Swaraj Mazda Limited

Annual Report 2008-09

SWARAJ MAZDA LIMITED

BOARD OF DIRECTORS

S.K. TUTEJA - Chairman

HARKIRAT SINGH

A.K. THAKUR

P.K. NANDA

STEVEN ENDERBY

M. TABUCHI

T. HASHIMOTO

H. YAMAGUCHI

PANKAJ BAJAJ

Y. WATANABE - Whole-time Director

YASH MAHAJAN - Managing Director

Sr. VICE PRESIDENT - FINANCE & COMPANY SECRETARY

GOPAL BANSAL

AUDITORS	PRICE WATERHOUSE
LISTING OF SHARES	BOMBAY STOCK EXCHANGE LTD. THE NATIONAL STOCK EXCHANGE OF INDIA LTD.
BANKERS	CANARA BANK INDIAN OVERSEAS BANK ALLAHABAD BANK MIZUHO CORPORATE BANK LTD. STANDARD CHARTERED BANK
REGISTERED OFFICE & WORKS	VILLAGE : ASRON, DISTT. NAWANSHAHAR-144 533 PUNJAB
CORPORATE OFFICE	204-205, SECTOR 34-A, CHANDIGARH-160 022

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25TH ANNUAL GENERAL MEETING
on Wednesday, 30th September, 2009
at 1.00 P.M. at Village Asron,
Distt. Nawanshahar, Punjab.

REPORT OF THE DIRECTORS

The Directors present hereunder their Twenty Fifth Annual Report together with Audited Accounts for the Financial Year ended 31st March, 2009.

PERFORMANCE REVIEW

In the Directors Report of May 2008, shareholders were given a perspective of the deteriorating economic indicators and their likely adverse effect on the automotive industry and the business of the Company, both for demand of its products and profitability margins. In the event, the economic situation turned much worse, in particular following the unprecedented global financial turmoil when banks and non-banking financial companies in India virtually withdrew credit from the automotive financing market. The impact on the commercial vehicle industry was indeed disastrous.

After achieving impressive growth during the six years to 2007-08, industry sales fell to 4,27,000 from the previous year's 5,49,000, the entire fall being in the second half. Sales of the Company also replicated that and volume declined from 11,272 vehicles in 2007-08 to 8,020 vehicles, the drop being suffered mainly in the second half of the year under review, which was most unfortunate, but totally unavoidable. Any decline in business would be unpleasant, but such a sudden and sharp drop in such short period severely impacted revenue. That caused extreme stress on the ways and means position of the Company. However, it was able to receive timely assistance from a Bank in the form of a short-term accommodation of Rs. 25 crores (since repaid) which enabled the Company to discharge its financial responsibilities.

The inevitable consequence of the sharp drop in volume of business and revenue was a huge pre-tax loss of Rs.15.5 crores in the third quarter against pre-tax profit of Rs. 9.5 crores and Rs. 9.2 crores in the preceding two quarters.

Fortunately, the intensive plan by the Management already in progress, involving production cuts, tight inventory control, reduction in manpower and realignment of marketing focus on high margin and higher cash generative business, together with rigorous containment of administrative expenditure further kept the situation under control. Some of these measures had immediate ameliorative effect as witnessed by pre-tax profit of Rs. 0.9 crores in the fourth quarter; furthermore these measures have provided strong foundations for the recovery that is already in evidence. Members would have noticed from the April-June' 09 first quarter published results that corporate operations have generated a pre-tax profit of Rs. 3.3 crores.

It is in the above background that the Directors report the following summary of results for the year 2008-09:

(Rs. in Crores)

	Year Ended 31st March, 2009	Year ended 31st March, 2008
Net Operating Revenue	546.95	671.42
Operating Profit	28.06	53.74
Profit Before Tax	4.14	38.70
Tax Expense	(0.65)	13.50
Profit After Tax	4.79	25.20
Balance of Profit from Prior Years	14.58	13.13
Surplus available for Appropriation :	**19.37**	38.33
Appropriations :		
Transfer to General Reserve	0.25	17.00
Proposed Dividend	1.57	5.77
Tax on Dividend	0.27	0.98
Amount carried to Balance Sheet	17.28	14.58

In their report of May 2008, the Directors expressed their confidence that the ongoing expansion plans for capacity and new products should be vigorously pursued. They have maintained that resolve and the Management has made considerable progress with several objectives it had set. In fiscal 2008-09, of the total capital expenditure of Rs. 34.0 crores the new manufacturing facilities under the Expansion Project accounted for Rs. 18.0 crores and the new R&D Centre Rs.14.0 crores.

