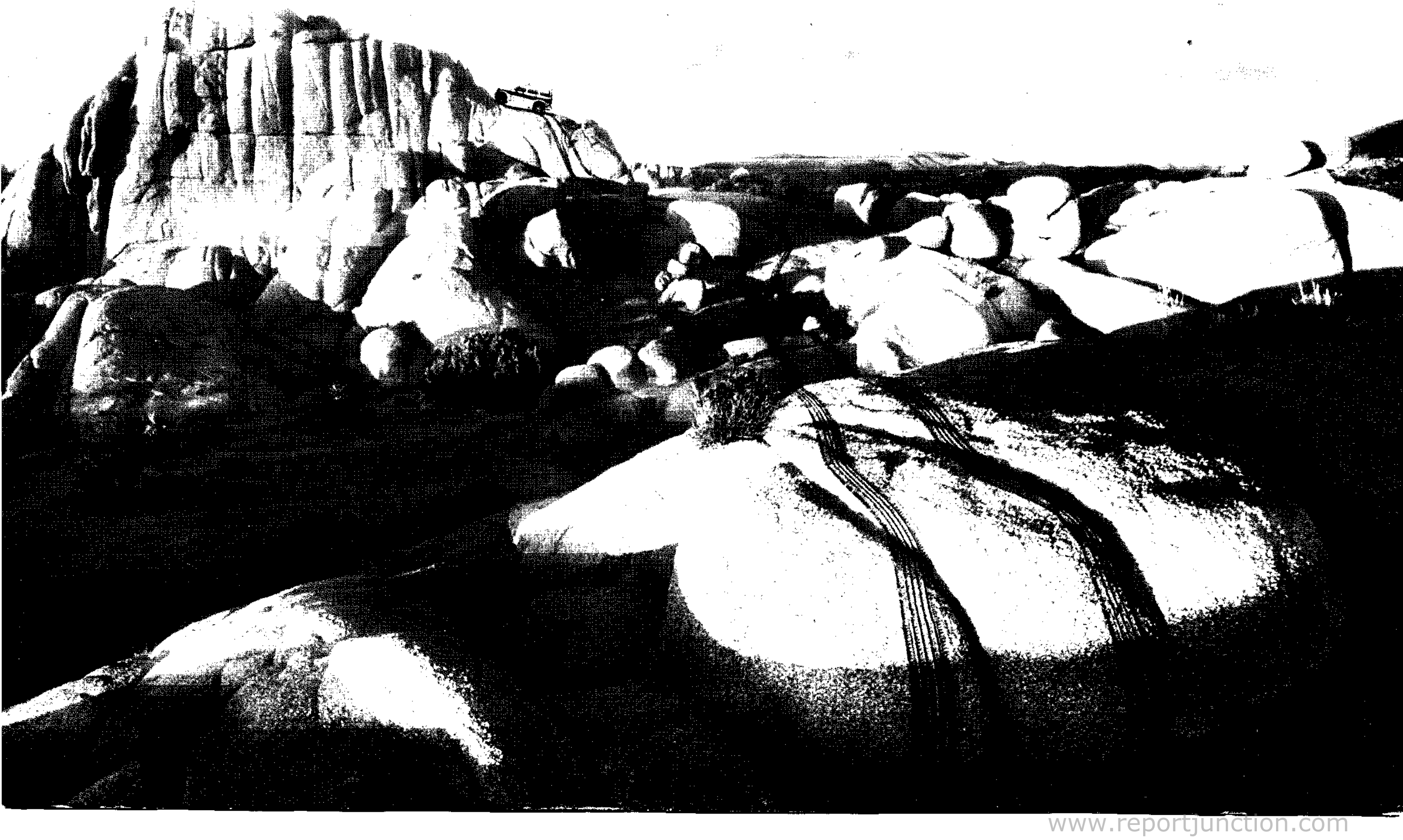
ANNUAL REPORT 2008-09

Overcoming the odds



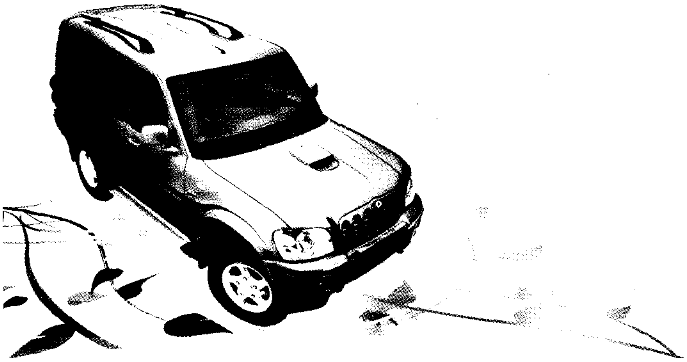
Mahindra

The world we live in today wasn't shaped by conventional thinking. Whether it was using a round object as a wheel or converting a grain of sand to power the technology of the future. Every leap in human evolution is a consequence of our ability to rethink the regular. Alternative Thinking is the fountainhead of progress, leadership and successful businesses.

Reduce • Reuse • Recycle • Renew • Regenerate • Replenish

RETHINK

At Mahindra we have embraced Alternative Thinking as a philosophy to ensure a sustainable business in step with pressing societal and environmental needs. We have been actively seeking and implementing alternative solutions that are inclusive, responsible and propel us forward. Be it creating vehicles that run on alternative fuel, developing alternative eco-friendly dwellings, supporting alternative routes that make healthcare accessible or creating an alternative reality for the girl child; we are active across the economic, environmental and social domains.



alternative

THE MAHINDRA APPROACH TO SUSTAINABILITY

To know more about how Mahindra is powering a future that runs on alternative thinking refer to page 68 & 69 of this Annual Report and visit www.mahindra.com/sustainability

It has been a long rough road over the last financial year. In 2008 the River Kosi changed its course. Hurricane Ike hit the US. There were floods in Assam, Bihar and Bangladesh. China experienced a massive earthquake. And seemingly in rhythm with these natural cataclysms, the world saw a cataclysm on Wall Street, the collapse of the mortgage market, respected banks failing, once mighty companies collapsing, and even governments teetering on the brink of bankruptcy. India was not exempt from the effects of this global upheaval and neither was M&M. In the face of such sweeping change, such serious uncertainty, how does a company cope?

