SML ISUZU LIMITED (FORMERLY SWARAJ MAZDA LIMITED)

BOARD OF DIRECTORS

S.K. TUTEJA	Chairman
HARKIRAT SINGH	
A.K. THAKUR	
P.K. NANDA	
STEVEN ENDERBY	
M. TABUCHI	
E. SETO	
H. YAMAGUCHI	
PANKAJ BAJAJ	
R.P. SEHGAL	Director - Works
Y. WATANABE	Managing Director & CEO

EXECUTIVE DIRECTOR - 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 MIZUHO CORPORATE BANK LTD.
REGISTERED OFFICE & WORKS	VILLAGE : ASRON, DISTT. SHAHID BHAGAT SINGH NAGAR (NAWANSHAHAR) PUNJAB-144 533
CORPORATE OFFICE	204-205, SECTOR 34-A, CHANDIGARH-160 022

CONTENTS **PAGE NO.**

27TH ANNUAL GENERAL MEETING
on Saturday, 6th August, 2011
at 1.00 P.M. at Village Asron,
Distt. Shahid Bhagat Singh Nagar,
(Nawanshahar) Punjab.

IMPORTANT COMMUNICATION TO SHAREHOLDERS

The Ministry of Corporate Affairs has taken a "Green Initiative in Corporate Governance" by allowing paperless compliances by companies and has issued circulars stating that service of notice / documents including Annual Report can be sent by e-mail to members. To support this green initiative of the Government in full measure, members who have not registered their e-mail addresses so far, are requested to register their e-mail addresses, in respect of electronic holdings with their Depository through their concerned Depository Participants as early as possible. Members who have provided their E-mail addresses desire to receive physical copy of the aforesaid documents as well as those members who hold shares in physical form would like to receive the aforesaid documents by E-mail are requested to inform the Company's Registrar and Transfer Agents M/s MCS Limited at their E-mail id "admin@mcsdel.com".

REPORT OF THE DIRECTORS

The Directors are pleased to present their Twenty Seventh Annual Report together with Audited Accounts for the financial year ended 31st March 2011, which was the 25th year since the Company commenced its commercial operations.

PERFORMANCE REVIEW

The improvement in the commercial vehicles market witnessed in the second half of the previous year continued and the Company was able to achieve the highest ever volume of sales at 12870 vehicles (10133). Net Revenue at Rs. 893.0 crores (Rs. 722.2 crores), Operating Profit of Rs. 69.5 crores (Rs. 58.0 crores) and Profit before Tax at Rs. 51.4 crores (Rs. 30.4 crores) also set new records.

Although sale of new products saw some improvement, these remained below targets set. Consequently, capital expenditure for the expansion project was restricted for the time being.

Receivables remained at satisfactory level having brought these to set standards in the previous year, and cash flow was well controlled.

It is in the above background that the Directors report the following summary of results for the year 2010-11

(Rupees in Crores)

	Year Ended 31st March, 2011	**Year ended 31st March, 2010**
Sales Volume (Nos.)	12870	10133
Net Operating Revenue	893.00	722.23
Operating Profit	**69.46**	**57.93**
Profit Before Tax	**51.38**	**30.43**
Tax Expense	14.82	8.97
Profit After Tax	36.56	21.46
Balance of Profit from Prior Years	29.82	17.28
Surplus available for Appropriation :	**66.38**	**38.74**
Appropriations :		
Transfer to General Reserve	3.66	2.15
Proposed Dividend	11.58	5.79
Tax on Dividend	1.92	0.98
Amount carried to Balance Sheet	49.22	29.82

CHANGE OF COMPANY NAME

Members may recall that they had approved the change of Company's name from Swaraj Mazda Limited to SML Isuzu Limited through postal ballot process in November, 2010. Consequently, upon receipt of fresh Certificate of Incorporation dated 3rd January, 2011 from the Registrar of Companies, Punjab, Himachal Pradesh and Chandigarh, the new name of the Company has become effective.

DIVIDEND

Having regard to the improvement in financial results, the Directors have recommended payment of dividend for Financial Year 2010-11 @ 65% i.e. Rs 6.50 per share. In addition the Directors recommend a special dividend of 15% i.e. Rs 1.50 per share on completion of 25 years of commercial operations, making aggregate of 80% i.e. Rs 8.00 per share. Previous year's dividend was 40%.

EXPANSION PROJECT

Members may recall that Company had embarked upon its Expansion Project in fiscal 2006-07 by setting up facilities with a view to expand its product portfolio aimed to capitalize on the emerging business opportunities in the Indian Commercial Vehicles sector and to enable it to foray into the manufacture of air-conditioned luxury buses and coaches targeted at the tourism industry and long distance inter-city travel.

