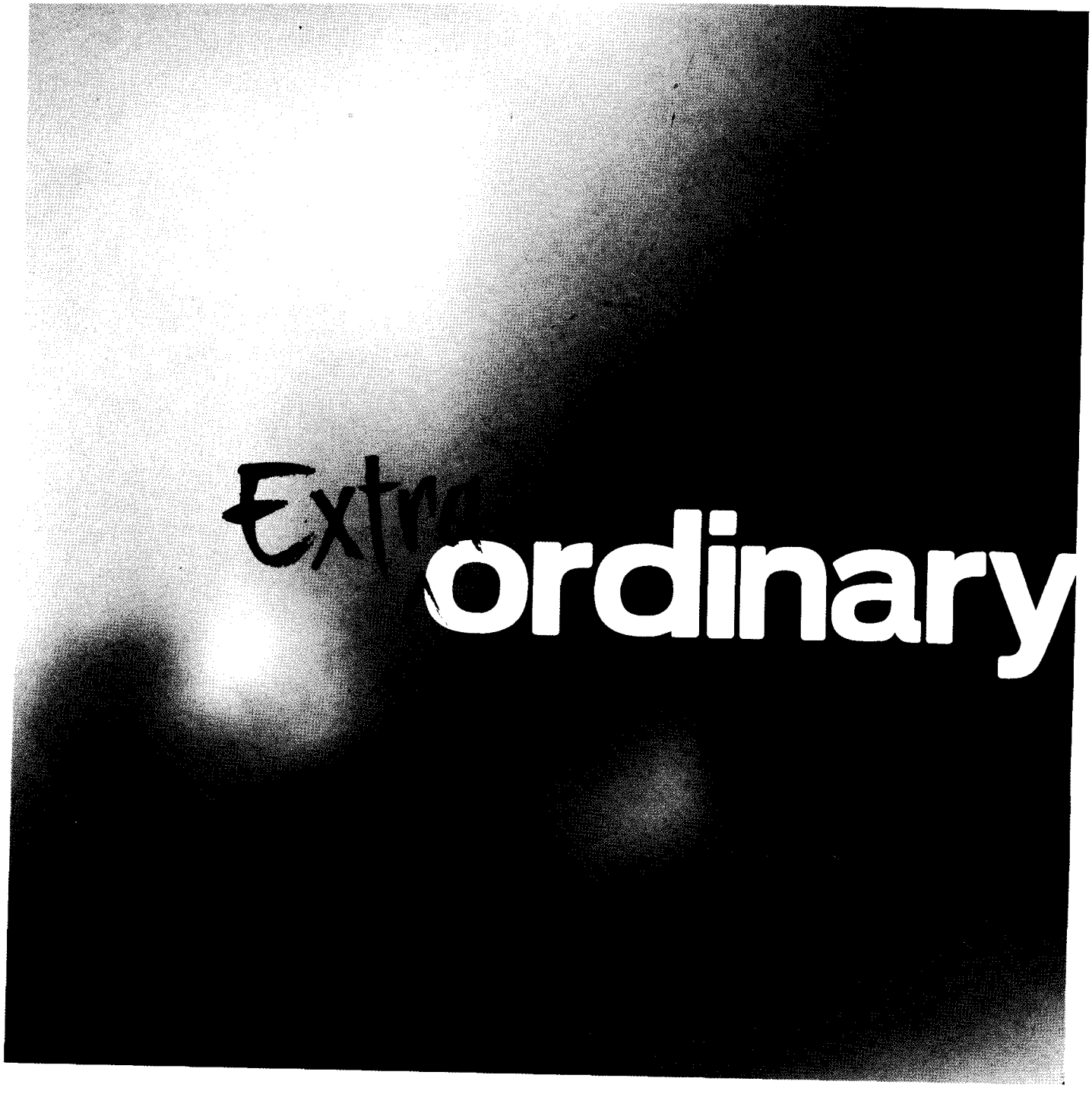


Mahindra

ANNUAL REPORT 2009-10

Mahindra



A DIFFERENT POINT OF VIEW MAKES ALL THE DIFFERENCE

Along with the climate, business environment too has changed. Environmental limitations and societal expectations have ushered in new risks and new avenues for revenue. Economic profitability is a necessary but not a sufficient condition for sustainable growth. Long-term shareholder value creation demands a different and a more holistic alternative path. It demands a shift in focus from a single bottom-line to a triple bottom-line.

