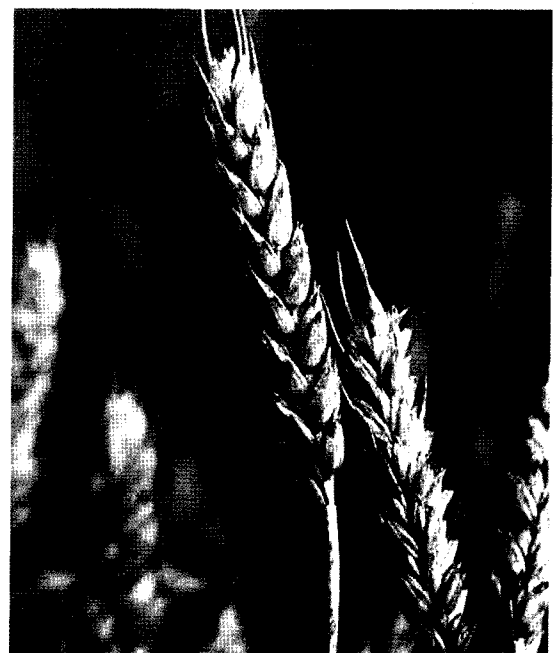


PUNJAB TRACTORS LIMITED

SWARAJ

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ANNUAL REPORT 2006



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**

P.D. NARANG (Chairman)
 S.K. TUTEJA
 DONALD PECK
 STEVEN ENDERBY
 N. MOHANRAJ
 M. RAGHAVENDRA
 HARDEEP SINGH
 DALJIT MIRCHANDANI
 P. SIVARAM (Chief Operating Officer)
 A.M. SAWHNEY (Director – Marketing)

**MEMBERS OF THE
EXECUTIVE BOARD**

P.L. SHARMA
 R.K. MANRAO
 P.K. NANDA

**VICE PRESIDENT – FINANCE
& COMPANY SECRETARY**

M.N. KAUSHAL

AUDITORS

M/S. S. TANDON & ASSOCIATES
 CHARTERED ACCOUNTANTS

BANKERS

INDIAN OVERSEAS BANK
 CANARA BANK
 STATE BANK OF INDIA

REGISTERED OFFICE

PHASE - IV, INDUSTRIAL AREA,
 S.A.S. NAGAR (MOHALI), PUNJAB - 160 055



PUNJAB TRACTORS LIMITED**ANNUAL GENERAL MEETING**on Friday, 7th July, 2006

at 11.00 A.M. at Swaraj Engines Limited,

Plot No. 2, Industrial Phase - IX,

S.A.S. Nagar (Mohali), Punjab - 160 059

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PUNJAB TRACTORS LIMITED**REPORT OF THE DIRECTORS**

Directors are pleased to present their 35th Annual Report together with Audited Accounts for financial year ended 31st March, 2006.

FINANCIAL RESULTS 2005-06

	Year ended 31st March, 2006	Rs. Crores Year ended 31st March, 2005
Net Operating Revenue	958.6	855.1
Other Income	4.6	5.0
Total Revenue	963.2	860.1
Operating Profit	130.7	118.9
Profit Before Tax	109.1	97.2
Extraordinary Income	61.3	—
Total Profit Before Tax	170.4	97.2
Tax Provisions		
— Current	44.4	37.7
— Deferred	(3.3)	(3.4)
Profit After Tax	129.3	62.9
Balance of Profit from Prior Years	13.0	12.0
Surplus available for Appropriation :	142.3	74.9
Appropriations :		
Transfer to General Reserve	55.6	23.7
Special Dividend	27.3	—
Tax on Special Dividend	3.8	—
Proposed Final Dividend	36.5	33.4
Tax on Proposed Final Dividend	5.1	4.8
Balance carried to Balance Sheet	14.0	13.0

DIVIDEND

Having regard to the above improvement in performance, the Directors have decided to recommend a final dividend @ 60% against 55% declared and paid for 2004-05. With special dividend of 45% announced in October 2005, total dividend for the year works out to 105%.

CURRENT PERFORMANCE

Members may note that fiscal 2006-07 has begun with sale of tractors showing improvement. It is also gratifying that demand for Company's models in the +30 HP range continues to display strength. On the back of positives like availability of enhanced and cheaper rural credit, better food grain prices, commencement of the Bharat Nirman Programme and rapidly rising corporate investment in agriculture and food processing, demand for tractors is expected to grow over the year under normal monsoon conditions. An area of concern is the pressure since January 2006 on cost of input materials arising from general rise in commodity prices.

PUNJAB TRACTORS LIMITED

SALE OF SHARES OF SWARAJ MAZDA LTD.

Members would recall a reference in the last year's report regarding Company's decision to positively pursue the offer of Sumitomo Corporation, Japan (Sumitomo) to purchase 15,73,000 equity shares of Swaraj Mazda Ltd. (SML) from Punjab Tractors Ltd. (PTL). Subsequent thereto, on 30.06.2005, PTL sold 15,73,000 equity shares of Rs.10/- each (constituting approximately 15% of SML's paid up capital) @ Rs. 400/- per share to Sumitomo. This transaction generated gains of Rs. 61.3 crores to PTL, which has been shared with the Members through a special dividend of 45% paid in November 2005.

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, 2006, 36 deposits aggregating to Rs.10.2 lacs matured but were not claimed. Subsequently, out of the above, 7 deposits aggregating Rs. 2.9 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, 2006, 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 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, 2006 on a 'going concern' basis.

