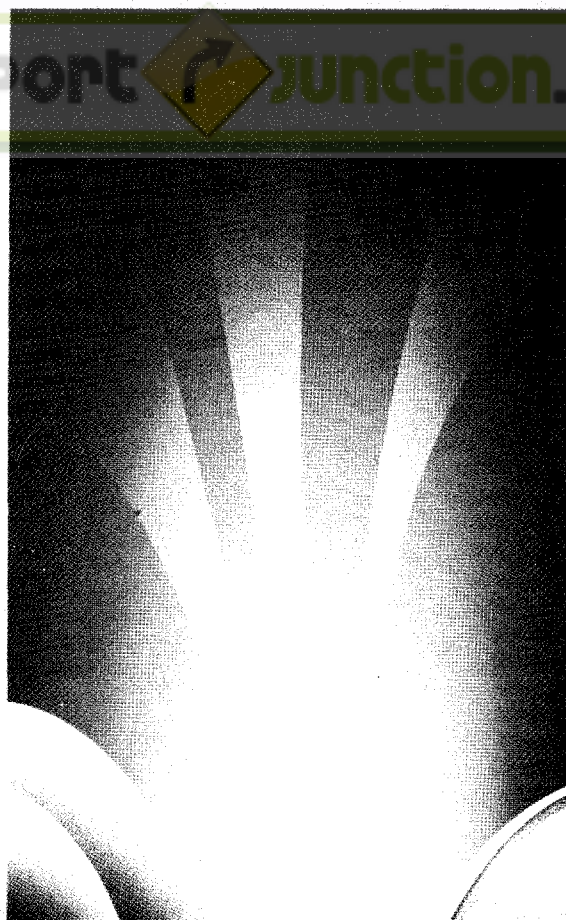


SWARAJ

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PUNJAB TRACTORS LIMITED

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
 A.K. THAKUR
 DONALD PECK
 STEVEN ENDERBY
 N. MOHANRAJ
 C.V. RAMANI
 M. RAGHAVENDRA
 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

AUDITORS

M/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 (PUNJAB) - 160 055.

PUNJAB TRACTORS LIMITED**ANNUAL GENERAL MEETING**

on Saturday, June 4, 2005

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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PUNJAB TRACTORS LIMITED**REPORT OF THE DIRECTORS**

Directors are pleased to present their 34th Annual Report together with Audited Accounts for financial year ended 31st March, 2005.

FINANCIAL RESULTS 2004-05

	Year ended 31 st March, 2005	Rs. Crores Year ended 31 st March, 2004
Net Operating Revenue	858.0	597.3
Other Income	5.0	6.0
Total Revenue	863.0	603.3
Operating Profit	118.9	81.6
Profit Before Tax	97.2	55.4
Tax Provisions		
— Current	37.7	17.8
— Deferred	(3.4)	(1.7)
Profit After Tax	62.9	39.3
Excess Tax Provision written back	—	2.7
Balance of Profit from Prior Years	12.0	11.0
Surplus available for Appropriation :	74.9	53.0
Appropriations :		
Transfer to General Reserve	23.7	10.2
Proposed Dividend	33.4	27.3
Tax on Dividend	4.8	3.5
Balance carried to Balance Sheet	13.0	12.0

DIVIDEND

Having regard to the above improvement in performance, the Directors have decided to recommend a Dividend @55% against 45% declared and paid for 2003-04.

CURRENT PERFORMANCE

Members may note that fiscal 2005-06 has begun on an encouraging note, with sales for all Company products – Tractors, Harvester Combines and Forklifts - showing improvement. It is also gratifying that demand for Company's higher-end models continues to display strength. However, there is a large pressure on the material cost front arising from escalating steel price regime and tighter emission norms. The Company has taken measures to address the situation.

PUNJAB TRACTORS LIMITED

DEVELOPMENTS IN SWARAJ MAZDA LTD.