At Mahindra, through Alternative Thinking, we are mainstreaming sustainability into our business strategy. The year witnessed accelerated adoption and the articulation of group and individual business sustainability roadmaps.

Alternative Thinking is a value driver through which we aim to create multiple pathways for increasing shareholder value. It is helping us reinforce reputation, enhance brand equity, strengthen strategic relationships, grow human and intellectual capital and propel innovation.

In a nutshell, Alternative Thinking is not just transforming the way we look at the world around us, but also the way the world looks at us.

alternative THINKING

THE MAHINDRA APPROACH TO SUSTAINABILITY

To know more about Mahindra and Sustainability, kindly refer to the 'Accelerating Sustainability' double spread in this report and visit www.mahindra.com

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
A. K. Nanda
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

Narayan Shankar
Company Secretary

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.,
One Indiabulls Centre,
13th Floor, 841, Senapati Bapat Marg,
Elphinstone Road, Mumbai 400 013.

Registered Office

Gateway Building, Apollo Bunder, Mumbai 400 001.

GROUP EXECUTIVE BOARD

Anand G. Mahindra
Vice-Chairman & Managing Director

Bharat Doshi
Executive Director and Group Chief Financial Officer

Rajeev Dubey
President (HR, After-Market & Corporate Services)

Pawan Goenka
President (Automotive & Farm Equipment Sectors)

Hemant Luthra
President (Systems & Technologies Sector)

Anoop Mathur
President (Two-Wheeler Sector)

Uday Y. Phadke
President (Finance, Legal & Financial Services Sector)

Ulhas N. Yargop
President (Information Technology Sector)

Anita Arjundas
Managing Director - Mahindra Lifespace Developers Limited & CEO Real Estate Sector

Zhooben Bhiwandiwala
Executive Vice President & Managing Partner, Mahindra Partners

C. P. Gurnani
Chief Executive Officer - Mahindra Satyam

Ruzbeh Irani
Executive Vice President - Corporate Strategy & Chief Brand Officer

Ramesh Iyer
Managing Director - Mahindra & Mahindra Financial Services Limited

Rajesh Jejurikar
Chief Executive - Automotive Division (Automotive Sector)

Sanjay Kalra
Chief Executive Officer - Tech Mahindra Limited

Harsh Kumar
Managing Director - Mahindra Intertrade Limited

Romesh Kaul
Global Chief Executive Officer - Gears Business, Systech Sector

Bishwambhar Mishra
Chief Executive Officer - Swaraj Division (Farm Equipment Sector)

Gautam Nagwekar
Chief Executive - Mahindra Division (Farm Equipment Sector)