In the terms of the Rights Issue, it had been projected that the net proceeds of Rs.1800 lacs, earmarked for Expansion Project, would be utilized by March, 2011. However, as stated in the last fiscal's Directors Report, demand for luxury buses did not rise to expected levels. Accordingly, capital spending has been restricted to bare minimum and only a sum of Rs. 321.70 lacs utilized out of the aforesaid Rs. 1800 lacs. Shareholders' approval is being sought in the forthcoming Annual General Meeting of the Company for the deferment the date of completion of expenditure up to March, 2013.

MANAGEMENT DISCUSSION & ANALYSIS, CORPORATE GOVERNANCE

A Management Discussions 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

Directors report with satisfaction that after a gap of 4-years a fresh Wage Agreement was concluded with the representatives of the workmen in cordial atmosphere.

PARTICULARS OF EMPLOYEES

The Company had 5 employees who were in receipt of remuneration of not less than Rs. 60,00,000 during the year ended 31st March, 2011 or not less than Rs. 5,00,000 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 continues to demonstrate a strong commitment to safety, health and environment. These aspects have been adopted as core organizational value of the Company.

Employees are continuously made aware of hazards / risks associated with their job and necessary training is imparted to them to update their knowledge and skill to meet any emergency situation.

The Company carries out statutory safety assurance and audits its facilities as per legal requirements. Regular medical and occupational check-up of employees are concluded and eco-friendly activities are promoted.

The Company has installed incinerator plant to safely dispose of hazardous waste. A sewage treatment plant has also been installed to ensure eco-friendly disposal.

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

There are concerns that the estimated 8.5% economic growth in fiscal 2010-11 may not be sustained on account of various factors – both domestic & external, most importantly the effects of rising inflation, and the continuing uncertainties in most lead economies in the world. It is appropriate, therefore, to assume that the CV industry may not sustain the growth recently witnessed. The first two months of the current fiscal year has seen growth of CV volumes of 15% at half the rate of the comparable months last year;

and the SML Isuzu segment's growth is only 1% (17500 against 17300). Company's sales for the first two months stayed flat (1672 against 1699). Margins, too, will be under pressure with prices of metals and petroleum products showing no signs of coming down.

Despite the foregoing, the Directors look at the current year with cautious optimism because of the initiatives taken to maintain growth in traditional products at recent levels and enhancement in the performance of new products.

DIRECTORS

Mr Yash Mahajan decided to demit office of the Managing Director upon completion of his tenure of 5 years on 31st May, 2011. The Directors respected his decision and placed on record their deep sense of appreciation of his strong and inspirational leadership as Managing Director of the Company since its establishment in 1983, his dedication and outstanding contribution to nurturing it to its present position. They wished Mr. Mahajan a happy and healthy life ahead.

The Directors appointed Mr. Yutaka Watanabe, presently Whole-time Director of the Company, as Managing Director and Chief Executive Officer of the Company for a period of 5 years with effect from 1st June, 2011 on his existing remuneration subject to requisite approval of Shareholders of the Company in the General Meeting and of the Central Government, if required.

Mr. P.K.Nanda, Mr. Pankaj Bajaj and Mr. Steven Enderby are the Directors retiring by rotation at the forthcoming Annual General Meeting.

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 explanations relating to material departures;

ii) The Directors have selected such accounting policies and applied them consistently and made judgments 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 2010-11 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 (PW), the Company's Statutory Auditors informed the Company vide letter dated 15th May, 2011 that they would not be able to continue as a Statutory Auditors of the Company after the forthcoming Annual General Meeting.

Taking note of PW's decision, Directors placed on record their appreciation of the services rendered by Messers Price Waterhouse, Chartered Accountants, as Statutory Auditors during the last 28 years of their association with the Company.

Consequently, in the Board Meeting held on 30th June, 2011, the Directors, on the recommendation of the Audit Committee of the Board, appointed Messers B S R & Co., Chartered Accountants as the Statutory Auditors of the Company to hold office from the forthcoming Annual General Meeting (AGM) of the Company to subsequent AGM subject to the approval of shareholders.

FOR AND ON BEHALF OF THE BOARD

	S K TUTEJA	Y. WATANABE
Dated : 30th June, 2011	Chairman	Managing Director & CEO

MANAGEMENT DISCUSSION AND ANALYSIS

1. INDUSTRY REVIEW

In fiscal 2010-11, Commercial Vehicle (CV) Industry achieved sales of 7,53,000 vehicles (5,76,400). Out of this, SML Isuzu segment (5.0 ton to 12.0 ton GVW) accounted for 99,500 (83,000) and represented 13.2% of aggregate volumes.

