

ANNUAL REPORT 2004



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.

BOARD OF DIRECTORS

S.K. TUTEJA

T.S. SAHNEY

A.K. THAKUR

B.K. BATRA

DONALD PECK

STEVEN ENDERBY

Y.P. GUPTA

G.R. SUMMAN

YASH MAHAJAN (Vice Chairman & Managing Director)

A.M. SAWHNEY (Director – Marketing)

P. SIVARAM (Director – Finance)

**MEMBERS OF THE
EXECUTIVE BOARD**

P.L. SHARMA

R.K. MANRAO

P.K. NANDA

**VICE PRESIDENT – 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,
ROPAR (PUNJAB) - 160 055.

PUNJAB TRACTORS LIMITED**ANNUAL GENERAL MEETING**

on Thursday, September 30, 2004

at 10.00 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 present hereunder their 33rd Annual Report together with Audited Accounts for financial year ended 31st March, 2004.

OPERATIONS 2003-04

Members would recall that corporate operations for first six months of fiscal 2003-04 had suffered on account of sharp slide in sale of Swaraj tractors and harvester combines due to further contraction in market demand for tractors, a process which began in September 1999 on account of drought / drought-like conditions that prevailed over the subsequent 3½ year period. As a result, net revenue for the April - September first half dropped to Rs. 250 crores from Rs. 299 crores reached during the same period previous year. Profit Before Tax came down to Rs. 15.6 crores from Rs. 36.8 crores posted for the April - September, 2002.

Happily, however, on the strength of 2003's good monsoon, tractor demand sentiments turned positive from October 2003. Consequently, aggregate industry volumes during second half of 2003-04 rose sharply from the severely dipped first half levels. In tandem, sale of Swaraj tractors registered a healthy growth during October 2003 - March 2004 second half, moving to 14800 tractors compared to 11200 sold during same period last year. This significant volume growth pushed net revenue for the second half to Rs. 353.1 crores and pre-tax profit to Rs. 39.8 crores against respective previous year levels of Rs. 252.4 crores and Rs. 25.4 crores.

For a fuller appreciation of the two contrasting trends, a comparison of Company's performance during the two halves of fiscal 2003-04 is presented below:

	First Half	Second Half	Growth over First Half
Tractor Sales (Nos.)	10800	14800	37%
Net Revenue (Rs. Crores)	250.2	353.1	41%
Pre-tax Profit (Rs. Crores)	15.6	39.8	155%

For the year as a whole, on a total revenue of Rs. 603.3 crores (Rs. 551.1 crores), the Company generated a profit before tax of Rs. 55.4 crores (Rs. 62.2 crores).

DIVIDEND AND APPROPRIATIONS

In the context of the above performance, particularly that of the second half, and prospects, the Directors have decided to recommend a step up in Dividend to 45% against 30% declared and paid for 2002-03.

With dividend and corporate tax on dividend absorbing Rs. 27.3 crores and Rs. 3.5 crores respectively and transfer to General Reserve reaching Rs. 10.2 crores, balance Rs. 1.0 crore has been carried as surplus under Profit & Loss Account which now stands at Rs. 12.0 crores.

Spending on capital account of Rs. 3.6 crores was essentially towards augmentation of R&D facilities.

The Directors report that as at 31st March, 2004, 45 deposits aggregating to Rs.14.1 lacs matured but were not claimed. Subsequently, out of the above, 24 deposits aggregating Rs. 9.5 lacs have been repaid or renewed.

CURRENT PERFORMANCE

Members would have seen from the unaudited results for first quarter 2004-05 that, driven by a 40% rise in volumes which moved to 7400 tractors, net revenue has increased 52% to reach Rs. 182 crores. Pre-tax profit jumped at sharper rate of 103% to reach Rs. 15.2 crores - a level nearly equal to 2003-04's first half profit of Rs.15.6 crores.

Despite poor monsoon in July, Swaraj tractor sales during July - August have maintained the growth trend, registering a volume of 4000 against 3400 sold in the same two-month period last year. Cumulative sales for five months, April - August 2004, have risen to 11400 tractors compared with 8700 sold in the corresponding five months of last year.

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It is a matter of satisfaction that various thrust measures announced by Govt. towards revitalising the rural economy including complete excise exemption for tractors are expected to lend further strength towards raising demand for tractors in due course.

DELISTING

Members may kindly note that after approval in the last Annual General Meeting, shares of the Company have been delisted from Ludhiana, Delhi and Ahmedabad Stock Exchanges. However, Company's shares continue to be listed and traded at Bombay Stock Exchange (BSE) and National Stock Exchange (NSE).

CORPORATE GOVERNANCE

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

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, 2004, 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, 2004 on a 'going concern' basis.

DIRECTORS

Consequent upon conclusion of the process initiated by Punjab State Industrial Development Corporation Ltd. (PSIDC) in 2002 for disinvestment of its entire equity of 23.49% in PTL and related amendment to the Company's Articles of Association, Shri S.C. Agrawal resigned from the Chairmanship of the Company w.e.f. 31.12.2003. The Directors place on record their deep appreciation to the contributions of Shri Agrawal who was Chairman of the Company during a crucial period.

Following withdrawal of nomination by PSIDC, S/Shri K.R. Lakhanpal and Viswajeet Khanna ceased to be Directors of the Company w.e.f. 05.12.2003. The Board records its sincere appreciation to the large contributions of S/Shri Lakhanpal and Khanna during their association with the Company.

In terms of Articles of Association of the Company, CDC Capital Partners (now Actis Capital), the acquirer of PSIDC's equity stake in PTL, has nominated S/Shri Donald Peck and Steven Enderby as Directors of the Company. Co-opted to the Company's Board on 30.01.2004, they hold office upto the date of forthcoming Annual General Meeting and are eligible for reappointment. Notices u/s 257 of the Companies Act, 1956 have been received from members proposing the appointments of Shri Peck and Shri Enderby as Directors of the Company.

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Upon resignation from the Directorship of the Company, Shri N.C.Sharma ceased to be a Director of the Company w.e.f. 26.12.2003. The Directors record their appreciation to the contributions of Shri Sharma during the period when he was a director of the Company.

Shri Yash Mahajan, Vice Chairman & Managing Director completed his last tenure on 06.04.2004. In the context of Shri Yash Mahajan's outstanding contributions and quality of leadership and guided by emerging imperatives, Directors have reappointed Shri Yash Mahajan as Vice Chairman and Managing Director of the Company for a period of three years from 07.04.2004. Appropriate resolution for his reappointment has been proposed at the forthcoming Annual General Meeting.

Additionally, with an eye on the future, the Directors have strengthened the Company's organisational structure at the apex level by appointing Shri A.M.Sawhney and Shri P.Sivaram as Wholetime Directors designated as Director - Marketing and Director - Finance respectively. In their long involvement with PTL – 32 years in case of Shri Sawhney and 26 years in case of Shri Sivaram, both of them have handled their respective functional responsibilities with distinction. Appropriate resolutions for their appointments, each for a period of 5 years from 01.04.2004, have been proposed at the forthcoming Annual General Meeting.

Shri N.S. Gill, director of the Company since 1986, resigned from the Board in July due health reasons. The Directors wish to place on record their deep appreciation to the invaluable contributions of Shri Gill during his long association with the Company.

Upon nomination by LIC, Shri Y.P.Gupta was co-opted to the Company's Board on 24.07.2004. He holds the office upto the date of forthcoming Annual General Meeting and eligible for reappointment. Notice u/s 257 of the Companies Act, 1956 has been received from a member proposing Shri Gupta's appointment as a Director of the Company.

Unit Trust of India has nominated Shri G.R.Summan in place of Shri S.Sarkar. Co-opted to the Company's Board on 24.07.2004, Shri Summan holds the office upto the date of forthcoming Annual General Meeting and eligible for reappointment. Notice u/s 257 of the Companies Act, 1956 has been received from a member proposing Shri Summan's appointment as a Director of the Company. The Directors record their appreciation to the contributions of Shri Sarkar during his tenure as director.

Shri S.P.Virman, director since August 1972, has communicated his inability to continue as a Director in view of his age and health. The Board has accepted his resignation with much regret. The Directors acknowledge with a profound sense of gratitude Shri Virman's vast contributions, in terms of guidance, support and wise counsel to the operating team extended during his more than three decade's association with the Company as a Director.

Shri T.S.Sahney has conveyed his inability to continue as a Director on account of his other pressing tie-ups. The Directors have accepted his decision with much regret and acknowledge with a deep sense of gratitude Shri Sahney's invaluable contributions, strong support and able guidance to the operating team during his long association with the Company which began in March 1985.

In accordance with the requirement of the Companies Act, 1956 and the Articles of Association of the Company, Shri B.K. Batra retires by rotation and is eligible for reappointment.

AUDITORS

Company's Statutory Auditors, M/s. S.Tandon & Associates, Chartered Accountants, hold office upto the forthcoming Annual General Meeting and are eligible for reappointment. The Company has received a certificate from them that their reappointment, 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.K. TUTEJA
Director

YASH MAHAJAN
Vice Chairman &
Managing Director

Place : New Delhi
Date : 2nd September, 2004

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. THE SWARAJ JOURNEY

Swaraj's beginning in April 1974, with the commercial launch of a single 26 HP tractor model, was indeed humble. In the 30 years since then, up until March 2004, the Company has sold more than 530,000 tractors. During this period, the tractor portfolio has expanded to 9 models with more than 100 variants. While journey had commenced in the North, PTL now has an all India presence with a 396 - strong dealer network as on 31st August, 2004. Swaraj has also been focusing on development of overseas markets and is currently making supplies to SAARC countries on a regular basis.

Picture of domestic territorial market share and dealer network over past two decades emerges as:

Territory	1984		1994		2004	
	Dealer Nos.	Swaraj Mkt. Share	Dealer Nos.	Swaraj Mkt. Share	Dealer Nos.	Swaraj Mkt. Share
North (Punjab, Haryana & Rajasthan)	48	9.2%	78	13.2%	107	13.2%
Central (Uttar Pradesh, Madhya Pradesh & Bihar)	66	12.1%	106	16.1%	160	16.3%
West (Gujarat & Maharashtra)	15	6.1%	26	13.9%	53	12.6%
South (Andhra, Tamil Nadu, Karnataka & Kerala)	19	4.0%	29	6.4%	59	13.1%
East (West Bengal, Orissa & Assam)	-	-	9	7.7%	17	12.5%
	148	8.9%	248	13.2%	396	14.5%

Segmentwise look over the same period develops as:

HP Range	1984		1994		2004		Swaraj Share in Segment (2004)
	No. of Models	%age of Swaraj Sales	No. of Models	%age of Swaraj Sales	No. of Models	%age of Swaraj Sales	
Upto 30 HP	1	25%	2	20%	2	14%	8%
31 - 40 HP	1	74%	1	71%	3*	63%	17%
Above 40 HP	1	1%	1	9%	4*	23%	11%

* 5 new tractor models commercially launched during last 4 years.

Combines & Forklifts

Punjab Tractors is the largest producer of Harvester Combines in the organised sector. Demand for this product, commercially introduced in 1980, has remained low, widely fluctuating and also displays a narrow regional bias. Over last 24 years, the Company has sold nearly 2800 Combines.

Forklift is another product line where demand has all along remained subdued, despite several promotional initiatives of the Company over the last two decades. Total sale of Forklifts from beginning till 31st March, 2004 has been around 1500.

Castings

Company's Foundry Division caters primarily to the group needs of the Swaraj Enterprise. In financial year 2003-04, production of castings was 8150 MTs, representing a value of nearly Rs. 33 crores.

2. FINANCIAL ANALYSIS (2003-04)

As mentioned in the Directors' Report, the two halves of fiscal 2003-04 presented two completely contrasting trends – sales, revenue and profits dropping in the first half and rising in a visible fashion during the second half. Second half accounted for 72% of the yearly profit of Rs. 55.4 crores.

Details of financial position and performance are available in the Balance Sheet, Profit & Loss Account alongwith related schedules and notes. Key aspects are highlighted in the following paragraphs.

A. Profit & Loss Account

Total revenue for the year was Rs. 603.3 crores (Previous year Rs. 551.1 crores) with the following breakdown:

	<u>2003-04</u>	<u>2002-03</u>
	(Rs. Crores)	
Tractors	561.6	514.3
Harvester Combines	5.0	6.0
Forklifts	2.9	2.6
Components, Spares, Scrap etc.	27.8	23.9
Total Product Revenue	597.3	546.8
Other Income	6.0	4.3
Total Revenue	603.3	551.1

Material costs as a percentage of total product revenue was 68.3% (last year 64.6%). Continuous uptrend in prices of steel led to a sharp rise in cost of raw material and components, most of which, in the highly competitive operating environment, had to be absorbed by the Company.

Personnel Costs totalled Rs. 64.7 crores compared to last year's Rs. 60.9 crores, representing 10.8% of total product revenue (last year 11.1%).

Manufacturing, Administrative & Marketing expenses for the year aggregated to Rs. 41.5 crores (last year Rs. 37.3 crores) – 6.9% of total product revenue (last year 6.9%).

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R&D expenses added upto Rs. 7.7 crores (last year Rs. 6.3 crores) – 1.3% of total product revenue (last year 1.1%).

Despite enhanced level of operations, interest cost at Rs. 9.8 crores was down 31% from previous year's level of Rs. 14.3 crores.

Profit before tax was Rs. 55.4 crores against previous year's Rs. 62.2 crores.

Corporate tax at Rs. 17.8 crores works out to an effective rate of 32.2% (last year 32.5%). Deferred tax (Assets) for the current year was Rs. 1.7 crores.

Outgo on dividend account inclusive of tax at Rs. 30.8 crores translates to a payout ratio of 73% (last year 48%).

B. Balance Sheet

Company's net worth on 31st March, 2004 stood at Rs. 487.7 crores comprising of an Equity component of Rs. 60.8 crores and Reserves of Rs. 426.9 crores. Some 8% of the equity comprises of the IPO of 1972 (Rs. 1.1 crores) and 2 Rights Issues of 1989 (1:1) and 1990 (1:2) – collectively Rs. 3.6 crores. Balance 92% (Rs. 56.1 crores) represents 4 Bonus Issues made in 1981 (2:5), 1992 (1:1), 1996 (1:1) and 2000 (2:1).

With repayment of short / medium term loans during the year, borrowings as on 31st March, 2004 stood at Rs. 59.9 crores (last year Rs. 124.5 crores).

Gross Block and Net Block of assets stood at Rs. 285.2 crores (last year Rs. 281.6 crores) and Rs. 126.9 crores (last year Rs. 139.7 crores) respectively. These assets represent a double shift annual production capacity of 60,000 tractors.

The contrast between the two halves of year 2003-04, downtrend in the first and uptrend in the second, stood reflected in the actual tractor production posted in the first half - 39% and the second half - 61%. This skew had the inevitable proportional impact on the year-end levels of inventories, receivables and creditors. Additional impact to the year-end figures came from the much sharper up tick in fourth quarter operations.

Year-end value of inventories stood at Rs. 87.8 crores (last year Rs. 70.5 crores).

At the end of fiscal 2003-04, trade debtors stood at Rs. 521.3 crores (last year Rs. 471.7 crores).

Year-end dues to creditors rose to Rs. 138.0 crores (last year Rs. 77.4 crores).

3. INTERNAL CONTROL SYSTEM AND ADEQUACY

In Punjab Tractors, Finance & Accounts function is adequately staffed and manned by professionally qualified and experienced personnel. Established systems and procedures for internal control are in place on a Company-wide basis. Prior to the commencement of every financial year, Annual Business Plan (ABP) is formulated on the basis of well-defined processes and the ABP is subsequently approved by the Company's Board of Directors. The reporting and monitoring system is elaborate and the same is reviewed at the meeting of the Audit Committee and the Board while considering quarterly business performance. Policies and procedures have been laid down to provide reasonable assurance that assets are safeguarded from risks of unauthorised use / disposition and transactions are recorded and reported with propriety, accuracy and speed. These aspects of operations are regularly reviewed and verified by the Internal Audit Department and by the Company's Statutory Auditors. The same are also subsequently put up to the Audit Committee of the Board for consideration.

4. HUMAN RESOURCES

The strength of Punjab Tractors has always been the involvement of its people, team orientation, their high integrity, abiding loyalty and deep commitment to the Swaraj enterprise. Over the years, a culture has been created in PTL which encourages learning and experimentation and enhances ownership feeling. Employee strength on 31st March, 2004 stood at 2321 (31st March, 2003 – 2398).