33rd Annual Report 2004-05

Scooters India Limited
(A Government of India Enterprise)
An ISO 9001 and ISO 14001 Company

BOARD OF DIRECTORS

Shri P. K. Datta	Chairman-cum-Managing Director
Shri S.V. Bhave	Director
Shri S. Chakraborty	Additional Director

Company Secretary
Shri Manoj Agrawal

Internal Auditors
M/s Krishna Sharma & Co.,
Chartered Accountants,
Avanbhai Mansion,
3, Vidhan Sabha Marg,
Lucknow-226 001.

Statutory Auditors
M/s Mohan & Co.,
Chartered Accountants,
M-1/44, Sector-B,
Aliganj Colony,
Lucknow-226 024.

M/s Sanjay Rajiv & Company,
Chartered Accountants,
2nd Floor, YMCA Complex,
13, Rana Pratap Marg,
Lucknow-226 001.

Cost Auditors
Shri R.N. Tripathi,
C-121, Indira Nagar,
Faizabad Road,
Lucknow-226 016.

M/s Sundar & Chandar,
Chartered Accountants,
Quanta's-"TRINITY"
Ground Floor, No.18/2A, West Road,
West C.I.T. Nagar, Chennai-600 035.

M/s Jayaswal Associates,
Chartered Accountants,
A-160, IInd Floor,
Vikas Marg, Shakarpur,
Delhi-110 092.

M/s Dhirendra Tripathi & Co.,
Chartered Accountants,
C-121, Indira Nagar,
Lucknow-226 016.

M/s A. Guha Thakurta & Associates,
Chartered Accountants,
W2A(R)-3/2; Phase-IVA,
Golf Green,
Kolkata-700 095.

M/s Suhas S. Marathe & Co.,
Chartered Accountants,
H-01, Manek Nagar, Pardeshi Ali,
Panvel-410 206, Raigad.

Bankers
State Bank of India
Indian Overseas Bank
Allahabad Bank

Delhi Sales & Liaison Office
64-65, Najafgarh Road,
Industrial Area,
New Delhi-110 015.

Registered Office & Works
Lucknow-Kanpur Road,
(16th Mile Stone),
Post Bag No. 23 (GPO),
(P.O.) Sarojini Nagar,
Lucknow-226 008.

DIRECTORS' REPORT

Dear Shareholders,

The Board of Directors of your Company is pleased to present the 33rd Annual Report on the business and operations of the Company together with the audited Balance Sheet and Profit and Loss Account and Auditors' Report thereon for the financial year ended 31st March, 2005.

1. FINANCIAL REVIEW :

The salient features of the Company's financial results for the year under review are as follows:

(Rs. in Lakhs)

	2003-2004	2004-2005
a) Profit before Depreciation	464.96	**282.65**
b) Depreciation	129.44	**143.35**
c) Profit for the year	335.52	**139.30**
d) Prior period adjustments	19.77	-
Net Profit	315.75	**139.30**

2. PRODUCTION REVIEW :

The production performance for the year is shown below in physical terms :

	2003-2004	2004-2005
Three wheelers	15,494	**12,863**

3. SALES REVIEW :

The Sales performance for the year is shown below :

	2003-2004		2004-2005	
Description	Physical (in Nos.)	Financial (Rs. in lakhs)	**Physical (in Nos.)**	**Financial (Rs. in lakhs)**
Three Wheelers	15,373	13,557.34	**13,000**	**12,360.28**
Spares	-	1,386.04	-	**916.79**
Petrol, Diesel, Lubricants etc.	-	596.31	-	**701.73**
Other Sales	-	102.64	-	**88.83**
TOTAL		15,642.33		**14,067.63**

4. DIVIDEND AND APPROPRIATION

Keeping in view the ongoing upgradation plan in order to become globally competitive your Directors decided not to recommend any dividend for the period under review, accordingly Rs. 139.30 lakhs have been appropriated to General Reserves.

5. CONTRIBUTION TO NATIONAL EXCHEQUER

The company has contributed a sum of Rs. 1897.97 lakhs to the exchequer in addition to other duties taxes etc. during the period under review.

6. EXPORTS

Your company has increased its export sales by 80.89% from a meagre figure of Rs. 57.76 lakhs in the previous year to Rs. 104.48 lakhs during the period under review.

7. MANAGEMENT DISCUSSION AND ANALYSIS:

7.1 Mission To fulfill customers' needs for economic and safe mode of road transport and quality engineering products through contemporary technologies.

7.2 Vision To grow into an environment friendly and globally competitive company constantly striving to meet the changing needs of customer through constantly improving existing products, adding new products and expanding customer base.

7.3 Objective

(a) Providing economical and safe means of transportation with contemporary technology for movement of cargo and people.

(b) Providing eco-friendly, flawless and reliable products to fulfill customers' needs.

(c) Achieving customers' satisfaction by providing products at right price and at right time.

Financial Review

Scooters India Limited, a leading Public Sector Automobile Company, has reported a fall in its financial and operating performance during the period under review i.e. financial year 2004-05.

Gross income of the company has decreased by 9.85% from Rs. 165.92 crores previous year to Rs. 149.58 crores during 2004-05. The reason for shortfall can be attributed to two main factors, one was imposition of ban on registration of 3 wheeler load carrier in NCR Delhi resulting in loss of sales for nearly eleven months, the other was incorrect interpretation of Hon'ble High Courts order by Transport authorities led to non registration of company's vehicles in the state of UP for nearly two months. But for these reasons performance of the company would have been better than previous year.

Your company has taken several measures to ensure that these external factors are not able to influence company's performance in future.

Resources and Liquidity:

Company is repaying all its dues in time and the liquidity position continues to be satisfactory despite of constraints felt due to low sales performance.

