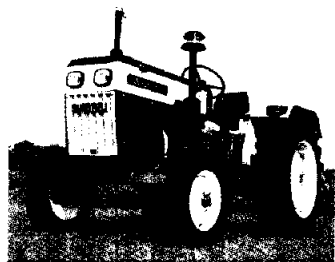


SWARAJ

ANNUAL REPORT 2001



Punjab Tractors Limited

SWARAJ

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
 RAKESH SINGH
 S.P. VIRMANI
 T.S. SAHNEY
 N.S. GILL
 A.K. THAKUR
 YASH MAHAJAN (Vice Chairman & Managing Director)

**MEMBERS OF THE
EXECUTIVE BOARD**

G.S. RIHAL
 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.

PUNJAB TRACTORS LIMITED**ANNUAL GENERAL MEETING**

on Saturday, September 29, 2001

at 11.30 A.M. at Swaraj Engines Limited,

Plot No. 2, Industrial Phase-IX, S.A.S. Nagar,

Distt. Ropar-160 059.

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REPORT OF THE DIRECTORS

The Directors submit herewith their Thirtieth Report on corporate operations

CORPORATE OPERATIONS

The Company's strategy of consistently focussing on delivering customer satisfaction at competitive costs paid off yet again. In a year that was marked by severe demand downturn arising from weakening farm fundamentals across major markets, the Company was able to post an improvement in operating margin for the year to 19.3% on operating revenue of Rs. 964.5 crores (last year 19.2% on Rs. 1016.9 crores).

Members would recall that in their last year report, the Directors had shared their concern at the adverse conditions in the tractor market which had first surfaced in 1998-99. Regrettably, these trends got further accentuated because of drought conditions in Madhya Pradesh, Rajasthan, Gujarat and parts of Maharashtra, accompanied, ironically enough, by low prices for agri-produce in the surplus Northern states. With rural income falling virtually all over the country and farmers deferring purchase of tractors, deep recession gripped the industry throughout the year.

Operating under such difficult environment, Directors report that while the Company could not avoid loss of tractor sales from earlier year level, it was able to hold ground in principal States like Punjab, Uttar Pradesh & Madhya Pradesh, besides consolidating presence and share in emerging markets like Bihar, Andhra Pradesh, Tamil Nadu and Maharashtra. In these efforts, advantage was taken of the enlarged product portfolio of 6 models, ranging from 20 to 55 H.P., introduction of some global features in the 55 HP model, the expanded dealer network plus Swaraj's traditional service emphasis. Reflecting these factors, sale of new models introduced in 1999 reached 25% of Swaraj volumes (last year 12%) while more than 16% of sales came from new dealerships.

In this background, Swaraj sales for the year reached 45,700 tractors from previous year level of 50,700, with the entire drop pertaining to April-June, 2000 quarter and the closing month of March, 2001. With a market share of 18.1%, Swaraj had the satisfaction of moving to the No. 2 slot in Tractor Industry against its third position in 1999-2000.

Affected by the same factors that impacted tractor demand, sale of harvester combines stayed flat at 192 (previous year 206). Demand for forklifts too was lacklustre, restricting sales to 79 (previous year 96).

OPERATING RESULTS AND DIVIDEND

Total revenue for the year reached Rs. 966 crores (last year Rs. 1025 crores). Improved product-mix and sound cost management enabled the company to raise its margin at the operating level to 19.3%, generating an operating profit of Rs. 186 crores (last year Rs. 195 crores, margin 19.2%). Reflecting the volume drop and decline in other income of Rs. 6 crores (no dividend from UTI units which were disposed off at a profit in 1999-2000), PBT for the year reached Rs. 168 crores (last year Rs. 190 crores). Profit after tax translates into a earning of Rs. 18.5 per share on the tripled up, post-bonus equity of Rs. 60.8 crores.

Having regard to the level of earnings and aiming towards financial consolidation of the enterprise, Directors have recommended a dividend of 75% for the year which translates to 225% on the pre-bonus equity.

With dividend and corporate tax on proposed dividend absorbing Rs. 45.6 crores and Rs. 4.6 crores respectively and transfer to General Reserve reaching Rs. 61.3 crores, balance Rs. 1.0 crores has been carried to Surplus under Profit and Loss Account which now stands at Rs. 9.0 crores.

FINANCE

In the wake of the sharp decline in demand for tractors, the Company further intensified focus on installations at the retail level and towards this objective strengthened dealer endeavours & resources through extension of credit. The need for additional working capital arising from this was funded by internal generations after meeting spending on capital account of Rs. 18.7 crores essentially towards R&D equipments, and on facilities for enhancement of productivity and quality.

The Directors report that 77 deposits aggregating to Rs. 17.6 Lacs matured but were not claimed as at 31st March, 2001. Subsequently, out of the above, 29 deposits aggregating Rs. 9.2 lacs have been repaid or renewed.

PUNJAB TRACTORS LIMITED

ISSUE OF BONUS SHARES

Members would recall that after approval by them in the Annual General Meeting held on 5th July, 2000, the Directors had announced 5th August, 2000 as the Record Date for Bonus eligibility. Later, in September 2000, Bonus Shares were credited to holders in dematerialised form, while certificates were despatched to holders in physical form. The Directors inform with satisfaction that improved liquidity and trading has raised the number of retail shareholders to 28,000 from the earlier level of 8,000.

CURRENT YEAR

Directors wish to convey that tractor market conditions have further worsened during current 2001-02 fiscal year. As a result, industry volumes for the first 4 months, April-July, 2001 have dropped 13% to 67,200 tractors. In the face of this shortfall, PTL has maintained its sales at last years level of 14,300 tractors, garnering an improved market share of 21.4% (market share April-July, 2000 18.6%). The Directors feel that the timeliness, better spread and quantum of rains this monsoon season compared to earlier two years would lead to improvement in rural income and tractor demand post-paddy harvest, a development that augurs well for the health of the tractor industry.

Members might have noted from the first quarter results already published that net operating revenue and profit before tax has reached Rs. 220.5 crores and Rs. 36.0 crores respectively against Rs. 214.2 crores and Rs. 35.3 crores for the corresponding quarter of 2000-01.

RECOGNITIONS

The Directors are pleased to inform members that **in a recent competition organised by All India Management Association (AIMA) for young managers, our team won the National championship trophy contested by as many as 125 teams representing leading corporates of the country.**

The Directors also wish to share with members that **based on a joint study of capital, brand and people, the Economic Times & Boston Consulting Group selected PTL as one of India's finest 10 companies out of Economic Times' top 500 companies.**

CORPORATE GOVERNANCE

It has been a core belief and practice with the Company to consider itself the custodian and trustee of all the constituencies of our business – customers, employees, business associates, shareholders and society, and to pursue the responsibility for creation of wealth for them with missionary zeal. We have sought and will continue to seek corporate excellence and profits through ethics, passion and perseverance.

In this framework, over the years your Company has been practicing the principles of good corporate governance, disclosure and transparency and has benchmarked itself against best practices in these areas.

The Company has initiated steps during 2000-01 to implement the Corporate Governance Code and will commence full reporting on compliance from the accounting year ending 31st March, 2002.

Composition of Board of Directors

The Board comprises of 1 Wholetime Director and 8 Non-Executive Directors including the Chairman, taking present strength to 9 Directors. The Non-Executive Directors bring wide ranging experience and independent judgement to the Board's deliberations and decisions. These Non-Executive Directors are Independent Directors. The Vice-Chairman & Managing Director, a well qualified and experienced professional, is the Wholetime Director.

Responsibilities

The Board has a formal schedule of matters reserved for its consideration and decision including approval of Annual Business Plan, Capital Budgets, Investments and borrowings and review of operations & financial results, besides taking due and proper note of all the decisions of Board Sub Committees. Board members ensure that their other responsibilities do not materially impact on their responsibilities as a Director of the Company. During the financial year 2000-01, the Board met 4 times - on 3rd June, 2000, 31st July, 2000, 30th October, 2000 and 31st January, 2001 and in the post-March 2001 period has already met on 27th June, 31st July and 3rd September.

Board Committees

To enable better and more focussed attention on the affairs of the Company, virtually since beginning the Company has had Board Sub Committees for key functional areas. In the wake of SEBI guidelines and after reviewing existing practices, following committees have been constituted / reconstituted.

- (i) Capital Expenditure Committee
- (ii) Appointment of Dealers / Vendors Committee
- (iii) Audit Committee
- (iv) Shareholder / Investor Relations Committee
- (v) Compensation Committee

Capital Expenditure Committee

The Capital Expenditure Committee comprises following Directors as members;

- Sh. R.I.Singh, Chairman
- Sh. K.R.Lakhanpal
- Sh. S.S. Brar (till 14.08.2001)
- Sh. N.S.Gill
- Sh. Yash Mahajan

The Committee, inter alia, approves procurement of all Plant & Machinery, Equipments & Civil Construction jobs etc. costing each Rs. 50 lacs and above, on the basis of evaluation and recommendations of the cross functional team of senior Company functionaries.

Appointment of Dealers / Vendors Committee

The Appointment of Dealers / Vendors Committee comprises following Directors as members;

- Sh. S.K. Tuteja, Chairman
- Sh. S.S. Brar (till 14.08.2001)
- Sh. N.S.Gill
- Sh. Yash Mahajan

This Committee, inter alia, approves all new appointments of dealers/ vendors as well as terminations of dealers/vendors, on the basis of inputs provided by the cross functional team of senior Company functionaries.

Audit Committee

The Audit Committee comprises following Directors as members. All of them are independent Directors with vast experience in and knowledge of corporate affairs & finance.

- Sh. K.R.Lakhanpal, Chairman
- Sh. S. Kuppuswami (till 09.11.2000)
- Sh. T.S.Sahney
- Sh. N.S.Gill

Shri Yash Mahajan, Vice Chairman & Managing Director attends the meetings as a special invitee while others including company officials can be called by the Chairman from time to time.

The role, terms of reference and the authority and powers of this Committee are in conformity with the requirements of the Companies Act, 1956 and the Listing Agreements. The essential functions of the Committee include review of internal control systems, overseeing of Company's financial reporting process and disclosure of its financial information, review of internal audit functions and conduct discussions with internal auditors on any significant findings, recommending the appointment of auditors and their fees and reviewing with management annual financial statements before submission to the Board.

PUNJAB TRACTORS LIMITED

The Committee reviewed and discussed the Annual Accounts for the financial year ended 31st March, 2001 and believes that the Company's financial statements are fairly presented in conformity with Generally Accepted Accounting Principles in all material aspects.

The Committee recommended to the Board the re-appointment of M/s S. Tandon & Associates, Chartered Accountants, as Statutory Auditors of the Company for the financial year ending 31st March, 2002 and fixation of their fees.

Shareholder / Investor Relations Committee

The Shareholder / Investor Relations Committee comprises following Directors as members;

- Sh. S.K.Tuteja, Chairman
- Sh. S.S. Brar (till 14.08.2001)
- Sh. S.P.Virman
- Sh. Yash Mahajan

The Committee meets at frequent intervals, to approve inter-alia, transfer/transmission of shares, issue of duplicate share certificates, review status of investor grievances and the functioning of the Share Department to render efficient, effective and satisfactory services to investors.

Sh. Mahesh Kaushal, AVP- Finance & Company Secretary, is the Compliance Officer of the Company.

The Company had received 357 complaints and enquiries from shareholders and all of them have been resolved by furnishing the requisite information/documents. The company had 8519 shares pending for transfer at the close of the financial year (all subsequently transferred).

Compensation Committee

The Compensation Committee comprises following Directors as members, all of whom except Shri Yash Mahajan are Non-Executive Independent Directors.

- Sh. R.I.Singh, Chairman
- Sh. S.K.Tuteja
- Sh. K.R.Lakhanpal
- Sh. S. Kuppaswami (till 09.11.2000)
- Sh. T.S.Sahney
- Sh. Yash Mahajan

The Committee is vested with the responsibility of periodically reviewing the emolument structure of management staff taking into consideration industry trends (last review was done in November, 1999).

DIRECTORS' RESPONSIBILITY STATEMENT

Pursuant to the requirement under Section 217(2AA) of the Companies (Amendment) Act, 2000, with respect to Directors' Responsibility Statement, it is hereby confirmed:

- a) that in preparation of the accounts for the financial year ended 31st March, 2001, the applicable accounting standards have been followed along with proper explanation relating to material departures;
- b) that the Directors have selected such accounting policies and applied them consistently and made judgements and estimates that were reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit or loss of the Company for the year under review;
- c) that the Directors 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;
- d) that the Directors have prepared the accounts for the financial year ended 31st March, 2001 on a 'going concern' basis.

PUNJAB TRACTORS LIMITED**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. A development of significance was the conclusion of a 6 year production incentive scheme for the workers of the tractor division.

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

In Shri S. Kuppuswami's place, UTI had nominated in November 2000, Shri A.K. Thakur, Executive Director, who was later co-opted to the Company's Board. Shri Thakur 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 Thakur's appointment as a Director of the Company. The Directors place on record their appreciation to the contributions of Shri Kuppuswami during his association with the Company.

Shri Rakesh Singh, IAS, on taking over as Managing Director, PSIDC, has joined the Board as Additional Director vice Shri S.S. Brar, 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 Rakesh Singh's appointment as a Director of the Company. The Directors place on record their appreciation to the contributions of Shri S.S. Brar during his tenure as a Director.

In accordance with the requirements of the Companies Act, 1956 and the Articles of Association of the Company, S/Shri S.K. Tuteja and S.P. Virmani 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 : September 3, 2001

PUNJAB TRACTORS LIMITED**ANNEXURE TO DIRECTORS' REPORT**(Year Ended 31st March, 2001)

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

CONSERVATION OF ENERGY

1. Switched over to cold component washing system from hot washing system, resulted in a saving of 10.0 lac units / annum.
2. Electrical motors were replaced with diesel engines on crown wheel tail pinion test rigs, bull gear test rigs resulting into saving of 2.0 lac units / annum.
3. Installed time switches on rim washing machine and degreasing tanks of sheet metal pre-treatment line, thereby saving 1.0 lac units / annum.
4. Switching off the painting booth blowers and heaters during rest intervals led to saving of 1.0 lac units / annum.
5. Installed temperature controller in the circuit of cooling tower fans, resulting in a saving of 10,000 units / annum.

RESEARCH & DEVELOPMENT

Expenditure on R&D during 2000-01 :	(Rs. in lacs)
Capital	301.12
Recurring	412.99
Total	<u>714.11</u>
 Total R&D Expenditure as %age of Total Turnover	 0.64

Major research and development activities have been :

1. Swaraj – 855 with features meeting USA operational and legislative requirements, developed and cleared for commercial introduction.
2. New variants of Swaraj – 855 tractor incorporating several global features, developed and commercially introduced.
3. Design office, styling studio and in-house testing facilities augmented to cut down product development cycle.
4. On-going programmes for continuous product upgradation for performance and reliability, with customer as the focus, further strengthened.