

SWARAJ

A N N U A L R E P O R T 2 0 0 3

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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**

S.C. AGRAWAL (Chairman)

K.R. LAKHANPAL

VISWAJEET KHANNA

A.K. THAKUR

B.K. BATRA

S. SARKAR

N.C. SHARMA

S.P. VIRMANI

S.K. TUTEJA

T.S. SAHNEY

N.S. GILL

YASH MAHAJAN (Vice Chairman & Managing Director)

**MEMBERS OF THE
EXECUTIVE BOARD**

P. SIVARAM

A.M. SAWHNEY

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

MAHESH KAUSHAL

AUDITORSM/S. S. TANDON & ASSOCIATES
CHARTERED ACCOUNTANTS**BANKERS**INDIAN OVERSEAS BANK
CANARA BANK
STATE BANK OF INDIA**REGISTERED OFFICE**PHASE-IV, SAHIBZADA AJIT SINGH NAGAR,
DISTT. ROPAR-160 055.

PUNJAB TRACTORS LIMITED**ANNUAL GENERAL MEETING**

on Tuesday, September 30, 2003

at 9.30 A.M. at Swaraj Engines Limited,

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

Distt. Ropar-160 059.

Report

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REPORT OF THE DIRECTORS

The Directors present hereunder their 32nd Report to the Shareholders.

OPERATIONS 2002-03

Fiscal 2002-03 was rated as the roughest year for Indian agriculture since 1987. On an all India basis, this year was dominated by the worst drought of the generation. Food output is estimated to have dropped some 30 Million Tons, accompanied by similar scale drop in oil seeds, fibres etc.

Contours of the crash in farm income had their inevitable adverse effect on domestic tractor industry which, after reaching its milestone of 273,000 in fiscal 1999-00, nosedived below 160,000 in 2002-03. Capping a downcycle that began in July-Sept. 1999, last fiscal's fall of 60,000 tractors even from the 2001-02 shrunken base of 218,000 represents the steepest annual fall in the tractor industry's chequered 40 year history. Members may note that last year's volume was even lower than the industry aggregate of 164,000 achieved way back in 1994-95.

Signaling the widespread nature of the drought and reflecting the broad spectrum of depressed market environment, demand contraction was witnessed virtually across all States, with the bigger markets of UP, MP, Punjab, Haryana, Rajasthan, Gujarat & Maharashtra accounting for more than 80% of the fall in tractor sales. Further dampening of sentiment came from the large inventory in the system. In a direct pointer towards reduced buying power, +40 HP segments of the tractor market witnessed a much greater drop. For PTL, because of its stronger position in both the larger States and in the higher HP segments, the impact was all the more severe. In the event, PTL's tractor volumes for the year reached 24,200 (40,100). Likewise, sale of Harvester Combines, widely regarded as a reliable barometer of rural economic condition, came down steeply to 61 (224). Forklift offtakes too was modest at 50 (85).

FINANCIAL RESULTS AND DIVIDEND

On a total product revenue for the year of Rs. 547 crores (Rs. 888 crores), the company generated a profit before tax of Rs. 62 crores (Rs. 143 crores). Seeking Members' understanding for the drop in profits, the Directors wish to make a mention that PTL's performance, under exceptionally harsh operating conditions, remains by far the best in tractor industry.

In the context of reduced earnings and having regard to current situation, Directors recommend that the interim dividend of 30% be treated as the final dividend for the year against 70% declared and paid in 2001-02.

With dividend and corporate tax on dividend absorbing Rs. 18.2 crores and Rs.2.3 crores respectively and transfer to General Reserve reaching Rs. 21.6 crores, balance Rs. 1.0 crore has been carried to surplus under Profit & Loss Account which now stands at Rs. 11.0 crores.

Spending on capital account of Rs. 5.9 crores was essentially towards equipments for productivity enhancement, quality and technology upgradation and enlarging the R&D facilities. For meeting its working capital requirements, the Company also availed of some new financial products at competitive interest rates.

The Directors report that as at 31st March 2003, 69 deposits aggregating to Rs 18.9 lacs matured but were not claimed. Subsequently, out of the above, 38 deposits aggregating Rs. 8.9 lacs have been repaid or renewed.

CURRENT PERFORMANCE

The story of unrelenting climbdown in tractor demand, a trend which began nearly 4 years ago, has continued during April-July 4 month period. Industry sales plummeted to 46,600 tractors, down 17% even over the significantly reduced sale level of April-July, 2002, besides being the lowest for the industry since 1993-94. The underlying cause for this has been the carry over impact from the sharp fall in farm income during the last 4 years caused by unprecedented stretch of poor monsoons. Under the circumstances, PTL's tractor sales for the first 4 months reached 7020 (9023). Reeling under the above pressures, the

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Company posted Profit Before Tax of Rs. 7.5 crores (20.6 crores) for the April-June first quarter on a total revenue of Rs. 119 crores (162 crores). The Company has recently introduced a single cylinder model Swaraj 722 in a segment size of 40,000. Initial response to this model is encouraging and Directors opine that, in due course, good showing in this segment will raise Swaraj market share.

Happily, monsoon this year has been timely till now, well spread and also adequate in quantum. This has raised the expectation of a bumper 2003 Kharif crop, suggesting a significant rebound in farm income. Industry observers believe that these are hopeful signs for the tractor industry.

PSIDC DISINVESTMENT

As members are aware, Punjab State Industrial Development Corporation (PSIDC) had last year initiated a disinvestment process covering the entire equity stake of 23.49% held by it in the Company. At the conclusion of the international bidding process, CDC Financial Services (Mauritius) Ltd. (CDCFS) was declared the successful bidder for acquiring PSIDC's entire stake of 1,42,74,000 shares @ Rs. 153/- per share. CDCFS and their Special Purpose Vehicle - CDC-PTL Holdings Ltd. (CDC-PTL) - have signed a Share Purchase Agreement with PSIDC, to which the Company is also a party. CDC is one of the World's leading private equity investors with 5 decades of experience in several emerging markets. Their investment in more than 50 companies in India is around US\$ 300 Million.

CDCFS & CDC-PTL have also made a public announcement regarding an offer to the public to buy upto 20% of PTL's total paid up equity i.e. 1,21,51,140 shares @ Rs.153/- per share. This offer would be open from 18.09.2003 to 17.10.2003.

As per the Share Purchase Agreement, CDC-PTL would be entitled to appoint two Directors in place of PSIDC's current right to appoint two Directors under Company's Articles of Association. Necessary amendments to the Company's Articles of Association have accordingly 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.

DELISTING

As the Members may be aware, Company's shares are presently listed at Bombay Stock Exchange, National Stock Exchange, Delhi Stock Exchange, Ahmedabad Stock Exchange and Regional Stock Exchange at Ludhiana. With near 100% transactions of Company's equity shares taking place in Bombay Stock Exchange (BSE) and National Stock Exchange (NSE), continued listing with Regional Stock Exchange is no advantage to Members while entailing additional costs to the Company. Requisite resolutions for getting Company's shares delisted from the Regional Stock Exchanges have accordingly been proposed at the forthcoming Annual General Meeting.

HUMAN RESOURCES

Industrial relations were cordial in all the divisions throughout the year under review. The Company has concluded fresh 4 year wage agreements covering employees in both the tractor plants. 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, 2003, 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, 2003 on a 'going concern' basis.

DIRECTORS

Following his appointment as Principal Secretary Industries and Commerce, Govt. of Punjab, Shri S.C.Agrawal became Chairman of the Company with effect from 12.5.2003 vice Shri Mukul Joshi. The Directors wish to record their appreciation to the contribution of Shri Mukul Joshi.

In accordance with the requirement of the Companies Act, 1956 and the Articles of Association of the Company, S/Shri S.K. Tuteja, S.P. Virmani and A.K. Thakur 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

S.C. AGRAWAL
Chairman

YASH MAHAJAN
Vice Chairman &
Managing Director

Place : New Delhi
Date : 3rd September, 2003

PUNJAB TRACTORS LIMITED**MANAGEMENT DISCUSSION AND ANALYSIS**

The corner stone of Company's business is the manufacture, marketing and servicing of tractors, a product almost entirely for the farming community. The Company also manufactures harvester combines, again addressing the farm sector needs. Forklift is the other product manufactured by the Company, sold to industrial customers.

1. Indian Agriculture – An Overview

Of India's total geographical area of 329 million hectares (MHA), as much as 166 MHA is arable (2nd highest in the world). While the net sown area stands around 140-142 MHA, with increased cropping intensity, the gross cropped area is higher at 180 - 189 MHA.

