxation	800	8700
Balance of profit for 2000-2001	12055	26348
Balance of profit for earlier years	30663	21787
Add : Investment Allowance Reserve Account written back	315	210
Profit available for appropriation	43033	48345
Less : Debenture Redemption Reserve	1426	937
General Reserve	1500	10000
Dividend paid for the previous year (Rs.0.18 lakhs ; previous year : Rs.0.23 lakhs)		
Income-tax on dividend paid (Rs.0.02 lakhs ; previous year : Rs.0.03 lakhs)		
Interim Dividend	-	6077
Income-tax on Interim Dividend	-	668
Proposed Dividend	6077	-
Income-tax on Proposed Dividend	620	-
Balance carried forward	33410	30663

Performance Review

The year under review has witnessed a general slowing down of the economy and a marked decline in demand emanating from rural markets. The Company has responded to the changing markets with several innovations in its products and by new offerings. The Company continues to be the market leader amongst both Tractor and Utility Vehicle manufacturers. The efforts to contain and curtail costs are on-going. In order to enhance its competitive position, the Company has implemented a number of initiatives targeted at quality improvement, value engineering, cost efficiency, customer relationship and retention, organisational efficiencies and leveraging of IT capabilities to streamline business processes.

The profit for the year before Depreciation, Interest, Provision for Contingencies, Extraordinary Items and Taxation was Rs.337.26 crores as against Rs.559.08 crores in the previous year. Profit after tax was Rs.120.55 crores as against Rs.263.48 crores in the previous year.

A detailed analysis of the Company's performance is contained in the Management Discussion and Analysis Report which forms part of this Annual Report.



Dividend

Despite the decline in profits, your Directors have decided to maintain the dividend at 55% (Rs.5.50 per share) as paid in the previous years. The dividend will absorb a sum of Rs.66.97 crores including tax on dividend (previous year Rs.67.45 crores including tax on dividend) and will be paid to eligible shareholders whose names stand registered in the books of the Company as on the book closure date.

Finance

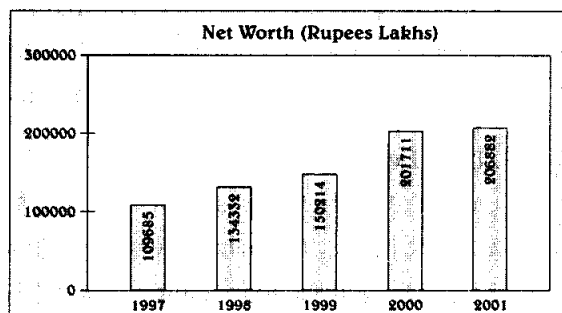
During the year under review, the Company raised an aggregate amount of Rs.200 crores by way of long term Debentures to meet the ongoing Capital expenditure, and for long term working capital and general corporate purposes, at competitive interest rates. Taking advantage of the prevalent low interest rates, the Company prepaid certain high cost loans and exercised the call option on certain high cost debentures, aggregating Rs.275 crores. The above measures have resulted in a significant reduction in the overall borrowing costs.

Fitch Ratings India Pvt. Ltd. (formerly DCR India) has reaffirmed the "Ind AAA" rating to the Company's outstanding Non-convertible Debentures aggregating Rs.350 crores. This is the highest rating assigned by Fitch Ratings India and indicates highest credit quality. Credit Rating Information Services of India Ltd. (CRISIL) has recently revised the credit rating assigned to the Company's outstanding Non-convertible Debentures aggregating Rs.620 crores to "AA+" from "AAA". The revised rating indicates high safety on timely payment of interest and principal.

Your Company enjoys the status of a Prime Customer with its consortium of banks who have extended facilities at Prime Lending Rates. During the year, the fund based working capital limits have been enhanced to Rs.400 crores. The Company now offers innovative channel financing products for its vendors at attractive rates of interest. The Company's IT based solutions for collections and payments has, during the year, been extended to additional centres/vendors.

