



SML ISUZU LIMITED (FORMERLY SWARAJ MAZDA LIMITED)

BOARD OF DIRECTORS

S.K. TUTEJA - Chairman
P.K. NANDA
A.K. THAKUR
DR. VASANTHA S. BHARUCHA
SUDHIR NAYAR
M. NAKAJIMA
K. GODA
T. KIKKAWA
M. NARIKIYO
PANKAJ BAJAJ
E. SETO - Managing Director & CEO
GOPAL BANSAL - Whole-time Director & CFO
T. IMAI - Director – R&D
(Isuzu Products & Projects)

COMPANY SECRETARY

PARVESH MADAN

AUDITORS

B S R & ASSOCIATES LLP

LISTING OF SHARES

BSE LIMITED
NATIONAL STOCK EXCHANGE
OF INDIA LIMITED

BANKERS

CANARA BANK
INDIAN OVERSEAS BANK
MIZUHO BANK LTD.
THE BANK OF TOKYO -
MITSUBISHI UFJ, 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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33RD ANNUAL GENERAL MEETING

on Friday, 22nd September, 2017
at 1.00 P.M. at Village Asron,
Distt. Shahid Bhagat Singh Nagar,
(Nawanshahr), Punjab - 144 533

REPORT OF THE DIRECTORS

The Directors are pleased to present their Thirty-Third Annual Report together with audited financial statements for the financial year ended 31st March 2017.

PERFORMANCE REVIEW

The Financial Year 2016-17 witnessed three significant events starting with demonetization of high denomination currency, completion of all processes leading to the promulgation of the long awaited and transformational Goods and Service Tax (GST) and finally a Supreme Court judgment banning, with effect from 1st April 2017, sale of vehicles which only met emission targets for BS III specifications and not the enhanced specifications of BS IV. It is hoped that in the long term the first two events would have favourable effect on the country's economy and its GDP, which during financial year 2016-17, grew at an estimated 7.1 percent against 7.9 percent in the preceding year. While demonetization had its adverse impact on business in general, at least in the short term, the ban on sale of vehicles, stated above, has had significant adverse effects, discussed later in the Report.

The growth in the financial year in Commercial Vehicle Industry at 4.3 percent was lower than the 12.2 percent of the preceding year, volume reaching 8,22,500 against 7,88,800 in the preceding year 2015-16. While Light vehicles (LCV) grew 5.5 percent to reach 4,76,300, Medium & Heavy vehicles (M&HCV) segment growth was lower at 2.6 percent with volumes at 3,46,200. **However, Your Company was able to achieve robust growth of 17.4 percent, during the year, from 12,700 vehicles to 14,909, as a result of aggressive marketing, brand building actions and several sales promotion initiatives.**

The financial performance of the Company, for the year ended 31st March, 2017 is summarized below :

(Rs. in Crores)

	2017	2016
Sales volume (No. of vehicles)	14909	12700
Net revenue	1,373.11	1,172.58
Less : Material cost & other expenses	1,260.96	1,079.54
Operating profit	112.15	93.04
Profit before tax	84.63	68.32
Profit after tax	62.81	51.16
Balance of profit from prior years	158.19	126.07
Surplus available for appropriation	221.00	177.23

The immediate effect of the ban on BS III vehicles was that all vehicles earlier sold to the dealers but still held in their stock as on 31st March 2017 were returned to the Company, reversing sales value, and the value of all non useable components in the Company's inventory relating to BS III vehicles had to be written off. The vehicles so returned from the dealers together with Company's stock of BS III vehicles are being converted into BS IV compliant vehicles, cost of which is being charged to profits as and when incurred. The Company is also trying to sell some of these vehicles in the overseas market, wherever feasible, which will not require any conversion.

DIVIDEND

The Directors have recommended payment of dividend of Rs. 8.0 per equity share of face value of Rs. 10/- each for the year ended 31st March, 2017, same as in the previous year, which is subject to the approval of shareholders at the forthcoming Annual General Meeting. The cash outflow will be Rs. 13.93 crores including dividend distribution tax of Rs. 2.36 crores, same as in the previous year.