Members may kindly recall that Swaraj Mazda Ltd. (SML) is a Joint Venture between Punjab Tractors Ltd. (PTL), Mazda Motor Corporation (Mazda) and Sumitomo Corporation of Japan (Sumitomo), set up under a Joint Venture Agreement (October, 1984) for the manufacture of Light Commercial Vehicles. SML is the lone surviving joint venture out of the 4 Indo-Jap LCV units that came to India in the 80s, primarily on account of the excellent relations that have existed between the partners over the 20 years of their association. During this period, all the partners have made significant contributions including financial sacrifices which enabled SML to come out of the BIFR regime arising from financial crisis of the early 90s and become a dividend paying Company since 1999-2000.

Members may note that Mazda has withdrawn from the manufacture of commercial vehicles and SML's Technical Assistance Agreement with Mazda has already expired. In order to meet requisite emission norms going forward, SML is required to make the engines BS-IV compliant. Equally important is the need to strengthen its product technology as well as to have a wider spread of vehicle range, with a view to have a sustained growth and remain competitive in the commercial vehicles manufacturing business.

Sumitomo has approached PTL's Board of Directors with a request to agree to sell to Sumitomo 15,73,000 equity shares of SML out of PTL's equity holding of 30,45,000 in SML, on the ground that their larger involvement in SML's equity holding is crucial to forging of an alliance with the selected commercial vehicle manufacturer from Japan. Towards this objective, Sumitomo has already taken initiatives with a leading Japanese Commercial Vehicle Manufacturer for providing fresh technical assistance & new commercial vehicles range to SML.

Having regard to the above developments and after careful consideration of all relevant aspects, the Board of Directors have decided that the offer of Sumitomo to purchase 15,73,000 equity shares of SML from PTL should further be positively pursued.

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.

OTHER INFORMATION

The Directors report that as at 31st March, 2005, 65 deposits aggregating to Rs. 19.2 lacs matured but were not claimed. Subsequently, out of the above, 19 deposits aggregating Rs. 5.9 lacs have been repaid or renewed.

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, 2005, 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, 2005 on a 'going concern' basis.

DIRECTORS

Life Insurance Corporation of India has nominated Shri N. Mohanraj in place of Shri Y.P. Gupta. Co-opted to the Company's Board on 12.01.2005, Shri Mohanraj holds the office upto the date of forthcoming Annual General Meeting and is eligible for reappointment. Notice u/s 257 of the Companies Act, 1956 has been received from a member proposing Shri Mohanraj's appointment as a Director of the Company. The Directors record their appreciation to the contributions of Shri Gupta during his tenure as Director..

Industrial Development Bank of India has nominated Shri C.V. Ramani in place of Shri B.K. Batra. Co-opted to the Company's Board on 12.01.2005, Shri Ramani holds the office upto the date of forthcoming Annual General Meeting and is eligible for reappointment. Notice u/s 257 of the Companies Act, 1956 has been received from a member proposing Shri Ramani's appointment as a Director of the Company. The Directors record their appreciation to the contributions of Shri Batra during his tenure as Director.

Unit Trust of India has nominated Shri M. Raghavendra in place of Shri G.R. Summan. Co-opted to the Company's Board on 28.03.2005, Shri Raghavendra holds the office upto the date of forthcoming Annual General Meeting and is eligible for reappointment. Notice u/s 257 of the Companies Act, 1956 has been received from a member proposing Shri Raghavendra'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, Shri S.K. Tuteja and Shri A.K. Thakur retire by rotation and are 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 : Chandigarh
Date : 10th May, 2005

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 31 years since then, up until March 2005, the Company has sold more than 560,000 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 403 - strong dealer network as on 31st March, 2005. Swaraj has also been focusing on development of overseas markets and is currently making supplies to African/SAARC countries. A beginning has also been made on export of auto components.

