



SML ISUZU LIMITED

Annual Report 2012

SML ISUZU LIMITED (FORMERLY SWARAJ MAZDA LIMITED)

BOARD OF DIRECTORS

S.K. TUTEJA	Chairman
HARKIRAT SINGH	
A.K. THAKUR	
P.K. NANDA	
M. TABUCHI	
E. SETO	
K. OKIHIRO	
KENJI IIDA	
PANKAJ BAJAJ	
R.P. SEHGAL	Director - Works
Y. WATANABE	Managing Director & CEO

**EXECUTIVE DIRECTOR - FINANCE
& COMPANY SECRETARY**

GOPAL BANSAL

AUDITORS	B S R & COMPANY
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-160 135

CONTENTS	PAGE NO.
Report of the Directors	3
Management Discussion and Analysis	7
Annexure to Directors' Report	10
Corporate Governance Report	11
Shareholders' Information	19
Balance Sheet	22
Statement of Profit and Loss	23
Cash Flow Statement	24
Notes Forming Part of the Financial Statements	26
Auditors' Report	47
Notice of Annual General Meeting	54
Auditors' Certificate on Corporate Governance	61
Declaration by Managing Director & CEO	61

28TH ANNUAL GENERAL MEETING

on Wednesday, 18th July, 2012
at 1.00 P.M. at Registered Office -
Village Asron,
Distt. Shahid Bhagat Singh Nagar,
(Nawanshahar), Punjab.

IMPORTANT COMMUNICATION TO SHAREHOLDERS

The Ministry of Corporate Affairs ("MCA") has started "Green Initiative in Corporate Governance", which provides for paperless compliances by companies through electronic mode. In accordance with MCA's circulars bearing no. 17/2011 dated 21st April, 2011 and 18/2011 dated 29th April, 2011, companies can now send documents and other notices to shareholders through electronic mode. Further, SEBI has also recently amended Clause 32 of the listing agreement to promote paperless compliances. Accordingly, we intend to send documents such as notices, Annual Report and other communications in electronic form. Please note that all such documents shall also be available on the Company's website www.smlisuzu.com and shall also be kept open for inspection at the Registered Office of the Company during office hours. We seek your participation in this Green Initiative. If you wish to receive shareholders' communications through electronic mode please send your email ID to us at SCO 204-205, Sector 34A, Chandigarh - 160 135 or the same may be registered at our website www.smlisuzu.com in the Investor Section.

REPORT OF THE DIRECTORS

The Directors are pleased to present their Twenty Eighth Annual Report together with Audited Accounts for the financial year ended 31st March 2012.

PERFORMANCE REVIEW

As foreseen in last year's Directors report, economic growth of the earlier years was not maintained during the year, both for external reasons and internal factors and manufacturing growth remained sluggish. However, thanks to the continuing road infrastructure development and construction activities, the commercial vehicle industry was able to beat that trend, further helped by increased replacement demand arising from enforcement of regulatory requirements.

Consequently, your Company was able to achieve 6% growth in vehicle numbers, a revenue increase of 14%, crossing the Rs 1,000 crore milestone for the first time and new highs both in operating and net profit.

The financial performance of the Company, for the year ended 31st March, 2012 is summarized below:

(Rs. in Crores)

	2012	2011
Sales Volume (Nos.)	<u>13646</u>	<u>12870</u>
Net Revenue	1,042.22	913.00
Less : Material Cost & Other Expenses	956.19	842.32
Operating Profit	86.03	70.68
Profit Before Tax (before exceptional & prior period item)	64.96	51.38
Exceptional & prior period item	4.88	-
Profit After Tax	41.87	36.56
Balance of Profit from prior years	49.22	29.82
Surplus available for appropriation	91.09	66.38
Transfer to General Reserve	4.19	3.66
Proposed Dividend (including tax)	13.45	13.50
Amount carried to Balance Sheet	73.45	49.22

EXPANSION PROJECT

Further progress has been made with the Project and enhanced output of new products from the new facility has been reasonably satisfactory. Plans are now in place to manufacture new products both on Isuzu and SML platform in the next twelve to eighteen months.

DIVIDEND

Having regard to the improved financial results, the Directors have recommended payment of dividend for Financial Year 2011-12 @ 80% i.e. Rs. 8.00 per share, same as the previous year's - which had included a 15% special dividend.

CHANGE IN SHAREHOLDING STRUCTURE

In April, 2012, Isuzu Motors Limited, Japan acquired from Sumitomo Corporation, Japan 1,591,881 equity shares of Rs 10 each thereby increasing their shareholding to 15% from existing 4%. Consequently, with its shareholding in the Company coming down to 43.96 %, Sumitomo Corporation, Japan has ceased to be the holding company of the company.

MANAGEMENT DISCUSSION & ANALYSIS, CORPORATE GOVERNANCE

A Management Discussions & 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. Company has ensured that there is sustained communication and engagement with workforce through various forms.

CREDIT RATING

The Company continues to have the highest rating, for short term borrowings, of A1+ from ICRA, which is a reflection of the Company's financial discipline and prudence.

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, 2012 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.

CURRENT BUSINESS ENVIRONMENT

Recent economic data on manufacturing and GDP growth is, quite naturally, a cause for concern for the industry and indeed for the country for the year 2012-13. As with other industries and trades, commercial vehicles industry will also suffer much uncertainty. Whilst the Directors feel that the Company must be prepared for a slow down, they are hopeful that the momentum of growth recently witnessed for the Company's products may continue this year. The Company's resources and management thereof are geared to achieve that growth, particularly so with launching plan of new products and performance improvement of existing products.

DIRECTORS

Mr. A.K. Thakur, Mr. M. Tabuchi and Mr. S.K. Tuteja 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 and that there are no 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 that period;

- 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 safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
- iv) The Directors have prepared annual accounts on a going concern basis.

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.

COST AUDIT

On the stipulation of the Central Government, Cost Audit of the Company for Financial Year 2011-12 is being conducted by Messers ABS & Associates, Cost Auditors.

AUDITORS

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

Messers B S R & Company, Chartered Accountants, retires 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 appointment, if made, would be in conformity with the limits specified in the said Section.

FOR AND ON BEHALF OF THE BOARD OF DIRECTORS

Dated : May 25, 2012

S.K. TUTEJA
Chairman

Y. WATANABE
Managing Director & CEO

MANAGEMENT DISCUSSION AND ANALYSIS

1. INDUSTRY REVIEW

In fiscal 2011-12, Commercial Vehicle (CV) Industry achieved sales of 9,02,000 vehicles (7,59,000) - representing growth of 19% over the previous year. Out of this, SML Isuzu segment (5.0 ton to 12.0 ton GVW) accounted for 1,27,300 (1,09,000) and represented 14% of aggregate volumes.

2. COMPANY PERFORMANCE

The Company has sold 13,646 vehicles during fiscal 2011-12 against previous year sale of 12,870 vehicles. Together with sale of spare parts, Net Revenue for 2011-12 was Rs. 1042.2 crores (Rs. 913.0 crores), as detailed below:

	(Rs. In Crores)	
	<u>2011-12</u>	<u>2010-11</u>
On sale of Vehicles	968.1	852.6
On sale of Spare Parts etc.	74.1	60.4
Total Net Revenue	<u>1042.2</u>	<u>913.0</u>

Favorable product mix and higher realization per vehicle has more than neutralized the impact of increase in component prices. As a result, material cost as a %age on Net Revenue has come down from previous year's 77.4% to 76.0%.

Employee Cost at Rs. 67.9 crores (Rs. 59.9 crores) represented 6.5% (6.6%) of net revenue.

Marketing costs at Rs. 66.6 crores (Rs. 51.6 crores) works out to 6.4% (5.6%) of net revenue, the %age increase has been primarily on account of provision of Rs. 2.8 crores against amount receivable from a Govt. customer and higher warranty claim expenditure in respect of luxury buses. Other operating & administrative expenses at Rs. 29.9 crores (Rs. 23.9 crores) were at 2.9% (2.6%) of net revenue.

Interest cost (net) for 2011-12 at Rs. 6.5 crores is lower than previous year's Rs. 9.2 crores due to better receivables management & control over borrowings.

Depreciation charge for the year was Rs. 10.4 crores (Rs. 8.9 crores) - increase being on account of capital expenditure incurred during the year on the ongoing expansion project and on R&D centre.

Higher sale volumes, better per vehicle realization & control over costs has led to improvement in the profitability of operations and the Company achieved the highest ever Operating Profit of Rs. 86.0 crores (Rs. 70.7 crores) and Profit Before Tax (before exceptional & prior period item) of Rs. 65.0 crores (Rs. 51.4 crores).

Profit after tax at Rs. 41.9 crores (Rs. 36.6 crores) translates to an earning of Rs. 28.93 per share (Rs. 25.26).

Outgo on dividend account inclusive of tax at Rs. 13.5 crores would translate to a payout ratio of 32.1% (36.9%).

Net worth of the Company as on 31st March, 2012 rose to Rs. 241.2 crores (Rs.212.8 crores) comprising of an equity component of Rs. 14.5 crores (Rs. 14.5 crores) and reserves of Rs. 226.7 crores (Rs. 198.3 crores).

Year-end borrowings from banks were at Rs. 100.0 crores (Rs. 85.0 crores).

Year-end trade receivables were at Rs. 121.0 crores (Rs 116.5 crores) and trade payables were Rs. 163.4 crores (Rs. 138.3 crores).

Fixed assets (net) stood at Rs. 135.0 crores (Rs. 127.5 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. 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. Employee strength as on 31st March, 2012 was 1098 (1073).

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 20 mega cities and its applicability throughout India is under discussion at Govt. level.

Since steel, steel-based components and other materials represent major part 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 its R&D centre, establishment of new manufacturing facilities for chassis and bus body fabrication with a view to broaden its product portfolio, up-gradation of existing facilities to improve efficiency and quality of the products and cost reduction activities 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.