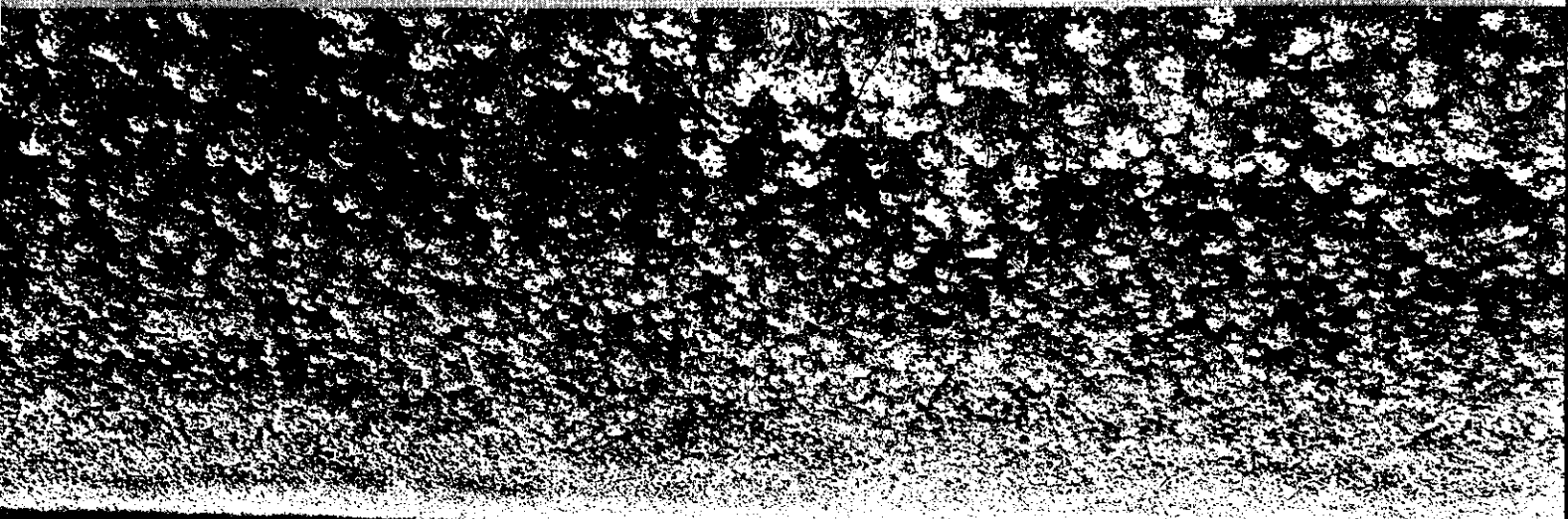


ANNUAL REPORT 2000



12-23

CORE BELIEFS

1. We have a long-standing relationship with the farm and farming community - the national heritage as well as the national agenda - which provides us with immense growth opportunities.
2. Our strength is the involvement of our people, team spirit, their high integrity, abiding loyalty and life time commitment to the Swaraj enterprise.
3. We seek corporate excellence and profits through ethics, passion and perseverance.
4. We consider ourselves custodians and trustees of all our constituencies - our customers, employees, business associates, shareholders and society, and pursue the responsibility for creation of wealth for them with missionary zeal.

PUNJAB TRACTORS LIMITED**BOARD OF DIRECTORS**

R.I. SINGH (Chairman)
 S.K. TUTEJA
 K.R. LAKHANPAL
 S.S. BRAR
 S. KUPPUSWAMI
 S.P. VIRMANI
 T.S. SAHNEY
 N.S. GILL
 YASH MAHAJAN (Vice Chairman & Managing Director)

**MEMBERS OF THE
EXECUTIVE BOARD**

G.S. RIHAL
 HARBHAJAN SINGH
 P.K. VERMA
 R.P. SEHGAL
 P. SIVARAM
 A.M. SAWHNEY

**A.V.P. - FINANCE &
COMPANY SECRETARY**

MAHESH KAUSHAL

AUDITORS

M/S. S. TANDON & ASSOCIATES
 CHARTERED ACCOUNTANTS

BANKERS

INDIAN OVERSEAS BANK
 CANARA BANK

REGISTERED OFFICE

PHASE-IV, SAHIBZADA AJIT SINGH NAGAR,
 DISTT. ROPAR-160 055.