We chose to treat the crisis as a 'Bardo' moment. In the words of a philosopher "Bardo is a Tibetan word meaning transition or a gap between the completion of one situation and the onset of another... One of the central characteristics of bardos is that they are periods of deep uncertainty...But if you look deeply at it you will see that its very nature creates gaps, spaces in which chances and opportunities for transformation are continuously flowering – if, that is, they can be seen and seized"

The description seemed eerily apt. We seemed to be at the end of a longish period of record profits and almost effortless growth. We were facing the onset of a new situation of economic slowdown, consumer cutbacks and deep uncertainty. A wide chasm yawned between the success of the past and the bleakness of the future. How could we "see and seize" the opportunity for transformation in this deeply unsettling Bardo moment? We decided that the path to seizing opportunity was threefold. We would Reboot, Reinvent and Reignite.

When our computers hang, all of us have learned to reboot them. To start again. To go back to fundamentals. Similarly, in M&M we spent much of the year rebooting, questioning everything we did and seeing if we could do it better cheaper or differently. There was a focus on reengineering costs and increasing free cash flow, which contributed to the creditable results we were able to declare at the end of the year.Next, we decided to leverage our talent for frugal engineering to reinvent ourselves in many ways large and small. At the macro end of the scale we concentrated on producing the Xylo, a product that gave such astounding features at such a reasonable price that it rendered the recession irrelevant. At the micro end we focused on grass roots innovation to do things better. To give just one example, the team implementing the new factory at Chakan was challenged to redesign pallets used in the factory to reduce the cost by half without compromising functionality. They succeeded in reducing costs not by 50% but by 65 %! And they improved the functionality as well. The ripple effects of these savings across factories and over the years will have an impact for a long long time. So opportunities for improvement and reinvention flowered in the time of crisis.

