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	-	Whole-time Director
YASH MAHAJAN	-	Managing Director

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. STANDARD CHARTERED BANK
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.

26TH ANNUAL GENERAL MEETING
on Thursday, 30th September, 2010
at 1.00 P.M. at Village Asron,
Distt. Shahid Bhagat Singh Nagar,
(Nawanshahar) Punjab.

REPORT OF THE DIRECTORS

The Directors present their Twenty Sixth Annual Report together with Audited Accounts for the financial year ended 31st March, 2010.

PERFORMANCE REVIEW

As anticipated in last year's Report, the fiscal year 2009-10 saw steady improvement in the operations of the Company, particularly from October, 2009, in common with the positive changes in the overall commercial vehicle industry in the country. Happily, the improvement in the money supply situation was even better than expected giving a boost to demand for commercial vehicles (CV). While CV sales in the first half at 2,38,000 were low, the second half saw accelerated demand and sales achieved were at a robust level of 3,38,400. Consequently, total industry sales for the year at 5,76,000 (4,27,000) were an all time high. The Company's performance reflected that growth with sales rising to 10,133 vehicles from 8,020 in 2008-09, giving operating revenue of Rs. 722.23 crores (Rs. 546.95 crores).

Demand for the Company's ultra luxury buses saw only marginal improvement from last year: market penetration has proven difficult even though new products – two air-conditioned buses on Isuzu platform and one on Mazda chassis - were well received. Having regard to the slack demand for new products, capital spending in the year on the Expansion Project was restricted to bare minimum, at Rs. 2.87 crores. The Directors continue to believe that these products will achieve the sale volumes forecast in that Project.

A noteworthy feature of the Year's performance was highly successful efforts on collection of receivables, at Rs 878 crores, the highest in recent years, thereby achieving the stringent targeted levels of dealer dues.

Operating Profit at Rs 57.93 crores (Rs 28.06 crores) was gained from the increase in volume of sales, enhanced by a planned judicious product-mix, timely restructuring of vehicle prices and close vigil on expenditure.

It is in the above background that the Directors report the following summary of results for the year 2009-10.

(Rs. in Crores)

	Year Ended 31st March, 2010	**Year ended 31st March, 2009**
Sales Volume (Nos.)	10,133	8,020
Net Operating Revenue	722.23	546.95
Operating Profit	57.93	28.06
Profit Before Tax	30.43	4.14
Tax Expense	8.97	(0.65)
Profit After Tax	21.46	4.79
Balance of Profit from Prior Years	17.28	14.58
Surplus available for Appropriation :	**38.74**	**19.37**
Appropriations :		
Transfer to General Reserve	2.15	0.25
Proposed Dividend	5.79	1.57
Tax on Dividend	0.98	0.27
Amount carried to Balance Sheet	29.82	17.28

RIGHTS ISSUE

The Rights Issue for 39,84,946 shares as earlier approved by Shareholders was made in March 2010 at a premium of Rs 190 per share. It met with reasonable success and all offered shares were taken up and duly allotted, except for unsubscribed 2,17,045 shares, which, under the terms of the Issue were allotted to the Promoters over and above their entitlement. The Issue raised Rs. 79.7 crores out of which issue expenses of Rs 1.19 crores were disbursed and a Bank loan of Rs 50 crores earlier raised to meet the cost of the Expansion Plan was repaid. Rs. 18 crores has been placed as a Fixed Deposit to meet further needs for that Plan. The balance amount was utilized for general corporate purpose.

DIVIDEND

Having regard to the improved financial results, the Directors recommend payment of dividend for Financial Year 2009-10 @ 40% (i.e. Rs 4 per share) against 15% for the previous year.

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

Industrial Relations and work atmosphere remained cordial 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, 2010 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 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 off 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

Despite alarms from certain world events, particularly the financial crises in some European countries, a dexterous balance achieved by the Government between stimulus and other fiscal measures and actions on the worrisome inflation has enabled the momentum in the economy to continue. That has been further bolstered by large spending on infrastructure development and greater availability of credit to industry, including CV industry, which, consequently, has made an extremely good start for the year with CV sale volumes in the first quarter - April-June' 2010 reaching 1,64,000 against 1,03,800 for the same quarter last year. On the back of strong fundamentals, CV volumes are expected to stay on growth path for the rest of the year. However, tough monetary action, if taken by the apex bank during the year to rein inflationary pressures, may act as a dampener. Further, rising prices of petroleum products and metals may exert pressure on margins as it may not be possible for the industry to pass on the entire input cost increases to customers.