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PUNJAB TRACTORS LIMITED**ANNUAL GENERAL MEETING**

on Wednesday, July 5, 2000

at 10.00 A.M. at Swaraj R&D Complex,

A29-E, Industrial Area, Phase-VII, S.A.S. Nagar,

Distt. Ropar-160055.

CONTENTS**PAGE NO.**

Report of the Directors	5
10 Years in Retrospect	12
Notice of Annual General Meeting	13
Balance Sheet	18
Profit & Loss Account	19
Schedules to the Accounts	20
Notes forming part of the Accounts	27
Balance Sheet Abstract & Company's General Business Profile	35
Cash Flow Statement	36
Auditors' Report	38
Shareholder's Information	41
Statement under Section 217(2A)	44

REPORT OF THE DIRECTORS

It is with a measure of satisfaction that the Directors report on another successful corporate performance.

OPERATING RESULTS

For the year that ended on 31st March, 2000, the Company posted record financial performance and expanded operations, taking its tractor market share to 18.9% and total revenue to Rs. 1025.0 crores. The Company's focus on continuous improvement and capital efficiency enabled it maintain a soundly profitable stance throughout the year. **These and other inherent strengths helped the Company to improve what is already the best margin in the auto industry.** Pre-tax profit at Rs. 190.4 crores represents a margin of 18.6% against previous year's 18.4%. After providing for corporate tax, net profit has moved up to Rs. 133.3 crores compared to 1998-99 level of Rs. 125.8 crores. The Company's Earning of Rs. 65.8 Per Share places it among the top performers in the country.

THE YEAR PAST

Members would recall that in their last report of May'99, the Directors had envisaged steady progress for the year, based on April'99 performance and the expectations of a good monsoon. However, market conditions changed for the worse from August'99 onwards, on account of farm economy feeling the full impact of lost production / un-remunerative prices of the previous few seasons. This led to a significant lowering of retail demand for tractors in the large markets of Punjab, Madhya Pradesh, Gujarat & Haryana – the Company's traditional strong markets - and flattening of demand in Maharashtra & Bihar. The upshot was that tractor offtakes started tapering off, the maximum drop coming in the January-March 2000 quarter, shrinking industry aggregate for that quarter to 63,800, down 13.6%, against Swaraj's corresponding sale of 12335 tractors, down 9.5%. Notwithstanding this slow down, several industry players maintained production to match the large growth rates of the recent past, which raised inventory in the system to high levels, further compounding the problems.

Members would be happy to learn that despite operating under such harsh environment, the Company posted a growth of 5% in tractor sales even after the 9.5% drop in the 4th quarter against 2.2% industry growth for the year. This growth took volumes to another milestone – the 50,000 mark - reaching 50,705 tractors. Product performance and brand equity combined with expanded dealer net work helped raise overall market share for the Company. Sales from October also benefitted from the introduction of a new model – the Swaraj 744 - in the hitherto unrepresented 40-50 HP range, a market size of 50,000 tractors. *It is gratifying that response to this product has been encouraging. New features were also introduced in the existing models.*

The spill over effect of the difficulties in the farm economy inevitably reduced demand for harvester combines. Sales were thus restricted to 206 Combines against previous year's 280. Forklift sales too stayed low key with 96 deliveries (last year 59). Production of castings at the Foundry grew 15% reaching 9186 tons.