And finally we decided that a crisis was not a time to forget our dreams – rather it was a time to reignite them. So we held fast to our dreams and, at the height of the economic pessimism, launched the Xylo. It turned out to be a game changing move which revived the entire Indian automobile market. We held fast to our dreams and to our belief that a bardo moment always holds the seeds of opportunities which have to be seen and seized – and reaped the dividends.

We have learned that a crisis is calamitous only if it is wasted. Otherwise it is a blessing. As the cover picture shows, we have learned that we are capable of moving forward no matter how hard and rocky the road. We have learned that difficult terrain is not an obstacle to reaching for the summit. And we have learned that by rebooting, reinventing and reigniting our dreams we can steer our way to a brighter future.

COMMITTEES OF THE BOARD

Audit Committee

Deepak S. Parekh
Chairman
Nadir B. Godrej
M. M. Murugappan
R. K. Kulkarni

Share Transfer and Shareholders/ Investors Grievance Committee

Keshub Mahindra
Chairman
Anand G. Mahindra
Bharat Doshi
A. K. Nanda
R. K. Kulkarni

Remuneration/Compensation Committee

Narayanan Vaghul
Chairman
Keshub Mahindra
Nadir B. Godrej
M. M. Murugappan

Loans & Investment Committee

Keshub Mahindra
Chairman
Anand G. Mahindra
Bharat Doshi
A. K. Nanda
R. K. Kulkarni

Research & Development Committee

A. S. Ganguly
Chairman
Anand G. Mahindra
Nadir B. Godrej
M. M. Murugappan
Bharat Doshi

BOARD OF DIRECTORS

Keshub Mahindra
Chairman
Anand G. Mahindra
Vice-Chairman & Managing Director
Deepak S. Parekh
Nadir B. Godrej
M. M. Murugappan
Narayanan Vaghul
A. S. Ganguly
R. K. Kulkarni
Anupam Puri
Arun Kanti Dasgupta
Nominee of Life Insurance Corporation of India
Bharat Doshi
Executive Director
A. K. Nanda
Executive Director

GROUP MANAGEMENT BOARD

Anand G. Mahindra
Vice-Chairman & Managing Director
Bharat Doshi
Group Chief Financial Officer
A. K. Nanda
President - Infrastructure Development Sector
Anjanikumar Choudhari
President – Farm Equipment Sector
Rajeev Dubey
President – HR, After – Market & Corporate Services
Pawan Goenka
President – Automotive Sector
Hemant Luthra
President – Systems & Techonologies Sector
Anoop Mathur
President – Two-Wheeler Sector
Uday Y. Phadke
President - Finance, Legal and Financial Services Sector
Ulhas N. Yargop
President – Information Technology Sector

Narayan Shankar
Company Secretary

Contents

Bankers

Bank of America N.A.
Bank of Baroda
Bank of India
Canara Bank
Central Bank of India
HDFC Bank Limited
Standard Chartered Bank
State Bank of India
Union Bank of India

Auditors

Deloitte Haskins & Sells
12, Dr. Annie Besant Road, Opp. Shiv Sagar Estate,
Worli, Mumbai 400 018.

Advocates

Khaitan & Co., Meher Chambers,
R K Marg, Ballard Estate, Mumbai 400 001.

Registered Office

Gateway Building, Apollo Bunder, Mumbai 400 001.

Branches

7, Dr. Ishaque Road (Old KYD Street), Kolkata 700 016.
Mahindra Towers, 2-A Bhikaji Cama Place, New Delhi 110 066.
Mahindra Towers, First Floor, 17/18, Pattulous Road, Chennai 600 002.
Raheja Chambers, First Floor, 12, Museum Road, Bengaluru 560 001.

Directors' Report

Dear Shareholders

Your Directors present their Report together with the audited accounts of your Company for the year ended 31st March, 2009.

Financial Highlights

(Rs. in crores)

	2009	2008
Gross Income	14983	13238
Less: Excise Duty on Sales (Net)	1619	1566
Net Income	13364	11672
Profit before Depreciation, Interest, Exceptional items and Taxation	1363	1497
Less: Depreciation/Amortisation	292	239
Profit before Interest, Exceptional items and Taxation	1071	1258
Less: Interest (Net)	45	24
Profit before Exceptional items and Taxation	1026	1234
Add: Exceptional items	10	173
Profit before Taxation	1036	1407
Less: Provision for Tax – Current Tax (including Fringe Benefit Tax)	58	279
Less: Provision for Tax – Deferred Tax (Net)	141	25
Profit for the year	837	1103
Add: Profit of Mahindra Holdings & Finance Limited for the period 1st February, 2008 to 31st March, 2008	31	-
Balance of profit for the year	868	1103
Balance of profit for earlier years	2775	2125
Add: Amount transferred on Amalgamation of Mahindra Holdings & Finance Limited	160	-
Less: Transfer from Debenture Redemption Reserve	30	17
Profits available for appropriation	3773	3211
Less: Transfer to General Reserve	100	115
Credit of Income-tax on Proposed Dividend of Previous Year	(4)	-
Proposed Dividend	279	283
Income-tax on Proposed Dividend	33	38
Balance carried forward	3365	2775

The year under review was an extremely trying one. The market place witnessed unprecedented turbulence in the wake of the Global Financial meltdown. A runaway inflation touching a high point of 12% early in the year, the tight monetary policies followed by the authorities for most of the year to control inflation with the consequent high interest rates, the precipitous fall in the value of the Rupee by 26% during the year and weak consumer demand all led to an extremely challenging environment in which the Company had to operate. Despite these daunting conditions, the net income of the Company grew by 14.5% to 13,364 crores in the year under review from Rs.11,672 crores in the financial year 2008. However, the difficult global economic climate of the year exerted considerable pressure on the Company and the profit after tax for the current year was Rs.837 crores against Rs.1,103 crores for the previous year.

Dividend

Your Directors are pleased to recommend a dividend of Rs.10 per Equity Share, payable to those Shareholders whose names appear in the Register of Members as on the Book Closure Date. In recognition of the difficult economic climate in which the Company operated during the year, a small reduction is being made in the proposed dividend as compared to the dividend of Rs. 11.50 per Equity Share paid in the previous year. Also the proposed dividend will be paid on a slightly enlarged capital base of Rs.278.82 crores (as against Rs. 245.74 crores in the previous year). The equity dividend outgo for the financial year 2008-09, inclusive of tax on distributed profits (after reducing the tax on distributed profits of Rs.14.15 crores payable by the subsidiaries on the dividends receivable from them during the current financial year) would absorb a sum of Rs.312.06 crores (as against Rs.321.09 crores comprising the dividend of Rs.11.50 per Equity Share paid for the previous year).

Automotive Sector:

The global economic downturn and softening of growth in the Indian economy had an adverse impact on the Indian automotive industry due to strong linkages of the industry with the economy and the Company took corrective steps to align the Company's production to reduced demand accordingly.

A total of 1,81,842 vehicles and 43,278 three-wheelers were produced as against 2,00,132 vehicles and 34,556 three-wheelers in the last year. These include 8,723 light commercial vehicles (LCVs) and 14,404 cars (previous year 11,079 LCVs and 26,653 cars) manufactured and supplied to two of the Company's subsidiaries viz. Mahindra Navistar Automotives Limited (MNAL) and Mahindra Renault Private Limited (MRPL).

Your Company recorded total sales of 1,61,882 vehicles and 44,806 three-wheelers as compared to 1,61,001 vehicles and 34,076 three-wheelers in the previous year registering a growth of 0.5% and 31% in vehicle sales and three-wheeler sales respectively.

The domestic sales volume of 1,53,654 vehicles [includes 1,53,653 Multi Utility Vehicles (MUVs) and 1 LCV] was higher by 3.3% than the previous year's volume of 1,48,791 vehicles (includes 1,48,761 MUVs and 30 LCVs) and the domestic sales volume of 44,533 three-wheelers was higher by 31.3% than the previous year's volume of 33,927 three-wheelers. The Company's domestic MUV sales volume grew by 3.3% as against the industry MUV sales de-growth of 7.4%. In the process, your Company strengthened its dominant position in the domestic MUV segment by increasing its market share to 57.2% over the previous year's market share of 51.3% - the highest since fiscal 2000.

The Bolero Brand once again demonstrated its popularity by registering a significant growth over the previous year. It remains India's largest selling MUV brand for the fourth consecutive year.

The Company's exports were severely impacted by the global downturn. During the year under review, your Company exported 8,501 vehicles [including 693 LCVs sourced from MNAL and 273 three-wheelers] as compared to the exports of 12,359 vehicles [including 363 LCVs sourced from MNAL and 149 three-wheelers] in the financial year 2008 registering a de-growth of 31%.

Spare parts sales for the year stood at Rs.362.7 crores (Exports Rs.27 crores) as compared to Rs.388.3 crores (Exports Rs.39.9 crores) in the previous year.

Farm Equipment Sector:

The financial year ending March, 2009 saw the merger of erstwhile Punjab Tractors Limited (PTL) with your Company, with effect from 1st August, 2008, the Appointed Date of the merger. The merger became effective from 16th February, 2009 and from the said date it operates as a part of the Farm Equipment Sector of your Company, as its Swaraj Division. Therefore, the current year business figures of your Company include PTL's financials for the period from 1st August, 2008 to 15th February, 2009. During the year under review, your Company achieved a production of 1,19,098 tractors compared to 98,917 tractors in the previous year. In addition, 52,131 engines were produced for Mahindra Powerol Brand compared to 32,072 engines last year. Following the merger, the two tractor manufacturing plants of the erstwhile PTL at Mohali and Chappercheri along with its foundry facility at Sialba Majri, near Mohali, stands added to the existing tractor manufacturing plants of your Company at Rudrapur, Nagpur, Kandivali and Jaipur.

For the financial year ending on March, 2009, your Company recorded sales of 1,20,202 tractors as against

99,042 tractors sold in the previous year. This included domestic tractor sales of 1,13,269 tractors as compared to domestic sales of 90,509 tractors in the previous year, recording a growth of 25.1%. This performance should be considered against the backdrop of an almost flat industry (+0.6%), faced with the impact of: a) liquidity crunch following the global economic crisis b) stringent lending norms for farm loans due to higher NPA's and c) high interest rates prevalent throughout the year. The sharp rise in raw material prices in the first half of the year and the consequent price increases by all tractor manufacturers' also impacted demand.

As a result of the merger of the erstwhile PTL, your Company has firmly established its dominance in the Indian tractor industry, ending the financial year 2009 with a market share of 40.8%, compared to a market share of 29.8% in the previous financial year. This is the 26th consecutive year of leadership in the Indian tractor industry.

The global economic crisis and the subsequent impact on economies across the globe, including adverse changes in some international currencies had a negative impact on exports from India, including tractors. As a result, this year your Company exported 6,933 tractors, registering a de-growth of 19%, as compared to 8,533 tractors exported last year.

In the farm mechanisation space beyond tractors, your Company sells farm implements and other equipments. The Swaraj Division Plant at Chappercheri is an established manufacturer of harvester combines in the organised Sector in India.

Beyond the Agri space, under the Mahindra Powerol Brand, your Company sold 52,350 engines and gensets in this financial year, as against 31,922 engines and gensets last year - a growth of 64%. With this performance, your Company retained its leadership position in the genset market catering to the telecom space, while strengthening its presence in the retail segment.