Following the industry pattern of the first quarter, demand in the segment relevant for the Company vehicles also rose significantly; unfortunately, due to shortage of critical components, full advantage could not be taken of this increased demand and sales for the first Quarter, which could have crossed 3,100, got restricted to 2,812 (2,186) vehicles. On this improved sales volume, first quarter operations have recorded a net profit of Rs. 7.2 crores (Rs. 3.3 crores). Since vehicle production continues to be hampered by material shortages, sales for the remaining three quarters may lag behind demand for Company products.

Taking note of the aforesaid factors, Directors are optimistically cautious about volume growth in sales for the rest of the year but apprehend that the Company may not be able to protect margins.

DIRECTORS

Mr. T. Hashimoto tendered his resignation as Director of the Company through letter dated 11th May, 2010. The Board, at its Meeting held on 28th May, 2010, placed on record its deep appreciation for his contributions to the Company.

Mr. Eiichi Seto was co-opted as a Director of the Company on 28th May, 2010 and holds office upto the forthcoming Annual General Meeting. The Company has received Notice u/s 257 of the Companies Act, 1956 proposing Mr. Seto's appointment as a Director of the Company for consideration of the members at the forthcoming Annual General Meeting.

Recognising the need to strengthen the Board in view of the Company's growth plans, the Board of Directors at its meeting held on 27th July, 2010 appointed, subject to Shareholders' approval, Mr. R.P. Sehgal as a Whole-time Director with effect from 1st June 2010 for a period of three years. Mr. Sehgal, in his tenure as Executive Director and a member of the Company's core team of management, has made immense contribution to its operations. He is designated as Director - Works. Appropriate resolutions for Mr.Sehgal's appointment as Director and Whole-time Director of the Company have been proposed at the forthcoming Annual General Meeting.

Mr.S.K.Tuteja, Mr. Harkirat Singh and Mr. H. Yamaguchi retire by rotation and, being eligible, offer themselves for re-appointment.

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 2009-10 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	YASH MAHAJAN
Dated : July 27, 2010	Chairman	Managing Director

MANAGEMENT DISCUSSION AND ANALYSIS

1. INDUSTRY REVIEW

The 2008 worldwide financial crisis which gripped most economies also derailed India's GDP growth from 2007-08 level of 9% to 6.7% in 2008-09, after a dream run of four years. With economy reeling under the unprecedented global meltdown at the beginning of 2009, last fiscal had an inauspicious start. However, stimulus package and an accommodative monetary regime put in place earlier, acted as a catalyst and the Indian economy staged a smart recovery in the second half with fiscal 2009-10 registering 7.2% GDP growth.

Sale of commercial vehicles (CV) is dependent to a large extent upon pace of economic activity and availability of credit. Global financial turmoil which manifested in India in September, 2008 and adversely impacted economic fundamentals and created liquidity crisis, dented performance of CV Industry in the second half of fiscal 2008-09 – volumes declining to 1,78,000 (3,09,000) and first half of fiscal 2009-10 – volumes declining to 2,38,000 (2,49,000). Happily the economic recovery from June, 2009, more importantly sharp increase in capital goods production, gave spurt to demand for commercial vehicles during second half of fiscal 2009-10 which saw vehicle sales peaking to 3,38,400 (1,78,000). Out of this, segment applicable to SML (7.5 to 12.0 ton GVW) contributed 45,000 (24,000).

2. COMPANY PERFORMANCE

Following industry trend, while SML volumes for the first half fell to 4,547 (5,454) with net revenue of Rs. 312.3 crores (Rs.368.1 crores), sales in the second half rose to 5,586 (2,566) generating net revenue of Rs. 409.9 crores (Rs. 178.9 crores). Consequently, on sale of 10,133 vehicles (8,020) and on sale of spare parts etc., net revenue for fiscal 2009-10 moved to Rs.722.23 crores (Rs. 546.95 crores) as detailed below :

(Rs. In Crores)

	2009-10	2008-09
On sale of Vehicles	**669.64**	499.49
On sale of Spare Parts etc.	**52.59**	47.46
Total Net Revenue	**722.23**	546.95

Mid-year decline in cost of procurement of steel related components and restructuring of product prices combined to bring down material cost to 79.0% for the year from 81.8% for fiscal 2008-09.

Employee costs at Rs. 42.6 crores (Rs.35.5 crores), represented 5.9% of net revenue (last year 6.5%). Marketing costs at Rs. 29.3 crores (Rs. 15.8 crores), represented 4.1% of net revenue (last year 2.9%).

Other operating, administrative & miscellaneous expenses at Rs. 21.6 crores (Rs. 20.0 crores) represented 3% of net revenue (last year 3.7%).

Interest burden for the year under review was Rs. 18.9 crores (Rs. 18.1 crores).

Depreciation charge for the year was Rs. 8.6 crores (last year Rs. 5.8 crores).

Increased volumes and better per vehicle realization have combined together to improve profitability; Operating profit rose to Rs. 57.9 crores (Rs. 28.0 crores) and PBT to Rs.30.4 crores (Rs. 4.1 crores).

Outgo on dividend account inclusive of tax at Rs. 6.77 crores would translate to a payout ratio of 32% (38%).

Consequent upon issue of fresh equity shares on rights basis at premium and with retained earnings of fiscal 2009-10, net worth of the company as on 31st March 2010 rose to Rs. 189.7 crores (Rs. 96.5 crores) comprising of an equity component of Rs.14.5 crores (Rs. 10.5 crores) and reserves Rs.175.2 crores (Rs. 86.0 crores).

As an outcome of improved cash flow from operations and utilization of proceeds from Rights Issue, year-end borrowings from banks declined to Rs. 84.6 crores (Rs. 220.3 crores).

Year-end debtors were Rs. 136.6 crores (Rs 146.3 crores).

Year-end creditors were Rs. 164.4 crores (Rs. 113.9 crores).

Gross Block and Net Block of assets respectively stood at Rs.163.0 crores (Rs. 135.0 crores) and Rs. 119.1 crores (Rs. 99.5 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. 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. 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 organisation. Raising employees' involvement in the decision making process and grooming them for leadership positions has been an ongoing process.

Outcome of this is that the Industrial relations have all along been harmonious and cordial including the year under review. The total employees' strength as on 31st March, 2010 was 916 (878).

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 will become applicable throughout the country effective 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, establishment of new vehicle manufacturing facility and the new bus body facility are some of the major initiatives and concrete steps taken by the Company to minimize its vulnerability against 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.

CORPORATE GOVERNANCE REPORT

Swaraj Mazda Ltd. (SML) practices a culture built on the principles of good corporate governance, disclosure and transparency in all its activities and processes. SML gives high priority to core values and ethics. SML believes that for a Company to be successful, it must consider itself the custodian and trustee of all its stake-holders. SML seeks corporate excellence and profits by offering quality vehicles and services to its esteemed customers. SML fosters team spirit amongst employees by continuously raising their involvement & participation in decision making. SML places high emphasis on integrity and lifetime loyalty to the Company. SML recognizes that it is rewarding to be a better managed enterprise, focuses on good corporate governance and considers it a key driver of sustainable corporate growth and stake-holder value creation.

1. BOARD OF DIRECTORS

The composition of the Board is in conformity with Clause 49 of the Listing Agreement, as amended from time to time. The Board has strength of twelve Directors; nine being Non-executive Directors, four including the Chairman are independent Directors which is one-third of the total strength of the Board; five are Non-executive Directors, out of which four, though belonging to the promoter group, are professional executives and one represents a significant shareholder. All the Non-executive Directors are highly qualified, possess vast knowledge and professional expertise in administration, accounts, finance, management, banking, insurance and other allied corporate disciplines. They bring independent judgement to the Board's deliberations and decision making. None of the Non-executive Directors has any material pecuniary relationship with the Company, which in their judgement would affect their independence.

The Managing Director and Director-Works, in their individual capacity, are professional Directors and the other Whole-time Director, though in his individual capacity is a professional Director, belongs to the Company's Promoter group.

None of the Directors of the Company are inter-se related to each other.

The Board periodically reviews and approves overall strategy, gives guidelines, directions and oversees the functioning of the Management to ensure that the core values and objectives of the Company are met.

Composition of the Board

The names and categories of Directors, the number of Directorships and Committee positions held by them in other companies are given below. None of the Directors on the Board is a Member on more than 10 Committees and Chairman of more than 5 Committees (as specified in Clause 49 of the Listing Agreement), across all the companies in which he is a Director.

The details of attendance of the Directors at the Board Meetings during financial year 2009-10 and the last Annual general Meeting held on 30th September, 2009 and also the number of other Directorships and Committee Memberships/Chairmanship as on 31st March, 2010 is as follows: