



## ANNUAL REPORT 2013

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**SML ISUZU LIMITED**

## SML ISUZU LIMITED (FORMERLY SWARAJ MAZDA LIMITED)

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### BOARD OF DIRECTORS

S.K. TUTEJA - Chairman

A.K. THAKUR

P.K. NANDA

SUDHIR NAYAR

E. SETO

K. OKIHIRO

PANKAJ BAJAJ

M. NAKAJIMA

Y. NIIJIMA

Y. KOSAKA - Director - R&D

Y. WATANABE - Managing Director & CEO

### EXECUTIVE DIRECTOR - FINANCE & COMPANY SECRETARY

GOPAL BANSAL

### AUDITORS

B S R & COMPANY

### LISTING OF SHARES

BSE LIMITED  
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

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**29TH ANNUAL GENERAL MEETING**

on Saturday, 21<sup>st</sup> September, 2013  
at 1.00 P.M. at Registered Office –  
Village Asron, Distt. Shahid Bhagat Singh Nagar,  
(Nawanshahar), Punjab - 144533.

**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 the MCA's circulars bearing No. 17/2011 dated 21st April, 2011 and 18/2011 dated 29<sup>th</sup> April 2011, companies now can send documents and other notices to shareholders through electronic mode. Further, SEBI has also amended Clause 32 of listing agreement to promote paperless compliances. Accordingly, we intent to send documents such as notices, Annual Report and other communication in electronic form. Please note that all such documents shall also be available on the Company's Website ([www.smlisuzu.com](http://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 34-A, Chandigarh-160 135 or the same may be registered at our website [www.smlisuzu.com](http://www.smlisuzu.com) in the Investor Section.

## REPORT OF THE DIRECTORS

The Directors are pleased to present their Twenty Ninth Annual Report together with Audited Accounts for the financial year ended 31<sup>st</sup> March 2013.

### PERFORMANCE REVIEW

The Directors had stated in the performance review last year that a slowdown in manufacturing seemed almost inevitable with the economic data that was emerging. In the event, the year under review saw a much deeper slowdown in the Indian economy with its consequential impact on the commercial vehicle industry. After an impressive performance over the period 2008-09 to 2011-12 with compounded annual growth of 28% and volume reaching 902,000 vehicles, the industry suffered a decline of 3.2% in the year under review. Unfortunately, the decline was even higher at 7.2% in the 5-12 ton GVW category in which the Company mainly operates - 118,100 vehicles from 127,300 in 2011-12. This magnitude of the drop has adversely impacted both revenue and profit even though several measures taken in anticipation of the downturn arrested a sharper decline in profits.

The financial performance of the Company, for the year ended 31<sup>st</sup> March, 2013 is summarized below:

(Rs. in Crores)

	2013	2012
Sales Volume (Nos.)	<b>12045</b>	<b>13646</b>
Net Revenue	1,011.06	1,042.22
Less : Material Cost & Other Expenses	931.78	956.19
<b>Operating Profit</b>	<b>79.28</b>	<b>86.03</b>
<b>Profit Before Tax</b> (before exceptional & prior period item)	<b>48.49</b>	<b>64.96</b>
Exceptional & prior period item	—	4.88
<b>Profit After Tax</b>	<b>36.43</b>	<b>41.87</b>
Balance of Profit from Prior years	73.45	49.22
<b>Surplus available for appropriation</b>	<b>109.88</b>	<b>91.09</b>
Transfer to General Reserve	3.64	4.19
Proposed Dividend (including tax)	13.54	13.45
Amount carried to Balance Sheet	92.70	73.45

### DIVIDEND

The Directors have recommended payment of dividend @ 80% (Rs. 8.0 per share) for the Financial Year 2012-13, at the same level as the previous year.

## **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. The Company has ensured 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. Highest credit rating reflects the Company's strong financial discipline & 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 31<sup>st</sup> March, 2013 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 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 conducted and eco-friendly activities are promoted.

The Company has incinerator plant for safe disposal of hazardous waste and a sewage treatment plant ensures eco-friendly disposal of sewage.

### **CURRENT BUSINESS ENVIRONMENT**

Your Directors feel that currently there are no signs of any major improvement in macro-economic indicators which may reverse, or even arrest the declining trend for the Commercial Vehicle industry. It continues to bear the brunt of lower cargo availability, reduced Government expenditure, restrictive measures on mining in some states and continuation of tight monetary regime. Industry performance during April-June, 2013 quarter has further suffered with a 10% volume drop compared with the corresponding period last year. Under such conditions, on a sale volume of 3195 (3257) vehicles, during this quarter, the Company recorded a net profit of Rs. 10.2 crores (Rs. 12.2 crores).

In the above background, despite certain policy announcements for improving the economy, the Directors do not foresee that markets for the Company's products will substantially increase. With efforts made in recent months to launch some improved products and further tightening of control over expenditure and cash resources, they hope that profitability will suffer the minimum effect. In these circumstances, it is given that the Company - and

indeed the whole commercial vehicle industry will face pressure on margins. Product development has continued so that some of these adverse effects are mitigated, particularly over the longer term.

## **DIRECTORS**

The Board reports with great regret the sad demise on 3<sup>rd</sup> March of this year of Mr. Harkirat Singh, who was an independent Director of the Company since 1991. He had played a constructive role at the Board, which at its Meeting on 7th May, 2013, placed on record its deep appreciation of the invaluable counsel and services rendered by Mr. Harkirat Singh.

Mr. R.P. Sehgal, who joined the Company in 2004 as Executive Director-Works and was appointed a Whole-time Director in 2010, completed his tenure of three years on 31st May, 2013. His tenure was marked by his involvement in setting up new facilities for enhancing manufacturing capacity including the new bus body plant for state-of-the-art ultra luxury buses. The Board has placed on record its deep appreciation for the outstanding contribution and distinguished services rendered by him to the Company. Directors and all his colleagues in the Company wish him and his family all the best for the future.

Mr. Masao Tabuchi tendered his resignation as Director of the Company in April, 2013 on his appointment in a new position in his Company. While regrettably accepting his resignation, the Board, at its Meeting held on 7th May, 2013, placed on record its deep appreciation for his valuable guidance and advice during the period of his association with the Company.

Mr. Kenji Iida tendered his resignation as Director of the Company in April, 2013. The Board, at its Meeting held on 7th May, 2013, took note of the same and placed on record its deep appreciation for the valuable contributions made by him during the period of his association with the Company.

Mr. Masaki Nakajima was co-opted as a Director of the Company on 7th May, 2013 and holds office upto the forthcoming Annual General Meeting. The Company has received Notice u/s 257 of the Companies Act, 1956 proposing Mr. Nakajima's appointment as a Director of the Company for consideration of the members at the forthcoming Annual General Meeting.

Mr. Yasuyuki Nijima was co-opted as a Director of the Company on 7th May, 2013 and holds office upto the forthcoming Annual General Meeting. The Company has received Notice u/s 257 of the Companies Act, 1956 proposing Mr. Nijima's appointment as a Director of the Company for consideration of the members at the forthcoming Annual General Meeting.

Recognizing the need to strengthen Research and Development function of the Company much needed for the development of new products and upgrading the existing ones, the Board at its meeting held on 8th November, 2012 appointed, subject to Shareholders' approval, Mr. Yuji Kosaka, as Whole-time Director with effect from 8th November, 2012 for a period of two years, designated as Director-R&D. Mr. Kosaka worked with Isuzu Motors group for almost 43 years and has vast experience in the fields of Quality Control & Manufacturing Engineering. Appropriate resolution for Mr. Kosaka's appointment as Director of the Company has been proposed for the forthcoming Annual General Meeting.

Mr. Sudhir Nayar was co-opted as an additional Director of the Company on 6th August, 2013 and holds office upto the forthcoming Annual General Meeting of the Company. The Company has received Notice u/s 257 of the Companies Act, 1956 proposing Mr. Nayar's appointment as a Director of the Company for consideration of the members at the forthcoming Annual General Meeting.

Mr. E. Seto, Mr. P.K. Nanda and Mr. Pankaj Bajaj 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 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 2012-13 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.

B S R & Company, Chartered Accountants, retires as Auditors of the Company and has given its 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 : 06 August 2013

S.K. TUTEJA  
Chairman

Y. WATANABE  
Managing Director & CEO

## MANAGEMENT DISCUSSION AND ANALYSIS

### 1. INDUSTRY REVIEW

After cumulative growth of 28% in the three years to 2011-12, in fiscal 2012-13, Commercial Vehicle (CV) Industry suffered a fall in sales of 3.2 % from the earlier year to 8,73,000, with the passenger segment down from 1,12,300 to 1,05,300 vehicles and truck volume down from 7,89,700 to 7,67,700. The only growth segment was sub-5.0 ton GVW with increase of 13%. The 5.0 ton to 12.0 ton GVW category, in which the Company mainly operates, accounted for 1,18,100, a 7.2% decline from 1,27,200 vehicles in 2011-12 reflecting general economic downtrend, particularly in industrial and construction activity.

### 2. COMPANY PERFORMANCE

The Company sold 12,045 vehicles during fiscal 2012-13 against previous year sale of 13,646 vehicles. Together with sale of spare parts, Net Revenue for 2012-13 was Rs.1011.1 crores (Rs. 1042.2 crores), as detailed below:

	(Rs. In Crores)	
	<u>2012-13</u>	<u>2011-12</u>
On sale of Vehicles	<b>919.75</b>	968.07
On sale of Spare Parts etc.	<b>91.31</b>	74.15
Total Net Revenue	<b><u>1,011.06</u></b>	<u>1,042.22</u>

Material cost at 75.4% of net revenue is lower against previous year's 76.0% due to higher realization per vehicle and favorable product mix.

Employee Cost at Rs. 80.9 crores (Rs. 67.9 crores) represented 8.0% (6.5%) of net revenue. The increase mainly on account of some additional hirings and inflation related increases.

Marketing costs at Rs. 56.0 crores (Rs. 66.6 crores) reflected the drop in sales volume, but other operating & administrative expenses were at Rs. 32.8 crores (Rs. 29.8 crores) - 3.2% against 2.9%, largely because of their fixed nature and relatively longer term commitments.

Interest cost (net) for 2012-13 at Rs. 12.8 crores is higher than previous year's Rs. 6.5 crores on account of increased borrowings necessitated due to higher levels of finished goods inventory and trade receivables caused by adverse market conditions. Management actions are now focused on reducing inventories and receivables both to bring down borrowings and interest cost as well as to further improve use of financial resources.

Depreciation charge for the year was Rs. 12.2 crores (Rs. 10.4 crores), the increase largely because of full year impact of assets installed during previous year and some assets installed during the year.

Operating Profit was at Rs. 79.3 crores (Rs. 86.0 crores) and Profit Before Tax was at Rs. 48.5 crores (Rs. 65.0 crores), the decline principally because of a substantial fall in sales volume.

Profit after tax at Rs. 36.4 crores (Rs. 41.9 crores) translates to an earning of Rs. 25.18 per share (Rs. 28.93 per share).

Outgo on dividend account inclusive of tax at Rs. 13.5 crores would translate to a payout ratio of 37.2 % (32.1%).

Net worth of the Company as on 31st March, 2013 rose to Rs. 264.1 crores (Rs. 241.2 crores) comprising of equity component of Rs. 14.5 crores (Rs. 14.5 crores) and reserves Rs. 249.6 crores (Rs. 226.7 crores).



Year-end borrowings from banks were higher at Rs. 162.1 crores (Rs. 100.0 crores) on account of increased level of net current assets.

Year-end trade receivables were at Rs. 150.7 crores (Rs. 121.0 crores) and trade payables were Rs. 111.6 crores (Rs. 163.4 crores).

Fixed assets (net) stood at Rs. 139.3 crores (Rs. 135.0 crores).

### **3. INTERNAL CONTROL SYSTEM AND ADEQUACY**

The Company conducts 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 un-authorized use/disposition and transactions are recorded and reported with propriety, accuracy and speed. These aspects of operations are regularly reviewed and verified by Company's Internal Audit department and by the Company's Statutory Auditors. Significant observations of these Auditors are subsequently submitted to the Audit Committee of the Board for consideration and guidance.

### **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.

### **5. BUSINESS RISKS AND CONCERNS**

Demand for commercial vehicles is dependent upon overall economic activity, infrastructure development and smooth availability of retail finance for trade transport. India is heavily reliant on imported oil, thus global oil prices and exchange rate volatility 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 cities, some more likely to be added during this year and its applicability throughout India is under discussion in the Government.

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 R&D centre, and establishment of new manufacturing facilities that include bus body fabrication, up-gradation of existing facilities and cost cutting 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.

## CORPORATE GOVERNANCE REPORT

SML Isuzu Limited (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 service 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 and focuses on good corporate governance.

### BOARD OF DIRECTORS

The composition of the Board is in conformity with Clause 49 of the Listing Agreement, as amended from time to time. As at 31st March, 2013, the Board has strength of 11 Directors; eight being Non executive Directors. Till 3rd March, 2013 (Mr. Harkirat Singh expired), there were four independent Directors. On 6th August, 2013, Mr. Sudhir Nayar joined the Board as Independent Director in place of Mr. Harkirat Singh. Four Non-executive Directors belong to the promoter group but are professional executives ; one Non-Executive Director is a senior executive with Isuzu Motors, Japan. 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. None of the Directors of the Company are inter-se related to each other.

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

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.

#### A. Composition of the Board

The Company's Board of Directors currently comprises Eleven members. While five members are Non Independent Non-Executive Directors, two Whole-time Directors are the Executive Directors of the Company and remaining four (including the Chairman) are Independent Directors.

#### B. Board Procedure

The Board meets at Regular intervals and a detailed Agenda is sent to each Director prior to Board and Committee Meetings. To enable the Board to discharge its responsibilities effectively, the Board is appraised at every Meeting regarding the overall performance of the Company. The Board also inter alia reviews strategy and business plans, annual operating and capital expenditure budgets, investment and exposure limits, compliance reports of all laws applicable to the Company as well as steps taken by the Company to rectify instances of non-compliances, adoption of quarterly/half-yearly/annual results, significant labour issues and Minutes of Meetings of the Audit and other Committees of the Board.

During the financial year 2012-13 four meetings of the Board of Directors were held on 25th May, 2012, 11th August, 2012, 8th November, 2012 and 14th February, 2013.

The 28th Annual General Meeting (AGM) was held on 18th July, 2012.

The information on Composition of the Board, number of Board Meetings, attendance of the Directors at the Board Meetings/ Annual general Meeting and also the number of other Directorships and Committee Memberships/ Chairmanship as on 31st March, 2013 is given below :

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