FINANCE

The Company's investment programme for raising tractor manufacturing capacity to 60,000 p.a. was completed during the year, when a spending of Rs.25.6 crores was done on capital account. Given the magnitude of change in tractor market conditions, the Company has had to extend selective credit to support its sales operations, the first time after nearly 12 years. As a result, working capital needs went up and were met by disposal of units (Rs. 39.2 crores) and from internal generations. The Directors report that 83 deposits aggregating to Rs. 23.9 lacs matured but were not claimed as at 31st March, 2000. Subsequently, out of the above, 20 deposits aggregating Rs. 3.1 lacs have been repaid or renewed.

DIVIDEND AND BONUS SHARES

Members may note, the Company has already disbursed 195% through 3 quarterly Interim Dividends. Having regard to the extent of rise in net earnings and current trends, the Directors have recommended a final dividend of 65%, taking total for the year to 260% against 250% declared and paid for 1998-99.

With dividend and corporate tax on proposed dividend absorbing Rs.52.7 crores and Rs.7.2 crores respectively and transfer to General Reserve reaching Rs.72.4 crores, balance Rs.1.0 crore has been carried to Surplus under Profit and Loss Account which now stands at Rs.8.0 crores.

PUNJAB TRACTORS LIMITED

Members are aware that in pursuit of the Company's mission of sharing prosperity with its shareholders, two 1:1 Bonuses were issued in Financial 1992-93 and Financial 1996-97, raising Company's paid-up equity from Rs. 5.1 crores in 1991 to Rs.20.3 crores on date. Following on the same foot steps and sustaining endeavours to deliver superior returns to shareholders, the Directors have recommended a Bonus Issue in the ratio of 2 new shares for every 1 share held. Requisite resolutions have been proposed in the forthcoming Annual General Meeting. Members would be pleased to learn that after the proposed bonus issue, near 92% of the Company's paid up equity of Rs.60.8 crores would comprise of bonus shares – a level that far exceeds that of listed companies in the auto sector.

THE DECADE OF NINETIES – IN RETROSPECT

The Directors convey with humility that by any definition, the decade of 90s has been a rewarding one for all the constituents of the Swaraj enterprise – through generation of wealth for its customers, its business associates, its employees, its shareholders and the society.

In the company's core business, tractor volumes rose from a modest level of 14,300 in 1989-90 (market share 11.8%) to 50,700 in the year just completed (market share 18.9%). This sale performance, which represents a compound annual growth rate of 13.5% for the decade against corresponding industry CARG of 8.2%, was achieved on the strength of expanded dealer network from 234 to 320, enlarging of product portfolio from 3 models to 6 – the widest in the industry – backed up by continuous product upgradation.

Parrallely, the company expanded its manufacturing capacities from 15,000 tractors in 1989-90 to 60,000 on date, spread over two plants - 30,000 capacity each - with facilities flexible enough to take any model mix. These plants, set up at most economic of outlays, also represent the most productive tractor facilities in the country, with concept and technology in the new plant matching global standards. The entire capital spending of over Rs.210 crores was funded totally from internal generations, without resorting to any debt and after generous dividend payouts.

Growth in operations was not the only pursuit of this period. Equal priority was given to efforts towards ensuring continuous gains in productivity and quality as also in containing costs through value engineering and a lean organisation structure manned by motivated employees. This dual strategy paid off, with Profit Before Tax growing handsomely from Rs. 11.6 crores in 1989-90 to Rs.190.4 crores by 1999-2000 – a compound annual growth rate of 32.5% for the decade.

PTL's growth and prosperity had its inevitable ruboff on employees and business associates. Apart from rising emoluments, the employees were able to participate in two low - priced stock offerings during 1989-91 period.

The decade also saw the equity base of the company increase from Rs.3 crores to Rs. 20 crores principally through issue of two bonus shares, each in the ratio of 1:1. This benefit was accompanied by a rising dividend stream - from 50% on a capital base of Rs. 3.2 crores in 1989-90 to 250% in FY 1998-99 on a capital base of Rs.20.3 crores, translating to nearly 1600% on the 1990 base. With PTL's approach of sharing of prosperity with shareholders providing it with an investor friendly tag and a premium valuation, institutional investors started participating in a big way soon after dawn of the economic liberalisation process. In the result, market capitalisation of Rs. 62 crores on 31.3.90, moved to Rs. 1540 crores on 31.3.2000, a decadal growth rate of 35% per annum (excluding dividend) even under current depressed sentiments and price.