2. COMPANY PERFORMANCE

The Company shared in that growth and sold 12,870 vehicles (10,133), **the highest ever volume,** with an increase in market share to 13% (12.2%). Together with sale of spare parts, Net Revenue for 2010-11 was Rs. 893.0 crores (Rs. 722.2 crores), also the highest ever, as detailed below :

		(Rs. in Crores)
	2010-11	2009-10
On sale of Vehicles	**833.83**	669.64
On sale of Spare Parts etc.	**59.17**	52.59
Total Net Revenue	**893.00**	722.23

Timely revision of vehicle prices helped neutralize substantial increases in vendor costs enabling the Company to keep the material cost at 2009-10 level of 79% of net revenue.

The wage revision arising from the 4-year Wage Agreement effective from April, 2010 and some new hirings at all levels needed for the manufacture of new products and increase in production levels of exsisting products added Rs.17.3 crores to Employee costs for the year. At Rs. 59.9 crores (Rs. 42.6 crores) these represented 6.7% of net revenue (5.9%).

Other costs were contained to lower percentages to net revenue than the previous year: Marketing costs at Rs. 32.9 crores (Rs. 30.7 crores) at 3.7% (4.3%), and other operating & administrative expenses at Rs. 23.8 crores (Rs. 20.0 crores) at 2.7% (2.8%) in fiscal 2010-11.

The new funds from the Rights Issue and significant reduction in the collection cycle of dues from Dealers, together with borrowings at lower rates enabled interest cost reduction by more than half – from Rs. 18.9 crores in 2009-10 to Rs. 9.2 crores.

Depreciation charge for the year was Rs. 8.9 crores (Rs. 8.6 crores).

Higher sale volumes and better per vehicle realizations during fiscal under review led to a significant improvement in the profitability of operations and the Company achieved the highest ever Operating Profit at Rs. 69.5 crores (Rs. 57.9 crores) and Profit Before Tax at Rs. 51.4 crores (Rs. 30.4 crores).

Net Profit after tax at Rs. 36.56 crores (Rs. 21.46 crores) translates to an earning of Rs. 25.26 per share (Rs.19.44).

Outgo on dividend account inclusive of tax at Rs. 13.5 crores would translate to a payout ratio of 36.9% (31.6%).

Net worth of the Company as on 31^{st} March, 2011 rose to Rs. 212.8 crores (Rs.189.7 crores) comprising of an equity component of Rs. 14.5 crores (Rs. 14.5 crores) and reserves Rs. 198.3 crores (Rs. 175.2 crores).

Year-end borrowings from banks were Rs. 85.0 crores (Rs. 84.6 crores).

Year-end debtors were Rs. 116.5 crores (Rs 136.6 crores) reflecting the much improved collection cycle.

Year-end creditors were Rs. 137.5 crores (Rs. 136.9 crores), confirming the policy of timely payments to suppliers.

Gross Block and Net Block of assets respectively stood at Rs. 179.8 crores (Rs. 163.0 crores) and Rs. 127.5 crores (Rs. 119.1 crores).

3. INTERNAL CONTROL SYSTEM AND ADEQUACY

The Company has conducted its affairs within the framework of well-defined business plans which have provided appropriate guidance and direction to its employees. Annual Business Plan (ABP) for each fiscal year is formulated on the basis of well-defined processes and is approved by the Board of Directors. Finance & Accounts function is adequately staffed by professionally qualified and experienced personnel. 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.

4. HUMAN RESOURCES

The Company has always strived to attract the best talent, provide invigorative work environment, retain achievers and out-performers and inculcate in the employees loyalty for the organization. Raising employees' involvement in the decision making process and grooming them for leadership positions has been an ongoing process. During 2010-11, Company has concluded a Four Years Wage Agreement which would bring about further improvement in work culture with increased thrust on productivity quality and cost reduction. Employees strength as on 31st March, 2011 was 1073 (916).

5. 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 have become applicable in 11 mega cities with effect from 1st April, 2010 and Bharat Stage III norms in the rest of the country with effect from 1st October, 2010. Since steel, steel-based components and other materials represent 80% of input costs, abnormal rise in steel prices and extra burden from new emission norms would lead to higher production cost which may not be fully neutralized by revision in selling prices in view of intensely competitive operating environment.

Technical alliance with Isuzu Motors, upgradation of the R&D centre and establishment of new manufacturing facilities that includes chassis and bus body fabrication are some of the major initiatives and concrete steps taken by the Company to minimize its vulnerability to business risks.

6. CAUTIONARY STATEMENT

Statements in the Management Discussion and Analysis Report describing the 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.