V. S. Parthasarathy
Executive Vice President - Finance, M&A and Group CIO

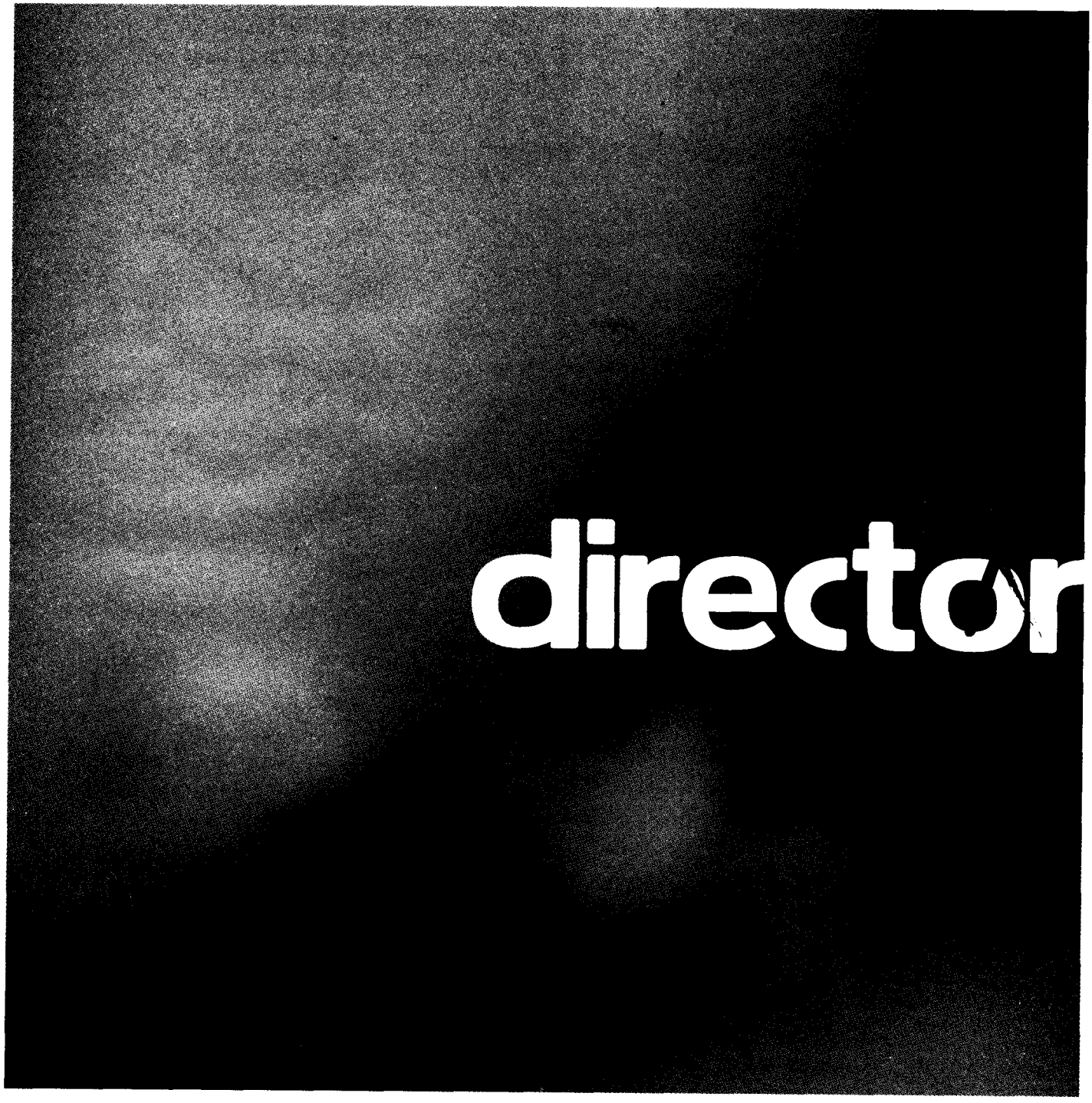
Ramesh Ramanathan
Managing Director - Mahindra Holidays & Resorts India Limited & CEO Hospitality Sector

Pravin Shah
Chief Executive - International Operations (Automotive & Farm Equipment Sectors)

Rajan Wadhera
Chief Executive - Technology, Product Development and Sourcing (Automotive & Farm Equipment Sectors)

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Mahindra

DIRECTORS' REPORT

Directors' Report

Dear Shareholders

Your Directors present their Report together with the audited accounts of your Company for the year ended 31st March, 2010.

Financial Highlights

(Rs. in crores)

	2010	2009
Gross Income	20595	14983
Less: Excise Duty on Sales	1794	1619
Net Income	18801	13364
Profit before Depreciation, Interest, Exceptional items and Taxation	3155	1363
Less: Depreciation/Amortisation	371	292
Profit before Interest, Exceptional items and Taxation	2784	1071
Less: Interest (Net)	28	45
Profit before Exceptional items and Taxation	2756	1026
Add: Exceptional items	91	10
Profit before Taxation	2847	1036
Less: Provision for Tax - Current Tax (including Fringe Benefit Tax)	749	58
Less: Provision for Tax - Deferred Tax (Net)	10	141
Profit for the year	2088	837
Add: Profit of Mahindra Holdings & Finance Limited for the period 1st February, 2008 to 31st March, 2008	-	31
Balance of profit for the year	2088	868
Balance of profit for earlier years	3365	2775
Add: Amount transferred on Amalgamation of Mahindra Holdings & Finance Limited	-	160
Less: Transfer to Debenture Redemption Reserve	31	30
Profits available for appropriation	5422	3773
Less: General Reserve	210	100
Credit of Income-tax on Proposed Dividend of previous year	-	(4)
Proposed Dividends	550	279
Income-tax on Proposed Dividends	74	33
Balance carried forward	4588	3365

Inspite of the global financial crisis, India's economic growth is steadily gaining momentum, led by a very encouraging re-bound in industrial activity during the year. The sharp increase in consumer durables and capital goods production this fiscal is particularly heartening as it indicates strengthening consumer and business confidence in the country.

Agricultural GDP however, witnessed a decline this year due to the severe drought experienced during the kharif season. Food prices as a consequence, rose alarmingly and food inflation in India has leapfrogged to challenging levels.

In these challenging times, the Automotive and Farm Divisions of your Company have clocked one of their best performances reflecting in substantial growth in the net income of the Company by 40.7% to Rs.18,801 crores in the year under review from Rs.13,364 crores in the Financial Year 2009. Consequent to this commendable performance, the profit after tax of the Company for the current year was Rs.2,088 crores as against Rs.837 crores for the previous year.

Profits

The Profit for the year before Depreciation, Interest, Exceptional items and Taxation was Rs.3,154.59 crores as against Rs.1,362.97 crores in the previous year, an increase of 131.45%. Profit after tax was Rs.2,087.75 crores as against Rs.836.78 crores in the previous year clocking an increase of 149.50%. Your Company continues with its rigorous cost restructuring exercises and efficiency improvements which have resulted in significant savings through value engineering, economising, optimisation of plant capacity utilisation and cost competitiveness in almost

all areas thereby enabling the Company to take full advantage of the recovery in the economy.

Dividend

Your Directors are pleased to recommend a dividend of Rs.8.75 per Ordinary (Equity) Share and also a Special Dividend of Rs.0.75 per Ordinary (Equity) Share aggregating Rs.9.50 per Ordinary (Equity) Share of the face value of Rs.5 each, payable to those Shareholders whose names appear in the Register of Members as on the Book Closure Date. The Special Dividend is being recommended in the light of the very successful listing of Mahindra Holidays & Resorts India Limited Equity Shares on the Stock Exchanges. In recognition of the impressive performance of the Company, a substantial increase is being made in the proposed dividend as compared to the dividend of Rs.10 per Equity Share paid in the previous year. Also the proposed dividend will be paid on a slightly enlarged capital base of Rs.289.21 crores (as against Rs.278.82 crores in the previous year). The equity dividend outgo for the Financial Year 2009-10, inclusive of tax on distributed profits (after reducing the tax on distributed profits of Rs.17.04 crores payable by the subsidiaries on the dividends receivable from them during the current Financial Year) would absorb a sum of Rs.623.75 crores (as against Rs.312.06 crores comprising the dividend of Rs.10 per Equity Share of Rs.10 each paid for the previous year).

Automotive Division:

Your Company recorded total sales of 2,36,759 vehicles and 45,360 three-wheelers as compared to 1,61,882 vehicles and 44,806 three-wheelers in the previous year registering a growth of 46.3% and 1.2% in vehicles sales and three-wheeler sales respectively.