Growth in the company's payments to the exchequer also makes an impressive reading. PTL's total tax payments rose from Rs. 21 crores in 1989-90 to Rs. 240 crores for the year ended 31.3.2000. The company has also contributed to national causes like floods, Kargil and community development matters like sports.

It is a matter of great pride that Punjab Tractors has managed to outperform the industry and its peers in the 1990s with its Swaraj Brand, on the strength of sound policies, customer caring practices, and by empowerment to a highly committed, professional team. In recognition of this performance and sharing of information, PTL has been privileged to have received several accolades in this eventful decade, notable amongst them being :

- Nomination by The Economic Times – best company of the year 1998.
- Listed by a FII in the Jewels of Asia category 1999.
- Nomination by UTI Institute of Capital Markets for excellence in corporate governance.
- Listed by Hong Kong based "Asia Money" amongst top 5 best managed companies in India - 1999.
- Listed by "Business Today" among top 3 Economic Value generators in India.

PUNJAB TRACTORS LIMITED

The Directors take this opportunity of placing on record their indebtedness to the State Government for support and guidance and for providing encouragement and placing confidence in professional management. It is this approach that has elevated the involvement of the management team from custodians to being trustees of the enterprise. The Directors also acknowledge with a sense of gratitude the role of Financial Institutions, Banks, Indian Mutual funds and Foreign Institutional Investors in helping the company bench mark its practices against the best Indian and global standards.

CORPORATE GOVERNANCE

Members are probably aware of the increased regulatory thrust on matters of disclosure, transparency and governance for corporate India. Recently SEBI has announced mandatory guidelines for compliance by 'A' group companies from Financial year 2000-01. These involve creation of Board Sub-committees for specified matters and expanding areas of disclosure and reporting in the Annual Report. Directors convey with a sense of satisfaction that, on its part, the company has always practiced governance, transparency and shareholder communication with a sense of mission. It has several sub-committees operating since long for key functional areas. It would also be recalled that before publishing of quarterly results became mandatory, the company had been sharing such information with members. In the context of the latest developments, Directors have constituted sub committees for Compensation, Shareholder / Investor Relations, Appointment of Dealers / Vendors, Capital Expenditure and for Audit.

Compliance and reporting in the above regard as also relating to new disclosure requirements would form part of the Annual Report from fiscal 2000-01 onwards.

SOCIETY INITIATIVES

In the wake of the Kargil conflict, the Company had appealed to members, business associates and employees for contributions to the Armed Forces Welfare Fund. With a sense of appreciation, the directors wish to convey that the response was magnificent – collections totalled Rs. 1,05,51,000. On behalf of all concerned, a cheque for a like amount was handed over to the Army authorities on 8th September. The directors are proud to place on record their profound sense of gratitude for the prompt response and generosity shown by members and others to a national cause.

CURRENT PERFORMANCE

For reasons stated earlier, fiscal 2000-01 has begun on a sedate note for the tractor industry. Difficulties in the market place have been further accentuated by draught conditions in Rajasthan & Gujarat and loss of crop in Andhra Pradesh. These adverse factors have had their natural impact on industry demand and company sales. Thankfully, Swaraj performance for April, though low on offtakes at 3100 tractors, represents an improved market share of 20.1% against last full year's share of 18.9%. On current reckoning, this year would be a challenging one. However, Bumper wheat production and meteorological forecast of a good monsoon are signs that augur well for industry, with the consequent impact on demand and offtakes likely after the rainy season.

With a view to fortify its edges in the market place and set the stage for improved business performance under emerging operating conditions, the Company will be stepping up the pace of strengthening of its R&D capabilities so as to reduce development costs and periods and enlarge product portfolio and features. Equal priority and attention would be directed towards expansion and upgrading of the dealer net-work to raise customer service at the grass-roots.

Directors are also happy to report that Company's efforts towards establishing a presence in the United States has gathered momentum. Response to the pilot batch incorporating several new features relevant to the US market has been positive. After completion of requisite test procedures, US exports are scheduled to commence later this fiscal.

HUMAN RESOURCES

Industrial relations were cordial in all the divisions.

Information in accordance with Section 217(2A) of the Companies (Particulars of employees) Rules, 1975 is given in the Annexure to this report.

YEAR 2000

As envisaged, company's transition for Year 2000 was smooth. Going forward, Directors see no additional financial impact arising from Year 2000 / related issues.

PUNJAB TRACTORS LIMITED**ENERGY CONSERVATION, TECHNOLOGY ABSORPTION ETC.**

Particulars to be given in respect of the above activity under the Companies (Disclosure of particulars in the report of Directors) Rules, 1988 is given in the Annexure to this report.

DIRECTORS

Shri K.R. Lakhanpal, IAS, Principal Secretary, Govt. of Punjab, Deptt. of Finance, co-opted to the Company's Board on 27.07.1999, holds office upto the date of forthcoming Annual General Meeting and is eligible for re-appointment. Notice u/s 257 of the Companies Act, 1956 has been received from a member proposing Shri Lakhanpal's appointment as a Director of the company.

Following the withdrawal of nomination by PSIDC Shri Rajan Kashyap ceased to be Director of the Company w.e.f. 22.7.1999. The Directors place on record their appreciation to the contributions of Shri Kashyap during his tenure as a Director.

Unit Trust of India has withdrawn the nomination of Shri P.R. Khanna from the Company's Board of Directors. The Directors place on record their appreciation to the several contributions of Shri Khanna during his association with the Company.

In Shri Khanna's place, UTI had nominated Shri S. Kuppuswami, Chief General Manager, who was co-opted to the Company's Board on 29.01.2000. Shri Kuppuswami holds office upto the date of forthcoming Annual General Meeting and is eligible for re-appointment. Notice u/s 257 of the Companies Act, 1956 has been received from a member proposing Shri Kuppuswami's appointment as a Director of the company.

In accordance with the requirements of the Companies Act, 1956 and the Articles of Association of the company, S/Shri T.S. Sahney and N.S. Gill retire by rotation and are eligible for re-appointment.

AUDITORS

Company's Statutory Auditors, M/s S. Tandon & Associates, Chartered Accountants, hold office upto the forthcoming Annual General Meeting and are eligible for re-appointment. The Company has received a certificate from them that their re-appointment, if made, would be within the limits under Section 224(1)(B) of the Companies Act, 1956.



FOR AND ON BEHALF OF THE BOARD

R.I. SINGH
Chairman

S.K. TUTEJA
Director

YASH MAHAJAN
Vice Chairman &
Managing Director

Place : Chandigarh
Date : June 3rd, 2000

ANNEXURE TO DIRECTORS' REPORT

(Year Ended 31st March, 2000)

Information required under the Companies (Disclosure of Particulars in the Report of Directors) Rules, 1988.

CONSERVATION OF ENERGY :