Mahindra Defence Systems Division (MDS):

With the opening up of the Defence Sector for Private Sector participation in February, 2001, your Company constituted a separate Division viz. MDS to pursue a wide range of Defence Sector activities.

Your Company provides world class armouring solutions for light combat vehicles and Sports Utility Vehicles (SUVs) as well as high mobility vehicles for defence, police and paramilitary use.

During the financial year 2009, your Company has commenced operations at the newly commissioned Mahindra Special Military Vehicles ("MSMV") facility at Prithla, near Faridabad in Haryana. This is the first such dedicated defence vehicle facility in the private sector in India and is designed to provide up-armoured and high mobility vehicles to the armed forces, police and para-military forces. Currently, the Plant has an annual capacity of 500 such vehicles and during the financial year 2010 this capability is likely to be expanded further.

In its endeavor to continuously offer technologically better and a wider range of products to the defence forces, your Company has established a Product Development Centre at MSMV. Based on work carried out in the Product Development Centre, product improvements have been effected in the Bullet Proof Scorpio and Rakshak. The Product Development Centre has carried out development of the AXE high mobility vehicle, Marksman and Light Bullet Proof Vehicle based on the specifications of various Government customers. These products have been procured by all the State Governments who are facing problems of insurgency and militancy.

Currently, MDS is engaged in two lines of Defence Businesses (a) Land Systems and (b) Naval Systems.

Your Company through MDS has obtained licenses from the Government of India to manufacture a wide range of products which include light armored vehicles, weapon effect simulators, platforms for surveillance sensors and sea mines for the Navy. Through these initiatives, your Company has positioned itself to play a major role in the Indian Defence Sector for the manufacture and integration of weapon systems and platforms. Your Company has been exploring opportunities for partnerships with companies equipped with globally proven high end defence technologies and willing to invest in India on a long term basis.

With this objective, your Company is evaluating various options and identifying possibilities for forming separate joint ventures/alliances with strategic partners for carrying on both the Land Systems and Naval Systems Businesses respectively. Accordingly, your Company had proposed to transfer Land Systems and Naval Systems Businesses of MDS together with congeries of rights of the Company in such businesses, to two separate subsidiaries of the Company. In terms of section 293(1)(a) of the Companies Act, 1956 ("the Act") and in terms of section 192A of the Act read with Clause 4(f) of the Companies (Passing of the Resolution by Postal Ballot) Rules, 2001, approval of the Shareholders was obtained by means of a Postal Ballot. Currently, the Company is in the process of transferring these Businesses into two separate subsidiaries.

Profits:

The Profit for the year before Depreciation, Interest, Exceptional items and Taxation was Rs.1,362.97 crores as against Rs.1,496.94 crores in the previous year, a decline of 8.95%. Profit after tax after considering the profits earned by the erstwhile Mahindra Holdings & Finance Limited for the period 1st February, 2008 to 31st March, 2008 was Rs.867.51 crores as against Rs.1,103.37 crores in the previous year, a decline of 21.38%. Your Company continues with its rigorous cost restructuring exercises and efficiency improvements which have resulted in significant savings through continuous focus on cost controls, process efficiencies and product innovations that exceed customer expectations in almost all areas thereby enabling the Company to take full advantage of the recovery in the economy, as and when it happens.

Management Discussion and Analysis Report

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

Corporate Governance

Your Company is committed to transparency in all its dealings and places high emphasis on business ethics. During the year, your Company received the National Award for Excellence in Corporate Governance from The Institute of Company Secretaries of India, highlighting the good Corporate Governance systems and practices adhered to by the Company. During the year, CRISIL has re-affirmed the highest level rating, (Level 1) for Governance and Value Creation for the third year in a row. This rating indicates that the capability of the Company with respect to wealth creation for all its stakeholders while adopting strong Corporate Governance practices is the highest. A Report on Corporate Governance along with a Certificate from the Statutory Auditors of the Company regarding the compliance of conditions of Corporate Governance as stipulated under Clause 49 of the Listing Agreement forms part of the Annual Report.