On the domestic sales front, your Company sold 2,27,114 vehicles [includes 2,14,128 Multi Utility Vehicles (MUVs), 3,722 small 4 wheelers 0.75 Ton cargo and 9,264 mini 4 wheelers 0.5 Ton cargo] registering a growth of 47.8% over the previous year's volume of 1,53,654 vehicles [includes 1,53,653 MUVs and 1 Light Commercial Vehicle ("LCV")]. The domestic sales volume of 44,438 three-wheelers was lower by 0.2% as compared to the previous year's volume of 44,533 three-wheelers.

The Company's domestic MUV sales volumes grew by 39.4% as against the industry MUV sales growth of 26%. The Company strengthened its dominant position in the domestic MUV segment by increasing its market share to 63.3% over the previous year's market share of 57.2%.

Xylo, which was launched in January, 2009 has been very well accepted in the market. A total of 27,978 Xylos were sold in the year under review.

In a very competitive small 4-wheeler cargo segment (0.75 Ton), your Company has launched the Maxximo, a small 4 wheeler cargo vehicle, with 2-cylinder common rail engine, in February, 2010. In the 0.5 Ton Truck load segment, your Company launched a compact Truck – Gio.

In the Overseas market, despite difficult economic conditions, your Company registered superior growth. During the year under review, your Company sold 10,567 vehicles [including 1,323 vehicles sourced from Mahindra Navistar Automotives Limited ("MNAL") and 922 three-wheelers] in the Overseas market as compared to 8,501 vehicles [including 693 vehicles sourced from MNAL and 273 three-wheelers] in the previous year registering a growth of 24.3%.

Spare parts sales for the year stood at Rs. 514.96 crores (including Exports of Rs. 22.4 crores) as compared to Rs. 362.75 crores (including Exports of Rs.27 crores) in the previous year, registering a growth of 42%.

Farm Division:

Your Company's Farm Division recorded sales of 1,75,196 tractors as against 1,20,202 tractors sold in the previous year, recording a significant growth of 45.8%. For the

previous year figures, the Company has taken into consideration, the merger of Punjab Tractors Limited with your Company, the appointed date of which was 1st August, 2008.

After 3 years of plateauing of the domestic tractor industry and despite one of the worst South-West monsoons, this year saw a strong resurgence with the domestic industry clocking sales of 4,00,203 tractors registering a growth of 31.7% over the last year. Your Company outperformed the industry with domestic sales of 1,66,359 tractors, a growth of 46.9% as compared to 1,13,269 tractors sold in the previous year. This has also helped gain market share which now stands at 41.4% as compared to 40.8% in the previous Financial Year, thus completing 27 years of leadership in the Indian tractor industry.

With the slow recovery in international markets, especially in the US, tractor industry exports from India continued to be under strain. In contrast, your Company's exports grew 27.5% to reach 8,837 tractors as compared to 6,933 tractors exported in the previous year.

Beyond Agriculture, in the Powergen space under the Mahindra Powerol Brand, your Company sold 48,011 engines in this Financial Year, as against 52,350 engines in the previous year. 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):

Your Company, through Mahindra Defence Systems (MDS) Operating Group, is engaged in three defence related businesses – a) Land Systems b) Naval Systems and c) Mahindra Special Services Group ("MSSG").

In the Land Systems business, your Company provides armouring solutions for light combat vehicles and SUVs as well as high mobility vehicles for defence, police and paramilitary use. Pursuant to an approval accorded by the Shareholders by way of Postal Ballot on 4th April, 2009 this business has been hived-off into a wholly owned subsidiary (Mahindra Defence Land Systems Private Limited – now rechristened as Defence Land Systems India Private Limited) with effect from 1st July, 2009. Your Company has further signed a Joint Venture Agreement on 30th November, 2009 with BAE Systems Plc. to form a 74:26 Joint Venture for defence land systems products. Once this Joint Venture is operational, it would further expand its product base to include manufacture of artillery products and combat vehicles in technical assistance with BAE Systems Plc.