DIVIDEND

Having regard to the sharp dip in net earnings, the Directors have decided to recommend payment of dividend for the Financial Year 2008-09 at the rate of 15% against 55% for the previous year.

SWARAJ MAZDA

EXPANSION PROJECT

Members will recall that after establishing technical alliance with Isuzu, the Company commenced its Expansion Project on 128 acres of its land at its existing Nawanshahar plant in Punjab under a two phase programme of setting up a second vehicle manufacturing facility and a new in-house bus body making plant.

The first two products – the 41 seater air conditioned bus and the 12 seater executive coach made their commercial debut in July, 2008 after completion of testing by government authorities followed by exhaustive field trials. Unfortunately, the financial crisis that hit the country referred to earlier in the Report led to suspension of deliveries to many customers who suddenly withdrew their orders or interest in the new vehicles. The Directors believe that benefiting from the expected economic turn around and easing of lending norms, demand for these passenger carriers will pick up in a significant manner.

Furthermore, based upon actual experience since the project was set up in fiscal 2007 and considering the changes necessary in the product portfolio, the Company has reviewed the Expansion Project under implementation. The revised estimate for the capital outlay of the Project is Rs. 260 crores against the earlier plan of Rs. 300 crores, of which Rs. 150 crores is for phase-I and Rs. 110 crores for phase-II. Until the end of August, 2009, under phase-I, a sum of Rs. 114 crores has already been spent for setting up the new vehicle manufacturing facility and the new bus body plant. The funding for the revised capital outlay of Rs. 260 crores for the Expansion Project will now be through issue of equity shares on rights basis for a value of Rs. 80 crores and long term borrowings of Rs. 180 crores. The Directors wish to convey that the Company has already tied up arrangements for the requisite borrowings.

The shareholders have already approved at the Extra-ordinary General Meeting (EGM) held on 2nd July, 2009 an increase in the Authorized Share Capital from Rs. 20 crores to Rs. 40 crores divided into 4 crores equity shares of Rs. 10/- each together with alterations to the related clauses contained in the Memorandum of Association and Articles of Association of the Company.

In that EGM, Members also gave their consent to offer, issue and allot to the equity shareholders of the Company, equity shares of the face value of Rs.10/- each at a premium, for an aggregate amount of Rs. 80 crores on such terms and conditions as may be fixed by the Board.

The Directors wish to inform Members that the Company expects to submit shortly its draft letter of offer to Securities and Exchange Board of India (SEBI) for its approval as required by its Regulations.

SIGNIFICANT DEVELOPMENTS

The shareholders will recall that at the EGM held on 16th February, 2009 matters relating to promoter shareholders, Punjab Tractors Ltd. (PTL) and Sumitomo Corporation (Sumitomo) were discussed when the necessary shareholder approvals were given. A brief summary of these matters is given hereunder:

All cases which had caused litigation involving the Company as well as the two promoter groups, PTL and Sumitomo, were satisfactorily resolved in January, 2009 and related legal cases withdrawn. PTL, on sale of all its shares to Sumitomo, also withdrew its nominee from the Board of the Company effective 6th January, 2009 and it ceased to be a Promoter leaving Sumitomo as the sole promoter shareholder with an equity holding of 53.52% of the paid-up capital of the Company. Mazda had ceased to be a promoter in 2006. The Joint Venture Agreement (JVA) between promoter shareholders became infructuous with only one promoter left. Consequential amendments to the Company's Memorandum of Association and Articles of Association were duly approved by the shareholders at the EGM of the Company held on 16th February, 2009.

MANAGEMENT DISCUSSION & ANALYSIS, CORPORATE GOVERNANCE

A Management Discussion and Analysis Report is annexed to this report. A report on Corporate Governance together with the Auditors' Certificate confirming compliance of Corporate Governance norms also forms part of this Annual Report.

INDUSTRIAL RELATIONS

Industrial Relations and work atmosphere remained harmonious throughout the year.

PARTICULARS OF EMPLOYEES

The Company had 7 employees who were in receipt of remuneration of not less than Rs. 24,00,000 during the year ended 31st March, 2009 or not less than Rs. 2,00,000 per month during any part of the said year.

A statement of particulars pursuant to Section 217(2A) of the Companies Act, 1956 read with Companies (Particulars of Employees) Rules, 1975, forms part of this report. As per the provisions of Section 219(1)(b)(iv) of the Companies Act, 1956, the Report, together with Accounts, is being sent to the Shareholders of the Company, excluding the statement of particulars of employees under Section 217(2A) of the Act. Members desiring to have a copy of the same, may write to the Company Secretary at the Registered Office of the Company.

SAFETY, HEALTH AND ENVIRONMENT

The Company has always attached utmost importance to safety, health and environment related issues and has put in place systems, procedures, tools, equipment etc. to ensure safety of employees, plant & machinery as also for compliance with safety statutory rules and the regulations applicable in respect of environment. Furthermore, desired measures are taken from time to time to improve working conditions.

Employees are regularly made aware of hazards / risks associated with their jobs and appropriate training is imparted to them to improve their skills with a view to efficiently meet emergency situations. Periodic safety audits are undertaken to confirm proper functioning of the systems, procedures and functioning of the tools, equipments etc. and to make corrections, if required. Mock drills under emergency conditions are also conducted to test employees' alertness and response time.

The Company is committed to ensure the well being of its employees. All employees undergo periodic medical check-up and wherever necessary, suitable medical assistance is provided. At the occupational health centre, which caters to the medical needs of the employees, a doctor assisted by a qualified pharmacist is available.

ENERGY CONSERVATION, TECHNOLOGY ABSORPTION ETC.

A report required under the Companies (Disclosure of particulars in the Report of Directors) Rules 1988 is annexed to this Report.

CURRENT BUSINESS ENVIRONMENT

Although the Government of India had given a stimulus package to boost industrial demand, its effect on the commercial vehicle industry has been minimal, if at all. April-July, 2009 sales of vehicles by the industry have remained static and not much improvement is seen for the coming months. Liquidity and continuing poor market sentiment remain the depressing factors for demand for commercial vehicles.

Through further changes in marketing emphasis and with special efforts with banks and finance companies, the Company has been able to mitigate the above adverse effects by assisting customers in financing vehicle purchase. It improved sale volumes in April-June'09 first quarter (2186 vehicles) as compared to the preceding two quarters (1902 and 664 vehicles) and recorded a net profit of Rs. 3.3 crores against the second half loss of Rs. 14.6 crores in fiscal 2008-09. July'09 sales were also higher than July'08 numbers.

Going forward, the Directors believe that on the strength of concrete steps put in place, some of which described above, and indications of easing of credit arising from measures taken by the Government and RBI, it may be possible to sustain a steady improvement in the remaining months of the year.

DIRECTORS

Consequent upon withdrawal of nomination by PTL, Mr. Donald Peck resigned from the Board effective 6th January, 2009.

Mr. M. Sato tendered his resignation as Director of the Company effective 15th May, 2009. The Board, at its Meeting held on 28th May, 2009, placed on record its deep appreciation for the immense contributions made by Mr. Sato during his association of six eventful years that witnessed significant developments and changed course of the Company.

Mr. K. Machida tendered his resignation as Director of the Company effective 15th May, 2009. The Board, at its Meeting held on 28th May, 2009, placed on record its deep appreciation for his contributions to the Company.

Mr. M. Tabuchi was co-opted as a Director of the Company on 28th May, 2009 and holds office upto the forthcoming Annual General Meeting. The Company has received Notice u/s 257 of the Companies Act, 1956 proposing Mr. Tabuchi's appointment as a Director of the Company for consideration of the members at the forthcoming Annual General Meeting.