Issue of Shares upon Amalgamations

During the year, two subsidiaries of the Company viz. erstwhile Mahindra Holdings & Finance Limited (MHFL) and erstwhile Punjab Tractors Limited (PTL) got amalgamated with the Company; the details whereof are given elsewhere in this Report.

Pursuant to the Scheme of Amalgamation of MHFL with Mahindra and Mahindra Limited and their respective

Shareholders (MHFL – M&M Scheme), 5,13,10,208 equity shares held by the Company in MHFL stood vested in the Trustees of the M&M Benefit Trust. Upon the MHFL – M&M Scheme becoming effective, 1,28,27,552 Ordinary (Equity) Shares of Rs.10 each of the Company were allotted to the Trustees of M&M Benefit Trust in the Share Exchange Ratio of 1 Ordinary (Equity) Share of Rs.10 each fully paid-up in the capital of the Company in respect of every 4 equity shares of Rs.10 each fully paid-up in the equity share capital of the erstwhile MHFL on the Effective Date.

Pursuant to the Scheme of Amalgamation of PTL with Mahindra and Mahindra Limited and their respective Shareholders (PTL – M&M Scheme), all the equity shares held by the Company in PTL vested in the Trustees of the M&M Benefit Trust. Subsequently, upon the PTL – M&M Scheme becoming effective:

a) 2,02,45,395 Ordinary (Equity) Shares of Rs.10 each of the Company were allotted to the Shareholders of the erstwhile PTL whose names appeared in the Register of Members as on 4th March, 2009, being the Record Date fixed for this purpose, in the Share Exchange Ratio of 1 Ordinary (Equity) Share of Rs.10 each fully paid-up in the capital of the Company in respect of every 3 equity shares of Rs.10 each fully paid-up in the equity share capital of the erstwhile PTL, and

b) 6,505 Ordinary (Equity) Shares of Rs.10 each of the Company were allotted to the Trustees of M&M Fractional Entitlements Trust set up pursuant to the Scheme, against 19,515 equity shares of Rs.10 each fully paid-up in the equity share capital of the erstwhile PTL being the aggregate of all the fractional entitlements of various Shareholders of the erstwhile PTL.

Upon both the MHFL – M&M Scheme and the PTL – M&M Scheme becoming effective, the issued, subscribed and paid-up Share Capital of the Company post allotment of Shares as aforesaid stands at Rs.278.82 crores comprising of 27,88,21,265 Ordinary (Equity) Shares of Rs.10 each fully paid-up and the Authorised Share Capital of the Company stands at Rs.625 crores comprising of 60,00,00,000 Ordinary (Equity) Shares of Rs.10 each and 25,00,000 Unclassified Shares of Rs.100 each.

Finance

The financial year 2009 has been a very challenging year for corporates in the wake of the unprecedented global financial crisis. The financial markets world wide faced massive falls in equity values, collapse of fixed income markets, liquidity crunch and huge foreign exchange fluctuations. All Banks resorted to credit freeze which was a major action that posed a major challenge to operations of companies. Inspite of it being a very tough year for all the companies across the globe and in India, your Company has successfully managed its cash flows efficiently and preserved its credit lines to maintain a comfortable liquidity position. The Bankers continue to rate your Company as a prime customer and extend facilities/services at prime rates.

During the year, your Company has successfully accessed both domestic and overseas capital markets with diverse instruments, maturities and interest rates to part finance its requirements.

In the domestic market, your Company raised Rs.400 crores by way of private placement of Secured, Non-Convertible Redeemable Debentures ("NCDs") with an average maturity of 6 years. Your Company managed to raise the NCDs at highly competitive rates inspite of there being a severe credit freeze and liquidity crunch in the market. ICRA Limited has assigned a "LAA+" rating to these NCDs indicating high credit quality.

In the last year's Directors Report, details were mentioned about the Company's successful offering of Rs.700 crores comprising of 93,95,974 Unsecured Fully and Compulsorily