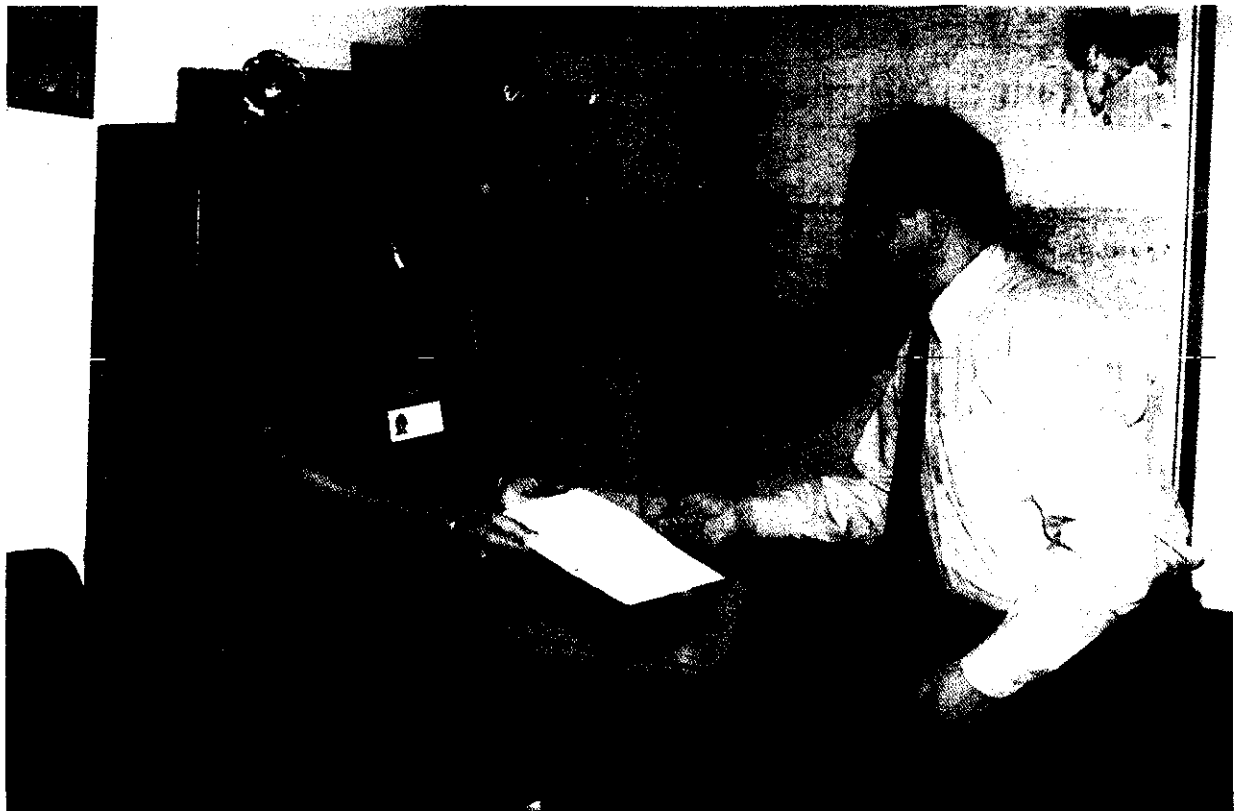
1. Optimisation of compressed air distribution system resulted in switching off of three stand alone compressors, thereby saving 1.5 lacs units/annum.
2. Optimum utilisation of heat treatment furnaces resulted in saving of 5.0 lacs units/annum.
3. Installed time switch on Component washing machines for heater control, thereby saving 5.0 lacs units/annum.
4. Installation of air cooler in compressed air circuit resulted in improved efficiency of air drier, thereby conserving electric energy.
5. Replaced diesel operated forklift with battery operated forklifts which resulted in saving of 10,000 ltrs./annum of diesel fuel.
6. Installed Time switches on shop floor lighting system, leading to power saving of 1.0 lac units/annum.
7. Modified water circulation system of PTC tanks to avoid hot water over flow, resulting in power saving of 20,000 units/annum.
8. Installed water level controllers to control running of water turbine, leading to power saving of 36,000 units/annum.
9. Machining time for some of in-house manufactured components has been reduced by 10-15% by using new generation tools from global sources, resulting in enhanced production and reduced power consumption.
10. Installed 1,500 mtrs. long gravity roller conveyors for material movement, this has helped saving use of One forklift truck.