MANAGEMENT DISCUSSION AND ANALYSIS

A Management Discussion and Analysis, which also covers the state of the Company's affairs, forms a part of this report.

CORPORATE GOVERNANCE

A report on corporate governance together with the Auditors' Certificate confirming compliance with corporate governance norms, as stipulated under the SEBI Listing Regulations, 2015, forms a part of this 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+ (pronounced A one plus) from ICRA. Further, during the year, the long term rating for line of credit / cash credit limits has been upgraded from AA- (pronounced double A minus) to AA (pronounced double A).

SAFETY, HEALTH AND ENVIRONMENT

The Company continues to demonstrate strong commitment to safety, health and environment which have been adopted as core organizational values. The Company assures safety and audits its facilities in accordance with statutory and regulatory requirements. The Directors review these areas every quarter through reports and presentations made at the Board Meetings.

Employees are continuously made aware of hazards / risks associated with their job and their knowledge and skills are updated through requisite training to meet any emergency. Regular medical and occupational check-ups of employees are conducted and eco-friendly activities are promoted.

Safe disposal of hazardous waste is ensured through an effluent treatment plant and an incinerator; a sewage treatment plant ensures eco-friendly disposal of sewage.

During the year, the Company has received BS OHSAS 18001: 2007 certificate in respect of Occupational Health & Safety Assessment Series and ISO 14001: 2015 certificate in respect of Environmental Management System.

CURRENT BUSINESS ENVIRONMENT

Pre-buying of vehicles during the last quarter of financial year 2016-17 on account of implementation of BS IV emission norms, effective 1st April 2017, and customers' expectation of reduction in vehicle prices post implementation of GST has moderated demand in first four months of current financial year with CV volumes contracting 8.1% during the period. Your Company has sold 3928 vehicles during April-July 2017 against 6261 sold in the same period last year.

The above drop in sales volume had its inevitable impact on financial results of the first quarter. On net revenue of Rs. 357.98 crores (Rs. 516.10 crores), during the quarter, the Company has earned profit after tax of Rs. 6.75 crores (Rs. 40.86 crores).

CRISIL has forecast GDP growth at 7.4 percent for 2017-18 based on factors such as normal monsoons, softer interest rates and relatively benign inflation. As for CV Industry, experts' view is that CV industry will improve gradually and register growth of 6-8 percent during financial year 2017-18. For the Company, however, competition is becoming intense with entry of new players and existing players expanding their product portfolios.

Based on the above and expected recovery in demand for commercial vehicles in the second half of the current financial year, the Directors can look towards recovering the lost ground so far, during rest of the year.

Amidst the tough competitive environment, the Company will continue its focus on product development, innovative and cost effective technology solutions, up-gradation of plant infrastructure to improve manufacturing technology and efficiencies and cost cutting.

The Company's capex project envisaging an outlay of Rs. 220 crores for technology, product development and up-gradation of plant infrastructure to improve manufacturing efficiency is progressing well. An amount of Rs 107.0 crores has been spent till 31st March, 2017. To part finance this capex, the Company had drawn Rs. 35.0 crores External Commercial Borrowings (ECB) during financial year 2016-17, designated in US Dollars (fully hedged) and the rest has been from internal accruals. The Company has also planned to incur an estimated capex of Rs. 30.0 crores towards enhancing the production capacity of its Plant from 18,000 vehicles to 24,000 vehicles per annum by setting up an additional assembly line, to be funded through internal accruals.

DIRECTORS

Mr. Kimitoshi Kurokawa tendered his resignation as Director of the Company with effect from 5th August, 2016. The Board, in its Meeting held on 5th August, 2016, recorded its deep appreciation for his valuable support and advice during his tenure.

Mr. Kazuo Goda was appointed as an Additional Director of the Company on 5th August, 2016 and holds office up to the forthcoming Annual General Meeting. The Company has received Notice under Section 160 of the Companies Act, 2013 proposing Mr. Goda's appointment as a Director of the Company for consideration of the Members at the forthcoming Annual General Meeting.

Mr. Kei Katayama tendered his resignation as Director-R&D of the Company with effect from 25th May, 2017. The Board, in its Meeting held on 10th May, 2017, recorded its deep appreciation for Mr. Katayama's contribution in R&D activities of the Company during his tenure.

Mr. Takahiro Imai was appointed as an Additional Director and Whole-time Director of the Company on 10th May, 2017 (effective 26th May 2017) designated as Director-R&D (Isuzu Products & Projects) for two years and holds office up to the forthcoming Annual General Meeting. The Company has received Notice under Section 160 of the Companies Act, 2013 proposing Mr. Imai's appointment as a Director of the Company for consideration of the Members at the forthcoming Annual General Meeting.

At the last Annual General Meeting held in August 2016, the Members had approved the appointment of Mr. Takeru Kikkawa as Non-Executive Director.

Mr. Masaki Nakajima retires by rotation and being eligible, offers himself for re-appointment.

Mr. Masahiro Narikyo retires by rotation and being eligible, offers himself for re-appointment.

The details of the Directors being recommended for appointment / re-appointment are contained in the Notice convening the forthcoming Annual General Meeting of the Company.

All the independent Directors have given declaration to the Company that they meet the criteria of 'independence' set out in the SEBI (LODR) Regulations, 2015 and the Companies Act, 2013.

KEY MANAGERIAL PERSONNEL (KMPs)

In terms of the applicable provisions of the Companies Act 2013, Mr. Eiichi Seto, Managing Director & CEO, Mr. Gopal Bansal, Whole-time Director & CFO and Mr. Parvesh Madan, Company Secretary, are the Key Managerial Personnel of the Company.

No KMP has resigned or was appointed during the year.

NOMINATION AND REMUNERATION POLICY

Based on the recommendations of the Nomination and Remuneration Committee, the Board has adopted a Nomination and Remuneration Policy, which is attached as **Annexure A**.

SUBSIDIARIES, JOINT VENTURES AND ASSOCIATE COMPANIES

The Company does not have any Subsidiary, Joint Venture or Associate Company.

RELATED PARTY TRANSACTIONS

All related party transactions that were entered into during the financial year were at arm's length basis, in the ordinary course of business and in compliance with the applicable provisions of the Companies Act, 2013 and the Listing Regulations. There were no material transactions made by the Company during the year that would have required shareholders approval.

All related party transactions are placed before the Audit Committee for approval. Prior omnibus approval of the Audit Committee is obtained for the transactions which are repetitive in nature.

The Company has adopted a policy to deal with related party transactions as approved by the Board of Directors. It is uploaded on the Company's website at web link: <http://smlisuzu.com/Financials/RPTPolicy.aspx>

In terms of Section 134(3)(h) of the Companies Act, 2013, there are no transactions to be reported in Form AOC-2. The details of the related party transactions as per Accounting Standard 18 are set out in Note 33 to the Financial Statements.

EXTRACT OF ANNUAL RETURN

Pursuant to Section 92 (3) of the Act and Rule 12 (1) of The Companies (Management and Administration) Rules, 2014, the extract of Annual Return in Form MGT-9 is attached as **Annexure B**.

MEETINGS OF THE BOARD

Five Board meetings were held during the year as detailed in the Corporate Governance Report which forms part of this report.

AUDIT COMMITTEE

The Audit Committee comprises three independent Directors, Mr. P.K. Nanda, as Chairman, Mr. A.K. Thakur and Mr. Sudhir Nayar, and the Whole-time director & CFO, Mr. Gopal Bansal. All the recommendations made by the Audit Committee during the year were accepted by the Board.

PARTICULARS OF EMPLOYEES

The information as per Section 197 of the Companies Act, 2013 read with Rule 5(1) of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014, forms part of this Report and attached as **Annexure C**.

The disclosure as per Section 197 of the Companies Act, 2013 read with Rule 5 (2) and Rule 5 (3) of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014 is provided in a separate annexure forming part of this Report. However, as per the provisions of Section 136(1) of the Companies Act, 2013, the report and financial statements are being sent to the Members and others entitled thereto, excluding the aforesaid annexure. This annexure is available for inspection by the Members at the Registered Office of the Company during business hours on working days of the Company. Any member interested in obtaining a copy thereof may write to the Company Secretary.

PARTICULARS OF LOANS, GUARANTEES OR INVESTMENTS UNDER SECTION 186 OF THE COMPANIES ACT, 2013

The Company has not given any loans, guarantees or made any investments during the year, which would be covered by Section 186 of the Companies Act, 2013.

AMOUNTS PROPOSED TO BE CARRIED TO RESERVES

The Company proposes to carry Rs. 6.28 crores to General Reserve for the financial year 2016-17 (Previous year - Rs. 5.12 crores).

MATERIAL CHANGES AND COMMITMENTS AFFECTING FINANCIAL POSITION OF THE COMPANY

No material changes have occurred or commitments made after 31st March, 2017, which may affect the financial position of the Company or require disclosure.

SUSTAINABILITY INITIATIVE

Your Company is conscious of its responsibility towards preservation of natural resources and continuously takes initiatives to reduce consumption of electricity and water.

RISK MANAGEMENT

The primary objective of risk management is to protect the Company against risks to the value of the business, its capital and its continuity. In order to achieve the objective and for better governance, the Board has constituted a Risk Management Committee (RMC) comprising three independent Directors, one non-executive Director and the Whole-time Director & CFO.

RMC is entrusted with the functions of determining efficacy of risk management framework of the Company, evaluation of risks and mitigating measures. The Company has adopted a formal Risk Management Policy based on the recommendations of RMC.

The Policy sets out key risk areas - financial risks (including risk to assets), legislative and regulatory risks, environmental risks (including natural disasters), operational risks (markets, production, technology, etc.), risks relating to employment and manpower, and individual large transactional risks. The Managing Director & CEO identifies and proposes action in respect of all risks through his management team as and when any are perceived or foreseen or inherent in operations; analyses these, and then reports to RMC for its review and guidance.

CORPORATE SOCIAL RESPONSIBILITY

Corporate Social Responsibility (CSR) Committee consists of two independent Directors, namely, Mr. S.K.Tuteja, as Chairman and Dr. (Mrs.) Vasantha S. Bharucha and two Executive Directors - Mr. Eiichi Seto, the Managing Director & CEO and Mr. Gopal Bansal, Whole-time Director & CFO. On the recommendations of the Committee, the Board has adopted Company's policy on CSR with key thrust areas defined as - promoting healthcare and sanitation, supporting education of girl child and under privileged children, sponsoring vocational education for women, etc.

Annual Report on CSR activities for the year ended 31st March 2017 is attached as **Annexure D**.

BOARD EVALUATION

Pursuant to the provisions of the Companies Act, 2013 and Listing Regulations, performance evaluation of the Board, the Directors as well as Committees of the Board has been carried out and the details are covered in the Corporate Governance Report.

CHANGE IN THE NATURE OF BUSINESS

There has been no change in the nature of business of the Company during the year.

SHARE CAPITAL

There was no change in the Company's issued, subscribed and paid-up equity share capital during the year.

DEPOSITS

During the year, the Company has not accepted any deposit under Chapter V of the Companies Act, 2013.

SIGNIFICANT ORDERS PASSED BY REGULATORS, COURTS OR TRIBUNALS IMPACTING GOING CONCERN AND COMPANY'S OPERATIONS

To the best of our knowledge, the Company has not received any such orders from regulators, courts or tribunals or any other authority during the year which may impact the going concern status of the Company or its operations in future.

POLICY ON PREVENTION, PROHIBITION AND REDRESSAL OF SEXUAL HARASSMENT AT WORKPLACE

The Company has adopted a policy in line with the provisions of the Sexual Harassment of Women at Workplace (Prevention, Prohibition and Redressal) Act, 2013 (the Act) and the Rules there under. The Policy aims to provide protection to women at the workplace and prevent and redress complaints of sexual harassment and for matters connected or incidental thereto, with the objective of providing a safe working environment. The Company has also constituted an Internal Complaints Committee in accordance with the Act, to inquire into complaints and take appropriate action.

The Company has not received any complaint of sexual harassment during the year.

VIGIL MECHANISM / WHISTLE BLOWER POLICY

The Company has adopted a whistle blower policy, to provide formal mechanism to the Directors and employees to report their concerns about unethical behaviour, actual or suspected fraud or violation of the Company's code of conduct or ethics policy. It provides for adequate safeguards against victimization of Directors and employees who avail the mechanism and provides for direct access to the Chairman of the Audit Committee.

Whistle Blower Policy of the Company is available on the Company's website at web link:

<http://smlisuzu.com/Financials/WhistleBlowerPolicy.aspx>

DIRECTORS' RESPONSIBILITY STATEMENT

Pursuant to Section 134 (3) (c) and 134 (5) of the Companies Act, 2013, the Directors, to the best of their knowledge and ability, confirm that:

- (a) in the preparation of the annual accounts for the year ended 31st March, 2017, the applicable accounting standards have been followed and proper explanations provided relating to material departures, if any;
- (b) they 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 as at 31st March, 2017 and of the profit of the Company for the year ended on that date;
- (c) they have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 2013, for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
- (d) they have prepared the annual accounts on a going concern basis;
- (e) they have laid down internal financial controls to be followed by the Company and that such internal financial controls are adequate and are operating effectively;
- (f) they have devised proper systems to ensure compliance with the provisions of all applicable laws and that such systems are adequate and operating effectively.

INTERNAL FINANCIAL CONTROLS WITH REFERENCE TO FINANCIAL STATEMENTS

Based on the work performed by the internal, statutory and secretarial auditors and the reviews carried out by the Management and the relevant Board Committees, the Directors are of the opinion that the Company has in place, adequate internal financial controls with reference to financial statements, commensurate with the size and nature of the business of the Company. During the year, such controls were tested and no reportable material weaknesses in the design or operation were observed.

FAMILIARISATION PROGRAMME FOR INDEPENDENT DIRECTORS

The details of familiarisation programme for Independent Directors in respect of their roles, rights & responsibilities, nature of the industry in which Company operates, business model of the Company and related matters are available on the website of the Company at web link: <http://smlisuzu.com/Financials/FamiliarisationProgramme.aspx>

SECRETARIAL AUDIT

Pursuant to the provisions of Section 204 of the Companies Act, 2013 and The Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014, M/s A. Arora & Co., a firm of Company Secretaries in practice, were appointed as the Secretarial Auditors of the Company to carry out the Secretarial Audit of the Company for financial year 2016-17.

The Secretarial Audit Report does not contain any qualification and is attached as **Annexure E**.

STATUTORY AUDITORS

B S R & Associates LLP, a firm of Chartered Accountants, was appointed as the Statutory Auditors of the Company, at its 31st Annual General Meeting, for a period of five years, subject to ratification by the Members of the Company at every subsequent AGM. Such ratification for the financial year 2017-18 is being sought from the Members at the forthcoming AGM.

As per the provisions of Section 139(1) of the Companies Act, 2013, the Company has received a written consent from B S R & Associates LLP, Chartered Accountants, for continuation of its appointment and a Certificate, to the effect that its appointment, if continued, would be in accordance with the Companies Act, 2013 and the Rules framed thereunder and that they satisfy the criteria provided in Section 141 of the Companies Act, 2013.

The Auditors' Report to the shareholders for the year under review does not contain any qualification.

CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE EARNINGS AND OUTGO

The required information on conservation of energy, technology absorption and foreign exchange earnings and outgo as stipulated in the Companies Act, 2013 is attached as **Annexure F**.

ACKNOWLEDGMENTS

Your Directors express their grateful appreciation for the co-operation received from the concerned Government departments, banks, dealers and other business constituents during the year under review. Your Directors also wish to place on record their deep sense of appreciation for the committed services of the employees of the Company at all levels.

FOR AND ON BEHALF OF THE BOARD OF DIRECTORS

Dated : 10th August, 2017

S.K. TUTEJA
Chairman

EIICHI SETO
Managing Director & CEO