Stock Options

Pursuant to the approval of the shareholders at the Annual General Meeting of the Company held on 31st July, 2000, the Board has approved of the issue and allotment of 55,24,219 equity shares of the face value of Rs.10 each to the Mahindra & Mahindra Employees' Stock Option Trust, who will hold the shares for the benefit of eligible employees, including the Directors of the Company and its subsidiaries and such other persons as may be prescribed. It is expected that the shares will be allotted shortly and that the first tranche of Options will be granted to eligible employees on the basis of recommendations made by the Remuneration/Compensation Committee.



Industrial Relations

Industrial relations have generally remained cordial throughout the year. The Management Discussion and Analysis gives an overview of the developments in Human Resources/Industrial Relations during the year.

Directors

Mr. Anand G. Mahindra has, in addition to his duties as Managing Director of the Company, been appointed Vice-Chairman of the Board at the Meeting of the Board of Directors held on 30th January, 2001.

Mr. Anupam Puri has been appointed as an Additional Director at the Meeting of the Board held on 30th January, 2001. He holds office up to the date of the ensuing Annual General Meeting. A notice has been duly received from a member proposing the candidature of Mr. Puri for the office of Director at the said meeting.

Mr. R. K. Pitamber, Dr. A. S. Ganguly, Mr. R. K. Kulkarni, Mr. Alan E. Durante and Mr. Bharat Doshi retire by rotation and, being eligible, offer themselves for re-appointment.

Directors' Responsibility Statement

In accordance with the provisions of section 217(2AA) of the Companies Act, 1956, your Directors confirm that :

- i) in the preparation of the annual accounts, the applicable accounting standards have been followed;
- ii) they have selected such accounting policies and applied them consistently and made judgements and estimates that are reasonable

and prudent so as to give a true and fair view of the state of affairs of the Company as at 31st March, 2001 and of the profit of the Company for the year ended on that date:

- iii) they have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
- iv) they have prepared the annual accounts on a going concern basis.

Subsidiary Companies

The following companies became subsidiaries of your Company during the year under review - Mahindra Consulting Inc., Mahindra Shubhlabh Services Limited, Mega One Stop Farm Services Limited, Mahindra Alternative Technologies Limited, Mahindra Eco Mobiles Limited, NBS International Private Limited and Mriyaguda Farm Solution Limited.

Subsequent to the year end Mahindra Infrastructure Developers Limited and Kota Farm Services Limited have become subsidiaries of your Company.

The audited statements of account of the Company's subsidiaries for the year ended 31st March, 2001 (period ended 30th September, 2000 in the case of Mahindra Gujarat Tractor Limited) together with the Reports of the Directors and the Auditors, as required under section 212 of the Companies Act, 1956, are attached.

There has been no change in the Company's shareholding in Mahindra Gujarat Tractor Limited (MGTL) between 30th September, 2000 (the end

of MGTL's financial year) and 31st March, 2001 (the end of the Company's financial year). No material change has occurred in respect of the fixed assets, investments, moneys lent and moneys borrowed otherwise than for meeting current liabilities, of MGTL between the aforementioned dates.

Auditors

Messrs. A.F. Ferguson & Co., Chartered Accountants, retire as auditors of the Company and have given their consent for re-appointment. The shareholders will be required to elect auditors for the current year and fix their remuneration.

As required under the provisions of section 224 of the Companies Act, 1956, the Company has obtained a written certificate from the above auditors proposed to be re-appointed to the effect that their re-appointment, if made, would be in conformity with the limits specified in the said section.

Since more than 25 per cent of the subscribed capital of the Company is held by the public financial institutions, the nationalised banks and the general insurance companies, the appointment or re-appointment of auditors is required to be made by a Special Resolution.

Fixed Deposits

Out of the total deposits of Rs.2113.45 lakhs from the public and shareholders as at 31st March, 2001, 383 deposits amounting to Rs.32.39 lakhs, which had matured, had not been claimed as at the end of the financial year. Since then, 27 of these deposits of the value of Rs.3.75 lakhs have been claimed.