RESEARCH & DEVELOPMENT

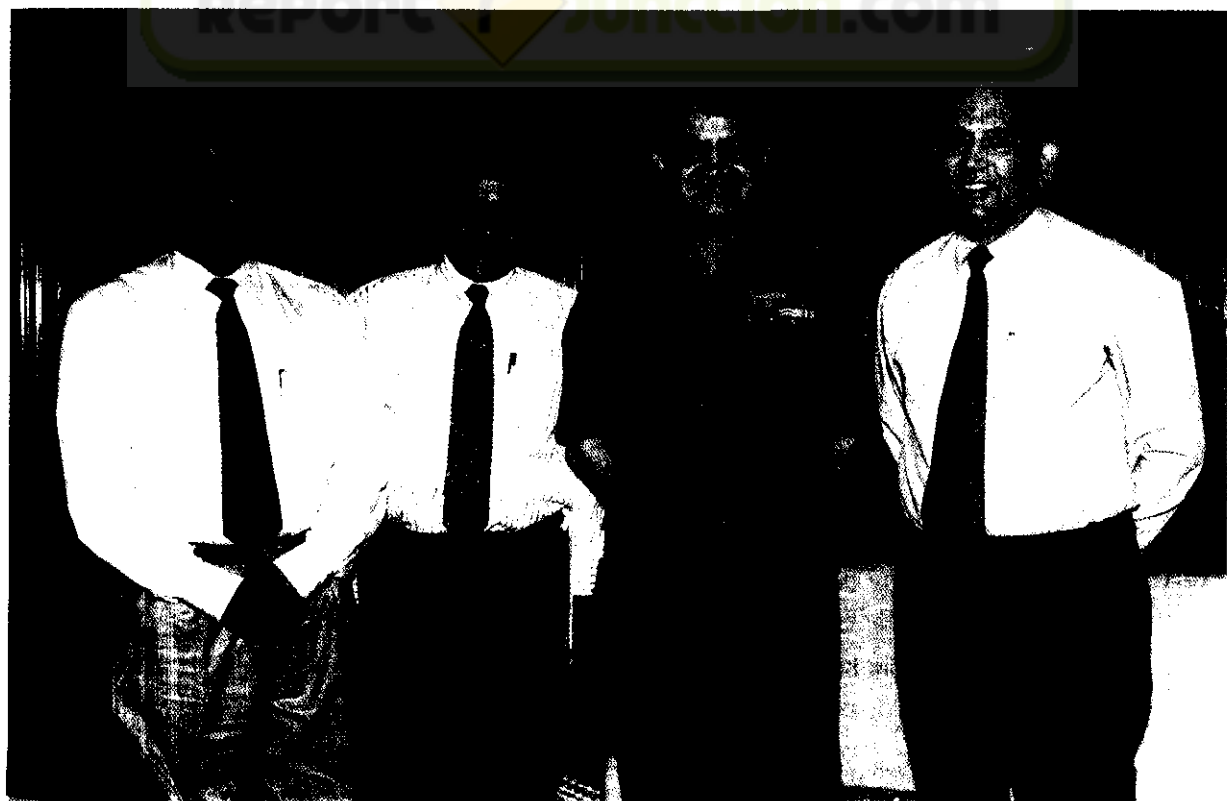
Expenditure on R&D during 1999-2000 :	(Rs. in lacs)
Capital	232.85
Recurring	319.76
Total	<u>552.61</u>
Total R&D Expenditure as %age of Total Turnover	0.47

Major research and development activities have been :

1. S-744FE, a new tractor model, designed & developed by in-house R&D was commercially launched.
2. Aesthetically improved S-855 with additional features was commercially introduced.
3. Design Office and in-house testing facilities augmented to cut down product development cycle.
4. The on-going programme of continuous product upgradation for performance & reliability, with customer as the focus, continued with vigour.



Yash Mahajan, Vice Chairman & Managing Director, presenting a cheque for Rs. 1.05 crores representing contribution to Army Central Welfare Fund, from Company Employees, Business Associates, Shareholders, Deposit Holders etc.



Punjab Tractors' team with General V.P. Malik, Chief of the Army Staff