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ANNUAL REPORT 2014



SML ISUZU LIMITED

SML ISUZU LIMITED (FORMERLY SWARAJ MAZDA LIMITED)

BOARD OF DIRECTORS

S.K. TUTEJA - Chairman

P.K. NANDA

A.K. THAKUR

SUDHIR NAYAR

M. NAKAJIMA

H. OMINO

K. TAKASHIMA

K. OKIHIRO

PANKAJ BAJAJ

E. SETO - Managing Director & CEO

GOPAL BANSAL - Whole-time Director & CFO

K. KATAYAMA - Director – R&D

COMPANY SECRETARY

PARVESH MADAN

AUDITORS

B S R & COMPANY

LISTING OF SHARESBSE LIMITED
NATIONAL STOCK EXCHANGE
OF INDIA LIMITED**BANKERS**CANARA BANK
INDIAN OVERSEAS BANK
MIZUHO BANK LTD.**REGISTERED OFFICE
& WORKS**VILLAGE : ASRON,
DISTT. SHAHID BHAGAT SINGH NAGAR
(NAWANSHAHR) PUNJAB-144 533**CORPORATE OFFICE**SCO 204-205, SECTOR 34-A,
CHANDIGARH-160 135



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30TH ANNUAL GENERAL MEETING

on Monday, 22nd September, 2014
at 1.00 P.M. at Village Ason,
Distt. Shahid Bhagat Singh Nagar,
(Nawanshahr), Punjab - 144533

REPORT OF THE DIRECTORS

The Directors are pleased to present their Thirtieth Annual Report together with audited Financial Statements for the financial year ended 31st March 2014.

PERFORMANCE REVIEW

The report of the Directors for 2013 foresaw no major improvement in the economy which might give confidence for a recovery in demand for the Company's products. In the event, the pace of slowdown continued with GDP growth falling to under 5%, the commercial vehicle industry inevitably suffered further falls in demand, of as much as 19% in the year under review with volumes falling to 709,800 vehicles from 873,200. The 5-12 ton GVW category, in which the Company principally operates, also declined by 15% to 100,200 from 118,100. In this backdrop, Company's sales volume suffered a drop of 19% with devastating effect on profitability, even though highly inflationary pressures on costs, particularly wages, were almost totally offset by large savings in financial costs.

The financial performance of the Company, for the year ended 31st March, 2014 is summarized below:

	(Rs. in Crores)	
	2014	2013
Sales Volume (Nos.)	9760	12045
Net Revenue	885.99	1,011.06
Less : Material Cost & Other Expenses	849.58	931.78
Operating Profit	36.41	79.28
Profit Before Tax	17.71	48.49
Profit After Tax	17.40	36.43
Balance of Profit from Prior Years	92.70	73.45
Surplus available for Appropriation	110.10	109.88
Transfer to General Reserve	1.74	3.64
Proposed Dividend (including tax)	5.08	13.54
Amount carried to Balance Sheet	103.28	92.70

DIVIDEND

The Directors have recommended payment of dividend @ 30% (Rs. 3.0 per share) for the Financial Year 2013-14 (80% in 2012-13).

MANAGEMENT DISCUSSION & ANALYSIS, CORPORATE GOVERNANCE

A Management Discussion & 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 with sustained communication and engagement with workforce through various forums.

CREDIT RATING

The Company continues to enjoy the highest rating for short term borrowings, of A1+ from ICRA reflecting the Company's financial prudence.

PARTICULARS OF EMPLOYEES

The Company had 7 employees who were in receipt of remuneration of not less than Rs.6,000,000 during the year ended 31st March, 2014 or not less than Rs. 500,000 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. However, as per the provisions of Section 219(1)(b)(iv), this statement, is not being sent to the shareholders with this report and the accompanying accounts. Members who wish to receive a copy 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.

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

From all reports the national economy may have seen the worst behind it with slow resumption of growth, even though industrial indicators are still somewhat lackluster. The overall outlook, not least arising from the strong mandate delivered to the newly elected Government promising political stability and decisive industrial and fiscal policies, lends hope to an early revival of the commercial vehicles industry.

The Company is fully prepared to take advantage of the revival and with new and improved products it looks forward to sharing in sustained growth of the commercial vehicle industry, even though it may be gradual.

An enhancement in the in-house production of bus bodies as a result of completion of the facilities added as a part of the earlier reported expansion project, together with much improved vendor supplies, led to sale of passenger vehicles increasing to 2,749 in the first quarter, April-June, 2014 from 2,271 in the corresponding quarter of previous year. The seasonal demand for school buses was a major contributor. Cargo vehicles, however, fell short - 880 against 924 - reflecting the poor industrial growth. This product mix alongwith better per vehicle realization has enabled net revenue of Rs 340.3 crores and profit after tax of Rs 23.4 crores compared with Rs.10.2 crores in the corresponding quarter last year.

The Board has approved a capex plan envisaging an outlay of Rs. 220 crores to be implemented over next three years towards substantial technology and product up-gradation, development of products/variants and on plant infrastructure to improve manufacturing efficiency.

DIRECTORS

Mr. Yutaka Watanabe decided to demit office of Managing Director & CEO with effect from 25th December 2013. The Directors placed on record their deep sense of appreciation of his strong and inspirational leadership as Managing Director & CEO, and his outstanding contribution to the Company.

Mr. Eiichi Seto, who joined the Board as non-executive Director in May 2010, was appointed Managing Director & CEO of the Company for a period of 5 years with effect from 26th December 2013, subject to approval of shareholders of the Company in General Meeting and of the Central Government.

Mr. Yasuyuki Nijima tendered his resignation as Director of the Company in October, 2013. The Board, at its Meeting held on 11th November, 2013, placed on record its deep appreciation for his valuable support and advice during his tenure.

Mr. Hiroshi Omino was appointed as an Additional Director of the Company on 11th November, 2013 and holds office up to the forthcoming Annual General Meeting. The Company has received Notice u/s 160 of the Companies Act, 2013 proposing Mr. Omino's appointment as a Director of the Company for consideration of the members at the forthcoming Annual General Meeting.

Mr. Kyoichiro Takashima was appointed as an Additional Director of the Company on 11th February, 2014. The Company has received Notice u/s 160 of the Companies Act, 2013 proposing Mr. Takashima's appointment as a Director of the Company for consideration of the members at the forthcoming Annual General Meeting.

Mr. Gopal Bansal was appointed as an Additional Director and Whole-time Director on 11th February, 2014 on the Board designated as Whole-time Director & CFO, for 5 years, subject to the approval of the Shareholders of the Company in the General Meeting. The Company has received Notice u/s 160 of the Companies Act, 2013 proposing Mr. Bansal's appointment as a Director of the Company for consideration of the members at the forthcoming Annual General Meeting.

Mr. Yuji Kosaka tendered his resignation as Director-R&D effective 18th June 2014. The Board, at its Meeting held on 8th August, 2014, placed on record its appreciation for his contribution for development of new products during his tenure.

Mr. Kei Katayama was appointed as an Additional Director and Whole-time Director on 8th August, 2014 on the Board designated as Director-R&D, for 3 years, subject to the approval of the Shareholders of the Company in the General Meeting and of the Central Government. The Company has received Notice u/s 160 of the Companies Act, 2013 proposing Mr. Katayama's appointment as a Director of the Company for consideration of the members at the forthcoming Annual General Meeting.

The Board, on the recommendation of Nomination & Remuneration Committee, has proposed the appointment of Dr. (Mrs.) Vasantha S. Bharucha, a Ph.D. in Economics, having experience of 45 years in areas such as Economics, Strategy Planning, Fiscal Policy, etc. as an independent Director of the Company for five years in the forthcoming Annual General Meeting.

Mr. K. Okihito and Mr. Pankaj Bajaj are the Directors retiring by rotation at the forthcoming Annual General Meeting.

CORPORATE SOCIAL RESPONSIBILITY

As a responsible corporate citizen, the Company has always strived to maintain the highest standards of social responsibility, governance, safety and environmental performance. Pursuant to Section 135 of The Companies Act, 2013, your Directors have constituted Corporate Social Responsibility Committee (CSR) with three Directors, namely, Mr. S.K. Tuteja, Non Executive Independent Director as Chairman, Mr. Eiichi Seto, Managing Director & CEO, and Mr. Gopal Bansal, Whole-time Director & CFO, as Members.



It will formulate and recommend to the Board a CSR Policy and under that the activities to be undertaken, amounts to be spent and monitoring implementation thereof.

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 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 2013-14 is being conducted by Messers ABS & Associates, Cost Accountants.

AUDITORS

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 139(1) of the new Companies Act ("the Act"), the Company has received a written consent from the above Auditors for their appointment and a Certificate, to the effect that their re-appointment, if made, would be in accordance with the Act and the Rules framed thereunder and that they satisfy the criteria provided in Section 141 of the Act.

In respect of suggestion made by the Auditors in the annexure to their Report at Para (iv), the Management has already taken steps to strengthen internal control procedures in respect of purchase of inventories and fixed assets and the observation at para (ix) (a), when read with relevant note in the Notes to the Financial Statements, is self explanatory.

FOR AND ON BEHALF OF THE BOARD OF DIRECTORS

Dated : 08 August 2014

S.K. TUTEJA
Chairman

EIICHI SETO
Managing Director & CEO

MANAGEMENT DISCUSSION AND ANALYSIS

1. INDUSTRY REVIEW

The slowdown in the domestic commercial vehicle (CV) industry which began from the first quarter of 2012-13 has continued ever since reflecting a general economic downturn leading to GDP growth falling under 5% and severe falls in industrial and construction activity. Consequently, CV industry suffered a sharp decline of 19% in sales volume to 709,800 from 873,200 in 2012-13. Of these, the passenger segment dropped from 105,300 to 90,900 vehicles. The 5.0 ton to 12.0 ton GVW category, in which the Company mainly operates, accounted for 100,200, a 15% decline from 118,100 vehicles in 2012-13. Some recovery is expected in the cargo segment during the second half of FY 2014-15 with projected revival of industrial and mining sectors. SIAM has projected a growth of 5 - 7% for medium and heavy vehicles and 4 - 7% for light commercial vehicles in 2014-15.

2. COMPANY PERFORMANCE

The Company sold 9,760 vehicles during fiscal 2013-14 against 12,045 in the previous fiscal. Net Revenue for 2013-14, therefore, fell to Rs. 886.0 crores from Rs. 1,011.1 crores in the preceding year, as detailed below:

	(Rs. In Crores)	
	2013-14	2012-13
On sale of Vehicles	811.01	919.75
On sale of Spare Parts etc.	74.98	91.31
Total Net Revenue	885.99	1,011.06

Prices of materials reflecting a continuing surge in inflation, added considerably to material costs but the increase was substantially offset by timely revision of vehicle prices and certain efficiencies in usage, enabling the Company to keep material costs at 2012-13 level of 75.4% of total net revenue.

Employee Cost at Rs. 94.0 crores (Rs. 80.9 crores) represents 10.6% of net revenue. The increase over previous fiscal has been mainly on account of unavoidable inflationary wage payments and higher production in bus body plant where additional manpower had to be deployed as envisaged in the capacity built-up for this product.

Marketing costs were at Rs. 47.3 crores (Rs. 56.0 crores) and other operating & administrative expenses at Rs. 40.7 crores (Rs. 32.8 crores). Operating and administration expenses are higher on account of onetime charge of Rs. 2.8 crores pertaining to items of earlier years and balance on account of inflation related increases.

Depreciation charge for the year was Rs. 12.8 crores (Rs. 12.2 crores).