Picture of domestic territorial market share for 2004-05 and dealer network as at the year-end emerges as:

Territory	Swaraj Mkt. Share	No. of Dealers
North (Punjab, Haryana & Uttar Pradesh)	14.8%	165
Central (Madhya Pradesh & Rajasthan)	10.4%	76
East (Bihar, West Bengal, Orissa & Assam)	15.2%	47
West (Gujarat & Maharashtra)	15.3%	54
South (Andhra Pradesh, Tamil Nadu, Karnataka & Kerala)	12.0%	61
	13.2%	403

Segmentwise look for the year develops as:

HP Range	No. of Models	%age of Swaraj Sales	Swaraj Share in Segment
Upto 30 HP	2	12%	7%
31 – 40 HP	3	62%	15%
Above 40 HP	4	26%	11%

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 25 years, the Company has sold nearly 2900 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, 2005 has been around 1600.

Castings

Company's Foundry Division caters primarily to the group needs of the Swaraj Enterprise. In financial year 2004-05, production of castings was 10,200 MTs, representing a value of nearly Rs. 51 crores.

2. FINANCIAL ANALYSIS (2004-05)

While 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. 863.0 crores (Previous year Rs. 603.3 crores) with the following breakdown:

	(Rs. Crores)	
	<u>2004-05</u>	<u>2003-04</u>
Tractors	794.2	561.6
Harvester Combines	7.6	5.0
Forklifts	5.2	2.9
Components, Spares, Scrap etc.	51.0	27.8
Total Product Revenue	<u>858.0</u>	<u>597.3</u>
Other Income	5.0	6.0
Total Revenue	<u>863.0</u>	<u>603.3</u>

Material costs as a percentage of total product revenue was 72.7% (last year 68.3%). 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.

With growth in volumes and focused control of costs, operating expenditure as a percentage of revenue came down to 14.0% from 2003-04's level of 18.9%.

Personnel costs at Rs. 69.5 crores (last year Rs. 64.7 crores), represented 8.1% of total product revenue (last year 10.8%).

Manufacturing, Administrative & Marketing expenses for the year aggregated to Rs. 44.6 crores (last year Rs. 41.5 crores) – some 5.2% of total product revenue (last year 6.9%).

R&D expenses added upto Rs. 6.5 crores (last year Rs. 7.7 crores) – 0.8% of total product revenue (last year 1.3%).

PUNJAB TRACTORS LIMITED

Despite enhanced level of operations, interest cost at Rs. 5.8 crores was down 41% from previous year's level of Rs. 9.8 crores.

Volume improvement in all product lines, favourable product-mix and tight cost management have translated into strong financial performance at all levels. Profit Before Tax improved to Rs. 97.2 crores – a jump of 75% over previous year's Rs. 55.4 crores and represented a margin of 11.3% (last year 9.2%).

Corporate tax at Rs. 37.7 crores works out to an effective rate of 38.8% (last year 32.2%). Deferred tax (Assets) for the current year was Rs. 3.4 crores.

Outgo on dividend account inclusive of tax at Rs. 38.1 crores translates to a payout ratio of 61% (last year 73%).

B) Balance Sheet

Company's net worth on 31st March, 2005 stood at Rs. 512.4 crores comprising of an Equity component of Rs. 60.8 crores and Reserves of Rs. 451.6 crores. Some 8% of the equity comprises of the IPO of 1972 (Rs. 1.1 crore) 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 medium term loans during the year, borrowings as on 31st March, 2005 came down to Rs. 39.4 crores (last year Rs. 59.9 crores).

Gross Block and Net Block of assets stood at Rs. 286.7 crores (last year Rs. 285.2 crores) and Rs. 112.7 crores (last year Rs. 126.9 crores) respectively. These assets represent a double shift annual production capacity of 60,000 tractors.

Reflecting increased operational needs and the steel-induced material cost hikes, year-end value of inventories stood at Rs. 111.9 crores (last year Rs. 87.8 crores).

On the basis of focus on installations and collections, despite increase in billings of around Rs. 200 crores, trade debtors at the end of fiscal 2004-05 stood at Rs. 538.1 crores (last year Rs. 521.3 crores).

Year-end dues to creditors rose to Rs. 146.2 crores (last year Rs. 138.0 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, experimentation & continuous improvement and enhances ownership feeling. Employee strength on 31st March, 2005 stood at 2251 (31st March, 2004 – 2321).