Mr. T. Hashimoto was co-opted as a Director of the Company on 28th May, 2009 and holds office upto the forthcoming Annual General Meeting. The Company has received Notice u/s 257 of the Companies Act, 1956 proposing Mr.Hashimoto's appointment as a Director of the Company for consideration of the members at the forthcoming Annual General Meeting.

Mr. H. Yamaguchi was co-opted as a Director of the Company on 28th May, 2009 and holds office upto the forthcoming Annual General Meeting. The Company has received Notice u/s 257 of the Companies Act, 1956 proposing Mr.Yamaguchi's appointment as a Director of the Company for consideration of the members at the forthcoming Annual General Meeting.

The Board accepted with much regret the resignation from the Board and the Company from Mr. Keiji Nakajima, Whole-time Director with effect from 1st July, 2009, at its Meeting held on 28th May, 2009, It recorded its sincere appreciation of the valuable services rendered by him in the operations and at the Board during his association with the Company.

Recognising that Mr. Yutaka Watanabe has been a Director on the Board of the Company since September, 2005 and the needs of the Company's future growth plans, the Board at its Meeting held on 28th May, 2009, appointed him as a Whole-time Director of the Company for a period of five years commencing from 1st July, 2009. Appropriate resolution for Mr. Yutaka Watanabe's appointment as Whole-time Director of the Company has been proposed at the forthcoming Annual General Meeting.

Mr. P. K. Nanda, Mr. Pankaj Bajaj, Mr. Steven Enderby and Mr. A. K. Thakur retire by rotation and, being eligible, offer themselves for reappointment.

DIRECTORS' RESPONSIBILITY STATEMENT

In terms of provision of Section 217(2AA) of the Companies Act, 1956, it is hereby confirmed that :

i) In the preparation of annual accounts, the applicable Accounting Standards have been followed along with proper explanation relating to material departures;

ii) The Directors have selected such accounting policies and applied them consistently and made judgements and estimates that are 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;

iii) 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 safe guarding the assets of the Company and preventing and detecting fraud and other irregularities;

iv) The Directors have prepared annual accounts on a 'going concern' basis.

COST AUDIT

On the stipulation of the Central Government, Cost Audit of the Company for financial year 2008-09 was conducted by Messers Avtar Singh & Company, Cost Auditors. The Cost Auditors have given a clean report.

AUDITORS

Observations made by the Auditors, when read with the relevant notes under schedule 'N' to the Accounts, are self-explanatory. As such, in the opinion of the Directors, they do not call for a specific reply.

Messers Price Waterhouse, Chartered Accountants, retire as Auditors of the Company and have given their consent for reappointment. As required under the provisions of Section 224(1B) of the Companies Act, 1956, the Company has received a written certificate from the above Auditors that their reappointment, if made, would be in conformity with the limits specified in the said Section.

FOR AND ON BEHALF OF THE BOARD

S.K. TUTEJA
Chairman

YASH MAHAJAN
Managing Director

Dated : 4th September, 2009

MANAGEMENT DISCUSSION AND ANALYSIS

1. STATE OF THE ECONOMY

The world wide financial crisis triggered by the banking meltdown in USA since late 2007, with its consequential effects on most economies, particularly in the West, causing what appeared to be the worst slump since the depression of the 1930's inevitably affected the Indian economy. After four consecutive years of dream run for the economy, with GDP rising from 7.5% in fiscal 2004-05 to 9.0% in 2007-08, its fall to 6.7% in 2008-09 was a shock to the growth curve. Mercifully, the severe impact that might have ensued from the global crisis as in most other countries was substantially contained despite some immediate inflationary pressures but the impact on export earnings, a credit crunch caused more by the fears of the banking industry than the reality of the Indian situation, took their toll on many industries. The commercial vehicle industry, so dependent on bank financing has been severely hit.

Global actions led by USA and Europe in preventing a long period of depression as followed in the 1930's, appear to be paying off. The remedial measures of the Government in India and the Reserve Bank through fiscal stimulus packages, monetary measures and credit relaxation have shown results which augur well for the growth rates moving up again. Growth in industrial output for three straight months and the increase in GDP of 7.8% in June, 2009 the fastest rates since February, 2008 are evidence that recovery is under way. However, the risk to such recovery from the weakest monsoons in the last five years cannot be ignored.

2. COMMERCIAL VEHICLE INDUSTRY

Sale of commercial vehicles is dependent, more than many other industries, upon availability of finance from Banks / NBFCs. That availability is the first to be affected in an economic downturn and consequently, commercial vehicles industry is one of the first to suffer in such downturn. That was seen in the five year period when from 2.58 lakhs vehicles sales in 1996-97 sales had fallen to 1.58 lakhs in 2001-02, but with subsequent economic recovery, aggressive road building activities and with greater credit availability sales went back up reaching 5.49 lakhs in 2007-08. Again the sharp decline in the country's economy and lack of credit from Banks / NBFCs adversely impacted volumes in 2008-09. Subsequent support by the Government through a stimulus package resulting in better economic numbers have not yet restored demand because financing has still not followed through with banks being extremely cautious so far and industry volume for April-July'09 at 1.45 lakhs continue to lag behind same period last year which saw volume at 1.62 lakhs. The Company did relatively better than the industry during this period even if marginally so.

Government's recent initiatives under Jawaharlal Nehru National Urban Renewal Mission (JNNURM) and Bus Rapid Transit System (BRTS) towards purchase of modern buses for major cities by various State Transport Undertakings are expected to enhance demand for passenger carriers.

3. COMPANY UPDATE

Since its maiden dividend in 2000, despite suffering from downturn in economic activity in certain periods, the Company has maintained steady growth. Its continuing efforts in research and development to indigenize technologies, localize imported parts and introduce quality standards that meet evolving emission norms in India, such as Bharat Stage – II and Bharat Stage – III have paid off well. It has a well equipped centre for research and development which has enabled the Company to widen its vehicle portfolio both for passenger and goods carriers. In the passenger carrier category, the Company offers non-air conditioned and air conditioned bus models with capacity ranging from 10 to 41 seats. In the goods carrier category, it has eight core truck models with a GVW range of 6.1 tons to 7.5 tons in the LCV segment and 8.0 tons to 12.0 tons in the medium and heavy commercial vehicle segment with several variants. In addition, the Company manufactures special application vehicles in the passenger and goods carrier categories which include a variety of ambulances, troop carriers, dumper/garbage removal vehicles, water tankers, recovery vans and police vans.

The Company's recent entry into the manufacture of air-conditioned buses in the M&HCV segment is on Isuzu chassis and designs and technical know-how for bus bodies is from Malaysia. Design and technology for the body of air-conditioned executive coach is also from Malaysia.

The Company has three manufacturing facilities located at its Nawanshahar plant in Punjab with installed capacity in fiscal 2009 stood increased to 18,000 vehicles.

4. OPERATIONAL PERFORMANCE

Sales crash in the second half year severely impacted working of the Company for the year as a whole, resulting in a sharp revenue drop as summarized below:

(Rs. in Crores)

	2008-09	2007-08
Sale of Vehicles	**499.49**	626.87
Sale of Spare Parts	**41.36**	38.56
Sale of Scrap etc.	**6.10**	5.99
Total Revenue	**546.95**	671.42

Performance data needs to be seen in relation to the comments on economic downturn and credit availability earlier mentioned.

Whilst a marginal decline was achieved in Material cost to 81.8% (82.0%), the drop in revenue explained earlier led to Employees' cost increasing to 6.5% of revenue from 4.3% - Rs. 35.5 crores (Rs. 29.1 crores). It was possible to contain Marketing costs - Rs. 17.3 crores, at 3.2% (Rs. 22.5 crores, 3.4%) in line with drop in sales revenue. Consequently, Operating profit and margin fell sharply, Rs. 28.0 crores against Rs. 53.7 crores and margin from 8.0% to 5.1%.

Interest cost (Rs. 18.1 crores against Rs. 11.7 crores) increased on account of hike in rates post June 2008 as well as the larger borrowings relating to the expansion activities.

The investment in the expansion project also led to increase in depreciation from Rs. 3.3 crores to Rs. 5.8 crores.

Resultantly, Profit Before Tax and PBT margin nosedived to Rs. 4.14 crores from Rs. 38.7 crores and margin to 0.7% from 5.8%. Net profit after tax at Rs. 4.8 crores (Rs. 25.2 crores) translates to an earning of Rs. 4.6 per share (Rs. 24.0).

Outgo on dividend account inclusive of tax at Rs. 1.84 crores would translate to a payout ratio of 38% (27%).

Company's net worth on 31st March 2009 stood at Rs. 96.5 crores comprising Equity component of Rs.10.5 crores and Reserves of Rs. 86.0 crores. Year-end borrowings from Banks stood at Rs. 220.3 crores (Rs. 142.6 crores) because of the expansion project but debtors were down from Rs.185.6 crores to Rs. 146.3 crores as on 31st March, 2009. Whilst Inventories went up to Rs. 149.3 crores from Rs. 123.5 crores because of the sales fall in the second half year earlier reported, vendor dues declined to Rs. 114.0 crores from Rs. 173.0 crores of the year earlier. Gross Block and Net Block of assets respectively stood at Rs.135.0 crores (Rs. 48.6 crores) and Rs. 99.5 crores (Rs. 18.7 crores). These assets represent annual production capacity of 18,000 (12,000) vehicles on double shift basis.

5. INTERNAL CONTROL SYSTEM AND ADEQUACY

Finance & Accounts function is adequately staffed by professionally qualified and experienced personnel. Established systems and procedures for internal control are in place. 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 Board of Directors. The reporting and monitoring system is elaborate and the same is reviewed at the meetings 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 subsequently submitted to the Audit Committee of the Board for consideration.

6. HUMAN RESOURCES

Industrial relations were harmonious throughout the year under review. The total employees' strength as on 31st March, 2009 was 878 (881).

The Company has a lean structure of organisation and has conducted its affairs within the framework of well-defined business plans which have provided appropriate guidance and direction to its employees. It has always been the goal to attract the best talent, provide invigorative work environment, retain achievers and out-performers and inculcate in the employees life-long loyalty for the organisation. Raising employees' involvement in the decision making process and grooming them for leadership has been an ongoing process. After the conclusion of the four year wage agreement (2006), further improvement in work culture has taken place.

7. BUSINESS RISKS AND CONCERNS

Demand for commercial vehicles is dependent upon overall economic growth, infrastructure development and smooth availability of retail finance. India is heavily reliant on imported oil, thus oil prices have a bearing on transport sector. Performance of railways and movement in freight rates are also key factors that have a bearing on demand for cargo carriers.

Higher emission standards under Bharat Stage IV norms and Bharat Stage III norms will become applicable in 11 mega cities and throughout the country effective April, 2010. Since steel, steel-based components and other materials represent 80% of input costs, any steep rise in steel prices & other materials plus the additional burden arising from new emission norms would lead to higher production cost of cvs, not necessarily neutralized by revision in selling prices, in view of intensely competitive operating environment.

CV industry has 12 active players. Many of them have already increased capacities, concluded new tie-ups and are also widening their product portfolios. Further, two more global CV players are reported to be entering the Indian market. Thus, competition will further intensify.

Measures to meet the new emission norms, reduce costs through value engineering, process improvement / product up-gradation / product-mix / price restructuring are constantly reviewed by management. R&D efforts and activities are geared to design and develop new products / variants to meet new challenges and take advantage of emerging opportunities. Additionally, technical alliance with Isuzu Motors, the R&D centre, the new vehicle manufacturing facility for introduction of medium and heavy cargo carriers and the new bus body facility for in-house manufacture of passenger carriers are some of the major initiatives and concrete steps taken by the Company to minimize its vulnerability against business risks. By establishing a wider product base, in turn, expected to improve efficiencies and productivity, the Company has increased its capabilities to offset business risks.

8. CAUTIONARY STATEMENT

Statements in the Management Discussion and Analysis Report describing Company's objectives, projections, estimates and expectations may constitute "forward looking statements" within the meaning of applicable laws and regulations. Actual results might differ materially from those either expressed or implied.