As far size of Indian farm holdings, it has gradually reduced, with only 22% owning an average holding of more than 5 hectares. This level of fragmentation is high and contrasts sharply with the structure prevailing in western countries.

It is the above edifice, representing national heritage as well as the national agenda, that has been grappling with severe alround stress since 1999, which has brought down agriculture's share in the GDP to around 25% in 2002-03. As the only segment of population with 3-4 months of income / cash flow for meeting 12 months expenditure, impact on this large 72 crore mass of people has been all the more serious.

Drought 2002 is now counted among the 4 worst droughts in the century. It was spread over 61% of the total districts in 14 States, covering more than 52% of Gross Cropped Area. The effect of the poor monsoon was very severe on Sept., 2002 Kharif season as also April 2003 Rabi, both of which witnessed major fall in agri output.

Agriculture Ministry's fourth advance estimates of crop production for 2002-03 released in July 2003 shows that total output of foodgrains has registered a significant 13.9% decline to 182.6 million tonnes (MT), from 212 MT achieved during 2001-02. Year 2002-03 has also been a disastrous one for commercial crops, with both oilseeds as well as cotton production falling to 15 year lows. Production of oilseeds is estimated to be down 24% to 15.7 MT, the lowest since 1990-91. Cotton output fall is assessed at 9.3 million bales from earlier year's 10.1 million bales.

2. Tractor Industry Trends

Since late 1960s, factors such as 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 India's 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. From a level of 30,000 in 1974-75, tractor industry had grown to a size of 2,73,000 by 1999-00, the World's largest.

Indian Tractor Industry today comprises of 14 players, 3 of whom are multi national corporations. Given the size of farm holdings and geo-climatic conditions, 30 to 40 HP segment is the largest one, accounting for around 55% of the total sales, while below 30 HP segment represent around 23% of total sales. The balance 22% comes from the +40 HP range. While 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), tractorisation spread during the 1990s was towards Central, Southern, Western and Eastern states.

After posting a strong growth of 14% per annum during 1993-99 period, tractor industry has been on a declining curve. The shape of the fall in farm output and income since 1999 has been detailed out in para 1 above. On a durable supply industry

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like tractors, the adverse impact was inevitably maximum. After reaching a peak of 2,73,000 in 1999-00, tractor industry volumes crashed to below 1,60,000 in 2002-03, posting industry's sharpest ever annual drop of 60,000 tractors. Industry woes were further compounded by the large inventory in the system, built up during 1998-2002 period when wholesale billings (supported by extended credit) were consistently higher than retail sales.

For a broader perspective on tractor industry, table below presents trends since 1983, geographically and segmentwise :

	%age of Total Sales		
	1983	1993	2003
North (Punjab, Haryana, Rajasthan)	51%	43%	23%
Central (Uttar Pradesh, Madhya Pradesh & Bihar)	25%	31%	45%
West (Gujarat, Maharashtra)	11%	10%	8%
South (Andhra Pradesh, Tamil Nadu, Karnataka & Kerala)	11%	14%	14%
East & Others (West Bengal, Orissa, Assam & others)	2%	2%	10%

Trends in the four broad HP segments have been:

HP Range	%age of Total Sales		
	1983	1993	2003
Upto 30	28%	40%	23%
31-40	55%	43%	56%
41-50	14%	14%	18%
Above 50	3%	3%	3%

3. The Swaraj Journey

Swaraj began its commercial operations in April 1974. In the 28 years till March 2003, it has sold more than 500,000 tractors. While the journey commenced in the north, PTL today has an all India presence. Its 377 strong dealer network sells and services a wide portfolio of 6 tractor models with more than 100 variants.

Swaraj beginning was indeed humble, with the commercial introduction of Swaraj 724 model, tractor sales barely reached 600 in 1974-75. However, over the years, on the strength of introduction of new tractor models, product performance and reliable service, Swaraj brand started receiving flavour with the farmers leading to an increase in both volume and market share. In 1999, two new models Swaraj 733 and Swaraj 744 were added to Swaraj portfolio. By financial 1998-99, all these initiatives took Swaraj to the No. 2 slot in the industry, hitting a peak sale of 50,700 tractors in 1999-00 (market share 18.6%).