In the Naval Systems business, your Company currently manufactures Sea Mines, Decoy Launchers and composites for various naval and other applications.

In the Special Services Group business, your Company provides corporate risk management consultancy services and assists organisations in maintaining their competitive edge by protecting Information, Physical and Personnel assets through implementing the security strategy encompassing people, process and technology. MSSG has been integrated with the MDS Operating Group from 1st April, 2009 in order to synergise the efficiencies with other businesses of MDS. During the year, this business has expanded to Northern and Southern India as well as some international markets.

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. Your Company received the Best Governed Company 2009 Award from the Indian Merchants Chamber and the Asian Centre for Corporate Governance and Sustainability. During the year, CRISIL has re-affirmed the highest level rating, (Level 1) for Governance and Value Creation for the fourth

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.

Share Capital

Increase in Share Capital

During the year under review, your Company allotted:

1) 10,00,000 Ordinary (Equity) Shares of Rs.10 each to the Trustees of Mahindra & Mahindra Employees' Stock Option Trust; and
2) 93,95,974 Ordinary (Equity) Shares of Rs.10 each to Golboot Holdings Limited upon compulsory conversion of 93,95,974 Fully and Compulsorily Convertible Debentures.

Sub-division ("Stock-split") of Face Value of Equity Shares

Pursuant to the approval received from the Members of the Company by way of Postal Ballot on 11th March, 2010, your Company has on 31st March, 2010, upon sub-division, issued 2 (Two) Ordinary (Equity) Shares of Rs.5 each fully paid-up in the Equity Share Capital of the Company for every 1 (One) Ordinary (Equity) Share of the face value of Rs.10 fully paid-up held by the Members in the Equity Share Capital of the Company as on the Record Date i.e. 30th March, 2010.

Post allotment of Equity Shares and sub-division of Equity Shares as aforesaid, the issued, subscribed and paid-up Share Capital of the Company stands at Rs.289.21 crores comprising of 57,84,34,478 Ordinary (Equity) Shares of Rs.5 each fully paid-up and the Authorised Share Capital of the Company stands at Rs.625 crores comprising of 1,20,00,00,000 Ordinary (Equity) Shares of Rs.5 each and 25,00,000 Unclassified Shares of Rs.100 each.

Consequent to the Stock-split, a new International Securities Identification Number (ISIN) INE101A01026 has been created by the Depositories for the Company's Equity Shares of the face value of Rs.5 each.

Finance

Despite prolonged global challenges, the Indian economy showed signs of recovery in most of the Sectors in the Financial Year 2009-10. The risk appetite returned to financial markets as equities and debt raising gained momentum on the back of abundant liquidity. Even though things looked to be on an upswing, Corporates still faced the task of sustaining growth amidst volatilities as well as surging inflation.

During the year, keeping in mind the volatile times, your Company continued to focus on managing cash efficiently. Even while financing its ongoing modernisation and growth initiatives, it was ensured that your Company had abundant liquidity. Your Company did not need to tap the capital market and in fact used its strong liquidity at its disposal to repay foreign currency loans aggregating USD 94.5 million without the need for refinancing.

As was reported in the previous year's Director's Report, your Company had, in July, 2008, issued 9.25% p.a. Unsecured Fully and Compulsorily Convertible Debentures ("FCD"), each FCD having a face value of Rs. 745 and convertible into one Equity Share of Rs. 10 each in the Company at a price of Rs. 745 per Share. In January, 2010, in accordance with the terms of the issue, the FCDs were converted into Equity Shares of the Company and your Company allotted 93,95,974 Ordinary (Equity) Shares of Rs.10 each, adding Rs. 700 crores to its Net Worth.

Your Company follows a prudent financial policy and aims to maintain optimum financial gearing at all times. The Company's total Debt to Equity Ratio was 0.37 as at 31st March, 2010.