DIRECTORS

Shri Y.P. Mahajan conveyed his decision to step down from the position of Vice Chairman & Managing Director with effect from 1st June, 2006. The Board of Directors in their meeting held on 29th May, 2006 have accepted Shri Mahajan's decision. On behalf of the Shareholders and the entire Swaraj Team, the Directors take this opportunity to record their deep sense of appreciation to Shri Mahajan for his purposeful leadership and outstanding contributions over last 34 years that have built a culture of corporate excellence and brought eminence and a strong investor reputation to PTL and other group Companies. He leaves behind a team fully committed to SWARAJ's corporate mission of adding value to all the stakeholders of the PTL enterprise and its affiliate companies – our employees, business associates (dealers and vendors) and investors, as well as to the society at large.

PUNJAB TRACTORS LIMITED

In the context of the large contributions during his association of over 28 years with the Company and guided by imperatives of future growth plans, the Directors have elevated Shri P.Sivaram, currently Director – Finance, as Chief Operating Officer and Wholetime Director of the Company.

Following the withdrawal of nomination by Industrial Development Bank of India, Shri C.V. Ramani ceased to be a Director of the Company w.e.f 31.01.2006. The Directors record their appreciation to the contributions of Shri Ramani during his tenure as Director.

Shri Arun Duggal, co-opted to the Company Board in June 2005 vice Shri Donald Peck, resigned from the Board in January 2006. The Directors record their appreciation to the contributions of Shri Duggal during his tenure as Director.

Shri A.K.Thakur, nominee Director of Unit Trust of India since January 2001, resigned from the Board in February 2006. The Directors record their deep appreciation to the invaluable contributions made by Shri Thakur during his long association with the Company.

Shri Donald Peck, nominee of CDC-PTL Holdings Ltd., who had resigned from the Board in June 2005, rejoined the Board on 31st January, 2006 in place of Shri Arun Duggal. Shri Peck holds 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 Peck's appointment as a Director of the Company.

A.Cee Enterprises, an Investment Company of Dabur Group, has nominated Shri P.D. Narang as director of the Company. Co-opted to the Company's Board on 31st January, 2006, the Board elected Shri Narang as Chairman on 11th May. Shri Narang holds 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 Narang's appointment as a Director of the Company.

Shri Hardeep Singh has been co-opted to the Company's Board on 31st January, 2006 as an Independent Director. Shri Hardeep Singh holds 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 Hardeep Singh's appointment as a Director of the Company.

Shri Daljit Mirchandani has been co-opted to the Company's Board on 31st January, 2006 as an Independent Director. Shri Mirchandani holds 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 Mirchandani'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 Steven Enderby 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

P.D. NARANG
Chairman

P. SIVARAM
Chief Operating Officer &
Wholetime Director

Place : New Delhi
Date : 2nd June, 2006

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 32 years since then, up until March 2006, the Company has sold more than 594,000 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 433 - strong dealer network as on 31st March, 2006. For fiscal 2005-06, Swaraj volumes grew to 31396 tractors (last year 30330). All these tractors were supplied with Emission Norm (Trem III) compliant engines.

Swaraj has also been focusing on development of overseas markets and is currently making supplies to African / SAARC countries. A beginning has been made on export of auto components. Exports (inclusive of Nepal) during fiscal year 2005-06 reached Rs.49.9 crores (last year Rs.41.1 crores).

Picture of Swaraj's domestic territorial market share for 2005-06 and dealer network at the year-end emerges as:

Territory	Swaraj Mkt. Share	No. of Dealers
North (Punjab, Haryana & Uttar Pradesh)	13.5%	169
Central (Madhya Pradesh & Rajasthan)	8.4%	86
East (Bihar, West Bengal, Orissa & Assam)	13.0%	53
West (Gujarat & Maharashtra)	13.8%	60
South (Andhra Pradesh, Tamil Nadu, Karnataka & Kerala)	11.1%	65
	11.8%	433

Segmentwise look for the year develops as:

HP Range	No. of Models	%age of Swaraj Sales	Swaraj Share in Segment
Upto 30 HP	4	25%	15%
31 – 40 HP	2	53%	12%
Above 40 HP	3	22%	7%

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 26 years, the Company has sold nearly 3000 Combines including 153 in 2005-06.

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, 2006 has been around 1700 including 135 in 2005-06.

Castings

Company's Foundry Division caters primarily to the group needs of the Swaraj Enterprise. In financial year 2005-06, production of castings was 10600 MTs, representing a value of nearly Rs. 52 crores.

2. FINANCIAL ANALYSIS (2005-06)

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. 963.2 crores (Previous year Rs. 860.1 crores) with the following breakdown:

	(Rs. Crores)	
	2005-06	2004-05
Tractors	876.8	791.8
Harvester Combines	15.0	7.4
Forklifts	7.6	5.0
Components, Spares, Scrap etc.	59.2	50.9
Total Product Revenue	958.6	855.1
Other Income	4.6*	5.0
Total Revenue	963.2	860.1

(*excludes gain of Rs. 61.3 crores on sale of Swaraj Mazda Shares)

Reflecting pressure from uptrend in price of steel and other commodities, material cost as a percentage of total product revenue moved to 73.4% (last year 72.9%).

With growth in volumes and focused control of costs, operating expenditure as a percentage of total product revenue came down to 13.5% from 2004-05's level of 13.8%.

Personnel costs at Rs. 73.5 crores (last year Rs. 69.5 crores), represented 7.7% of total product revenue (last year 8.1%).

Manufacturing, Administrative & Marketing expenses for the year aggregated to Rs. 48.5 crores (last year Rs. 41.7 crores) – some 5.0% of total product revenue (last year 4.9%).

R&D expenses added upto Rs. 7.3 crores (last year Rs. 6.5 crores) – 0.8% of total product revenue (last year 0.8%).