Operating Profit was at Rs. 36.4 crores against Rs. 79.3 crores. Whilst the principal reason for this huge drop was the sharp reduction in sales volume, this fall was offset to some extent by a reduction in interest cost (net) from Rs 12.8 crores last year to Rs 4.9 crores. Borrowings were substantially reduced with better management of working capital and cash flows.

Profit Before Tax thus was only Rs. 17.7 crores (Rs. 48.5 crores).

Profit after tax at Rs. 17.4 crores (Rs. 36.4 crores) translates to an earning of Rs. 12.02 per share (Rs. 25.18 per share).

Outgo on dividend inclusive of tax at Rs. 5.1 crores would translate to a payout ratio of 29.2% (37.2%).

Net worth of the Company as on 31st March, 2014 rose to Rs. 276.4 crores (Rs. 264.1 crores) comprising of equity component of Rs. 14.5 crores (Rs. 14.5 crores) and reserves Rs. 261.9 crores (Rs. 249.6 crores).



Year-end borrowings from banks were Nil (Rs. 162.1 crores) with consequential effect of a lower level of net current assets.

Year-end trade receivables were at Rs. 81.8 crores (Rs 150.7 crores) and trade payables were Rs. 164.1 crores (Rs. 111.6 crores).

Fixed assets stood at Rs. 151.9 crores (Rs. 149.3 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. Business projections are revised in relation to market expectations and management action taken to offset adverse changes to the extent possible. 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

The Commercial Vehicle industry, and the demand of CV's, is influenced by general economic conditions, including among other things, rates of economic growth, availability of credit, interest rates, environmental and tax policies, safety regulations, freight rate, fuel and commodity prices. Unfavorable trends in any of these factors pose a concern for the industry.

Higher raw material prices and transportation costs impacts the input costs. Impending Legislation of emission/safety norms will continue to put pressure on improving the technology level resulting in higher production cost. Bharat Stage IV norms are now applicable in 40 cities and more cities are expected to be brought under BS IV Norms before 2016/17. Revision in selling prices may not be fully commensurate with such high cost in view of competitive operating environment.

Up-gradation of R&D infrastructure, introduction of new products / variants, improvement in existing products, cost cutting are some of the major initiatives and concrete steps taken by the Company to minimize its vulnerability to business risks.

Your company has recently constituted Risk Management Committee which is entrusted with the functions of overseeing the efficacy of the risk management framework of the Company including the mitigation measures taken by the management.

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 the principles of good corporate governance, disclosure and transparency in all, giving high priority to core values and ethics. It believes that it must consider itself custodian and trustee of all its stake-holders. SML seeks corporate excellence by offering quality vehicles and service to customers fostering team spirit amongst employees by continuous involvement and participation in decision making processes. SML places high emphasis on their integrity and lifetime loyalty to the Company. SML recognizes that it is rewarding to be a well managed enterprise and focuses on good corporate governance.

A. COMPOSITION OF BOARD

The composition of the Board is in conformity with Clause 49 of the Listing Agreement with total strength of twelve Directors, nine being non executive and three whole-time Directors. Four non executive Directors including the Chairman are independent Directors making one-third of the total strength; five are non executive, including four from the Promoter group - Sumitomo Corporation, and one from Isuzu Motors, Japan. All the non-executive Directors are qualified professionals with expertise in their own fields and have knowledge and experience in business and administration. They bring independent judgment 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 judgment 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, has been an employee of the Company's Promoter group. The other Whole-time Directors designated as Whole-time Director & CFO and Director-R&D are also professionals.

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.

B. BOARD PROCEDURE

The Board meets at regular intervals and a detailed Agenda is sent to each Director prior to the Board and Committee meetings - receives information and presentations on operating and financial 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 labor issues and Minutes of Meetings of the Audit and other Committees of the Board.

During the financial year 2013-14, five meetings of the Board of Directors were held and individual attendance is shown in the table below. The gap between any two meetings did not exceed four months.

The Last Annual General Meeting (29th AGM) was held on 21st September, 2013.

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, 2014 is given below: