

SWARAJ

ANNUAL REPORT 2002

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Punjab Tractors Limited

PUNJAB TRACTORS LIMITED**BOARD OF DIRECTORS**

MUKUL JOSHI (Chairman)
 S.K. TUTEJA
 K.R. LAKHANPAL
 VISWAJEET KHANNA
 S.P. VIRMANI
 T.S. SAHNEY
 N.S. GILL
 A.K. THAKUR
 B.K. BATRA
 S. SARKAR
 N.C. SHARMA
 YASH MAHAJAN (Vice Chairman & Managing Director)

**MEMBERS OF THE
EXECUTIVE BOARD**

G.S. RIHAL
 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 Monday, September 30, 2002

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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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.

REPORT OF THE DIRECTORS

The Directors present hereunder their 31st Report to the Shareholders.

CORPORATE OPERATIONS

Directors wish to bring to the attention of Members that weak farm fundamentals - both on the price and output fronts - have dominated the nationwide rural scenario since mid-1999. These negative factors continued to retain their strong grip on the farm sector during 2001-02. For a consumer durable sector like tractors where the entire customer base is rural, the adverse impact has been the severest.

In their last Report, Directors had shared their concern on worsening of demand for tractors. Their apprehensions regrettably proved correct as industry sales for the year dropped to 218,000 tractors, down 35,000 from 2001-02's sale of 253,000 and by 55,000 against 1999-00's sale of 273,000. Maximum fall in demand was witnessed in Uttar Pradesh, Maharashtra, Andhra Pradesh, Tamilnadu, Bihar, Haryana and Karnataka. Even the modest recovery in Madhya Pradesh, Rajasthan and Gujarat, after 2-3 years of degrowth, did not make any impact.

On the strength of Punjab Tractors' customer focus, widened model range and enhanced retail presence countrywide, the Company was able to post a better market share of 18.4% for the year as a whole (18.1%), on a sale of 40,100 tractors (45,700). It is gratifying that market response to recent product offerings, new features as well as contribution from new dealerships have been encouraging. As much as 28% of sales came from new models introduced in 1999, while contribution of new dealerships, added from 1998 onwards, measured a healthy 21% of sales.

These aspects stand reflected in the canvas of market share improvement across various regions. In the 4 lead States - Punjab, Bihar, Uttar Pradesh and Andhra Pradesh, Swaraj market share was above 20% while in Madhya Pradesh, Haryana, Tamil Nadu and Bengal / Orissa its share was in the 16-19% range. Only in Rajasthan, Maharashtra and Karnataka, Swaraj market share was below 15%, which, with the exception of Maharashtra, were nonetheless higher than previous year.

There was some improvement in the sale of Harvester Combines - 224 against 192, increase coming in the last quarter. Forklift offtakes stayed low though a shade better than last year - 85 against 79.

OPERATING RESULTS AND DIVIDEND

Total product revenue for the year reached Rs. 888 crores (Rs. 964 crores). Favourable product-mix, besides ongoing cost management measures, helped the Company maintain its operating margin at 19%. With interest costs and depreciation going up, profit before tax for fiscal 2001-02 reached Rs. 143 crores (Rs. 168 crores). Profit after tax at Rs. 100 crores (Rs. 112 crores) represents an earning of Rs. 16.5 per share on the Equity Capital of Rs. 60.8 crores.

While, no doubt, profit for fiscal 2001-02 is lower than the previous two years on account of sharp fall in tractor sales caused by depressed market conditions, the Directors seek member's understanding that the year end performance represents by far the best financial results among all players in the tractor industry.

In the context of the lower level of earnings and continuation of difficult market trends, the Directors have recommended a dividend of 70% for financial year 2001-02 against 75% paid for 2000-01.

With dividend absorbing Rs. 42.5 crores and transfer to General Reserve reaching Rs. 56.5 crores, balance Rs. 1.0 crore has been carried to surplus under Profit & Loss Account which now stands at Rs. 10.0 crores.

In line with Accounting Standard 22 issued by the Institute of Chartered Accountants of India, deferred tax liability for the period upto 31st March, 2001 aggregating to Rs. 37.8 crores has been adjusted from General Reserve.

Spending on capital account of Rs. 14.5 crores was essentially towards equipments for productivity enhancement, quality and technology upgradation and enlarging the R&D facilities.

The Directors report that as at 31st March, 2002, 91 deposits aggregating to Rs. 15.5 lacs matured but were not claimed. Subsequently, out of the above, 47 deposits aggregating Rs. 6.0 lacs have been repaid or renewed.

PUNJAB TRACTORS LIMITED

CURRENT PERFORMANCE

After more than 2½ years of large decline in tractor sales, it was not unnatural for the industry to look towards some uptick post 2002 monsoon. Unfortunately, poor rain till July has brought in new adversities for the farm sector in general and the tractor industry in particular, as though pressure from prevailing difficulties was not bad enough.

The Central Govt.'s own assessment is that the country is faced with the worst drought situation since 1987. The entire food bowl region, covering at least 7 States, stands adversely affected. While actual magnitude of the impact would be known much later, current indications suggest major loss in yields and output in almost all khariff crops. Coming as it does, on top of very large farm income reduction in 2 out of the last 3 years, Directors express their concern that the prevailing stressed economic realities could trigger further slow down in rural demand.

While it is gratifying that the Central Govt. has taken large initiatives to reduce suffering of the drought-affected rural population, these steps would not generate any demand for durables like tractors. As such, the woes of the tractor industry stand further aggravated, more so this fiscal. Industry sale of 56,000 tractors during April-July this year against 68,000 for same period last year and 77,000 for April-July 2000, says it all.

In the above backdrop and consistent with Punjab Tractors' customary emphasis on caution and prudence, Swaraj sales totalled 9,023 tractors for the first four months against last year's 14,377. On the financial front, as per Unaudited Results already published, Company's Net Operating Revenue and Profit Before Tax for the first quarter ended 30th June 2002, reached Rs. 161.7 crores and Rs. 20.6 crores respectively against Rs. 220.5 crores and Rs. 36.0 crores for the corresponding quarter of 2001-02. While considering this performance, Directors would urge members to keep in mind the context of the harsh operating conditions under which it was delivered.

Lately, a small ray of hope has appeared in the horizon with some rains after the first week of August in many parched areas of the country. But, as of now, there are no visible signs of a recovery in demand for tractors.

PSIDC DISINVESTMENT

As members are aware, the Company was promoted by Punjab State Industrial Development Corporation (PSIDC) with an initial equity stake of nearly 41%. Funds invested by PSIDC towards this equity stake in 1972 and again in 1989-91 period totaled Rs.9.3 crores. On its investment, beginning 1978 through fiscal 2000-01, PSIDC has received uninterrupted dividends adding upto Rs. 60.1 crores. This apart, the offloading of 18.15 lac shares (17.5% stake), through normal stock exchange transactions during the decade of nineties, is believed to have fetched PSIDC another Rs. 80.0 crores. Members may note, PSIDC's current equity holding stands at 23.49% representing 1,42,74,000 shares of Rs.10 each out of Punjab Tractors' total equity of 6,07,55,700 shares.

PSIDC has decided to disinvest its entire equity shareholding of 23.49% held by it in the Company. Accordingly, PSIDC has referred their proposed disposal to the Directorate of Disinvestment, Govt. of Punjab. This Directorate has already advertised for engagement of an Adviser for disinvestment in Punjab Tractors.

With a view to attract quality long-term investors, the disinvestment is proposed to be done through international bidding route, now regularly followed by Govt. of India. In this background, Directors have recommended raising of ceiling for the Foreign Institutional Investors' (FIIs) investment in the Company's Equity Capital to 74%. Appropriate resolution has been proposed at the forthcoming Annual General Meeting.

CORPORATE GOVERNANCE

As required by provisions of the Listing Agreement with the Stock Exchanges, the report on Management Discussion and Analysis, Corporate Governance as well as the Auditor's Certificate regarding compliance of conditions of Corporate Governance are annexed to this Report.

PUNJAB TRACTORS LIMITED**HUMAN RESOURCES**

Industrial relations were cordial in all the divisions throughout the year under review. Information in accordance with Section 217(2A) of the Companies (Particulars of employees) Rules, 1975 is annexed to this report.

ENERGY CONSERVATION, TECHNOLOGY ABSORPTION ETC.

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

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, 2002, the applicable accounting standards have been followed and there have been no 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 2002 on a 'going concern' basis.

DIRECTORS

Following his appointment as Principal Secretary Industries and Commerce, Govt. of Punjab, Shri Mukul Joshi became Chairman of the Company with effect from 15.3.2002 vice Shri R.I.Singh. The Directors place on record their deep appreciation to the contributions of Shri R.I.Singh who was Chairman of the Company for nearly five years, a phase during which the Company made large, allround progress.

Upon nomination by PSIDC, Shri P.K. Verma became Director of the Company with effect from 30th January, 2002 vice Shri K.R. Lakhanpal who had joined the Company's Board in July, 1999. Subsequently, on his re-appointment as Principal Secretary to Govt. of Punjab, Department of Finance in place of Shri P.K.Verma, PSIDC has re-nominated Shri K.R.Lakhanpal who was accordingly co-opted as a Director with effect from 16th March, 2002. Shri Lakhanpal 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.

Shri Viswajeet Khanna on taking over as Managing Director, PSIDC, has joined the Board as Additional Director vice Shri Suresh Kumar. Shri Khanna 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 Khanna's appointment as a Director of the Company.

Members are informed that on nomination by PSIDC, Shri Suresh Kumar had become Director of the Company from 16th March, 2002 to 30th April, 2002, succeeding Shri Rakesh Singh who in turn was a Director from 14th August, 2001 to 16th March, 2002 having taken over as MD, PSIDC. The Board records its appreciation to the contributions of S/Shri Rakesh Singh and Suresh Kumar during their association with the Company.

Upon nomination by Industrial Development Bank of India (IDBI), Shri B.K.Batra was co-opted to the Company's Board on 26th April, 2002. He 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 Batra's appointment as a Director of the Company.

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Upon nomination by Unit Trust of India (UTI), Shri S. Sarkar has been co-opted to the Company's Board with effect from 5th September 2002. He 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 Sarkar's appointment as a Director of the Company.

Upon nomination by Life Insurance Corporation of India (LIC), Shri N.C.Sharma, has been co-opted to the Company's Board with effect from 5th September, 2002. He 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 Sharma's appointment as a Director of the Company.

In the context of Shri Yash Mahajan's outstanding contributions and quality of leadership and guided by future imperatives, Directors have reappointed Shri Yash Mahajan as Vice Chairman and Managing Director of the Company for a period of two years from 7th April 2002. Appropriate resolution for his re-appointment has been proposed at the forthcoming Annual General Meeting.

In accordance with the requirement 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.

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FOR AND ON BEHALF OF THE BOARD

MUKUL JOSHI
Chairman

YASH MAHAJAN
Vice Chairman &
Managing Director

Place : New Delhi
Date : 5th September, 2002

MANAGEMENT DISCUSSION AND ANALYSIS

While it has been the practice with PTL since long to regularly share with members information about company and industry, it is the first time that this section and format is being offered as part of the Annual Report. Management, therefore, deems it necessary to make a detailed presentation covering past performance, present concerns and future potential of the Company.

1. Tractor Industry : Structure & Trends

When Swaraj commenced operations in 1974, the Indian tractor industry was a size of 30,000 units distributed among 11 players. 26 years later, the tractor industry had grown into the world's largest at 273,000 tractors - a CARG of 9.2% from 1974-75 to 1999-00. Over the years, some of the original performers have exited. The current crop of players number 14, including 3 Multi-nationals who have set facilities in India in the last 3-4 years. Around 90% of present sale is accounted for by top 6 players.

Steady build-up of rural infrastructure, spread of fertilisers and high yielding seeds, improved terms of trade for farm output and easier availability of credit have driven the tractorisation process. Tractors contribute to farm operations, transportation and in building rural infrastructure, besides acting as a power source. Rising output and income from this investment in farm mechanisation has in turn accelerated tractor sales.

Reflecting the initial contour of the green revolution, the demand pattern during 1970s and 1980s was heavily skewed in favour of the northern states (principally Punjab, Haryana and Western parts of Uttar Pradesh). With the message of 'tractor' gains going to a wider audience, tractorisation spread during the 1990s to Central, Southern, Western and Eastern states.

Table below presents the comparison over past two decades:

	%age of Total Sales		
	1982	1992	2002
North (Punjab, Haryana, Rajasthan)	48%	37%	25%
Central (Uttar Pradesh, Madhya Pradesh & Bihar)	31%	37%	44%
West (Gujarat, Maharashtra)	12%	11%	11%
South (Andhra Pradesh, Tamil Nadu, Karnataka & Kerala)	7%	13%	13%
East & Others (West Bengal, Orissa, Assam & others)	2%	2%	7%

It is a fact of life that unlike the West, Indian land holdings are fragmented. Further, with India's continental proportions, geo-climatic and soil conditions vary across the country. The combined effect of these factors is that 30-40 HP range has stayed as the major tractor segment.

Trends in the four broad HP segments have been:

HP Range	%age of Total Sales		
	1982	1992	2002
Upto 30	27%	36%	22%
30-40	58%	46%	54%
40-50	13%	16%	19%
Above 50	2%	2%	5%

PUNJAB TRACTORS LIMITED

2. The Swaraj Journey

Swaraj's origin had all the ingredients of a venture capital project. Its technology was homespun and innovative. When Punjab tractors was about to begin its commercial production in 1974, there were doubts from just about every quarter. Reason for the scepticism was evident. Swaraj was planning a foray into an intensely competitive tractor market then dominated by brands like Ford, Massey Ferguson, Escorts, Mahindra, HMT, Eicher etc. Punjab Tractors practically had no expertise to start with. All it had was the rustic determination characteristic of the people of Punjab. And an awareness of what the farmers actually wanted.

Next 26 years – 1974 to 2000 - saw the disappearance of several players sporting well-known brands. In sharp contrast, in its journey till Financial Year 1999-00, Swaraj had grown at a compound rate of 20% into a size of 50,700 tractors. Its model range of 6 tractors had become the widest in the industry, equally impressive was their market specific range of variants and special features. Reflecting its commitment to service at the grass roots, Swaraj dealership network had spread all over the country to a total of 320 by March 2000 from the 1974-75 level of 15.

Performance on the geographical front too has been encouraging. From being a principal supplier to the northern states, Swaraj emerged as a national brand, with continuously growing presence across all territories.

Picture of market share and dealer net work emerges as :

	1982		1992 *		2002	
	No. of Dealers	Swaraj Mkt. share	No. of Dealers	Swaraj Mkt. share	No. of Dealers	Swaraj Mkt. Share
North (Punjab, Haryana, Rajasthan)	24	11.5%	63	9.5%	100	19.0%
Central (Uttar Pradesh, Madhya Pradesh & Bihar)	30	17.6%	87	12.2%	134	20.0%
West (Gujarat, Maharashtra)	6	3.0%	22	9.0%	52	15.0%
South (Andhra, Tamil Nadu, Karnataka & Kerala)	3	2.0%	20	4.0%	50	17.5%
East & Others (West Bengal, Orissa, Assam & others)	-	-	4	-	16	16.0%
	63	12.2%	196	9.7%*	352	18.4%

* Low market share due to shortage of capacity. The Company was carrying dealer advances.