Market Scenario:

A. Industry structure & developments :

1. Three wheeler industry, which has been growing at the rate of 8.38%, stood at a level of 3,08,000 Nos. during 2004-05.

2. There are several national level players along with few smaller players operating at local level. Many new entrants are expected to join the industry in the near future. The competition is going to be stiffer in future with technologically more advanced and environment friendly products leading the way.

B. Opportunities & threats :

B.1. Opportunities :

1. Government's focus on infrastructure development viz Road construction across the country augurs well for transport industry.

2. With improvement in road conditions across the country there is bound to be a shift towards a "hub & Spoke" type of supply system in future. This will create increased demand for smaller load carrier (eg. Three-wheelers) for intra-city shipment of small loads.

3. With opening up of new roads in the country, even newer routes will be opening up for passenger movement, thereby generating demand for 3 wheeler passenger vehicles as public transport.

B.2 Threats :

1. Non - availability of new route permits causes reduced demand for 3 wheelers for passenger movements.

2. Ever increasing Fuel prices are a deterrent in the growth of 3 wheeler market.

3. Strict enforcement of pollution-norms at major metros and adjoining areas and likelihood of more and more "B" class cities joining the fray is causing biggest threat for conventional 3 wheelers.

C. Segment - Wise or Product - Wise Performance

1) Your company has been able to consolidate its position in the following markets despite stiff competition - Rajasthan, National Capital Region, Jammu & Kashmir, Bihar, Kerala, Karnataka, Madhya Pradesh, Gujarat & Maharashtra.

2) The areas requiring focussed effort are Tamilnadu, Andhra Pradesh, West Bengal, Assam, Jharkhand, Orissa, Delhi, Uttar Pradesh & Uttaranchal.

D. **Outlook**

1) The three-wheeler industry in India shall continue to be extremely competitive with increased number of manufacturers.

2) The demand for technologically advanced and more eco-friendly products shall continue to rise viz. vehicles using CNG, LPG & EV etc.

3) The growth in goods segment is likely to be much higher than that in passenger segment.

Quality:

Your company has installed a new paint shop in order to facilitate superior paint finished vehicle. The commissioning of the paint shop is likely to be effected in the financial year 2005-06. Your company is an ISO 9001 and ISO 14001Company. The company has taken several initiatives to ensure that the best quality products are made available to its customers.

Challenges faced by the Company:

1) The need for consistency in quality demands for enhanced investment in R & D and technical upgradation of plant & machinery. Existing over-lived plant & machinery is a cause of concern.

2) Manpower cost in the company is high and so is the average age profile of the employees. While your company needs to reduce its manpower cost at the same time it also needs to infuse fresh blood.

Strategic Road Map:

With the focus so far having been on the urban market, the company is now developing products to suit rural market. Given the present policy it is now likely that emission norms for vehicles are going to be more and more stringent. In view of the above your company has taken up simultaneous projects to keep itself ready with the products that are not only environment friendly but are also economical and sturdy.

Your company would be required to make substantial expenditure on R&D activity to keep pace with the market requirements. Your company has taken up the exercise of revamping its marketing setup.

8. **EXPENDITURE ON ADVERTISEMENT AND PUBLICITY :**

An expenditure of Rs. 95.08 lakhs was incurred on account of advertisement and publicity during the year.

9. **WAYS AND MEANS :**

The ways and means position of the Company was by and large satisfactory.

10. **MATERIAL CHANGES AND COMMITMENTS AFFECTING THE FINANCIAL POSITION OF THE COMPANY WHICH HAVE OCCURRED FROM 1.4.2005 TO DATE :**

No material change and commitments have been made by the company from 1-04-05 to date that has an adverse effect on the financial position of the company.

11. **CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION, FOREIGN EXCHANGE EARNINGS AND OUTGO :**

Your company is an ISO 9001 : 2000 and ISO 14001 certified. While, ISO-9001 : 2000 focuses on quality management system, ISO - 14001 is applicable to Environment Management Systems to further its objective of eco-friendly development and production of its products.

Information in accordance with provisions of Section 217 (1) (e) of the Companies Act, 1956 regarding the conservation of energy, technology absorption and foreign exchange earnings and outflow are given in Annexure - I to this report.

12. **PARTICULARS OF EMPLOYEES :**

No employee of the company is getting salary more than the prescribed limits. Accordingly information under Sec. 217(2-A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975 be treated as NIL.

13. **ANCILLARIES AND SMALL SCALE UNITS :**

Industrial prowess of the Company acts as a catalyst in the growth of the State Economy. SIL purchased material worth Rs. 153.44 Lakhs from Small Scale Units during the financial year 2004-2005. The Company supports them technically and encourages them to compete in the market.

14. **INDUSTRIAL RELATIONS :**

During the year under review, the industrial relations in the Company remained, by and large, peaceful and cordial.

15. **VIGILANCE :**

Vigilance Group continues to function with particular emphasis on the aspects of preventive and corrective vigilance. In selected areas, surprise checks and system studies were carried out and the improvements suggested were implemented. Company also observed Vigilance Awareness week from 1st to 6th November, 2004. All cross sections of employees, participated in the programmes which included Essay competition, Special Lectures, Debates etc.

16. HUMAN RESOURCE DEVELOPMENT :

Company considers its employees as key resource and sponsors them for external and in-house training to enable them to develop and upgrade their skills by acquiring latest managerial and technical know how. Special emphasis has been laid on creating awareness about Quality Management System, Environmental Management System, House Keeping through adoption of 5 'S' principles, development of multi skill capabilities and other motivational aspects.

17. HINDI IMPLEMENTATION :

Official Language implementation Committee meets every quarter to monitor and review the progress of implementation of the Annual Programme issued by Department of Official Language, Ministry of Home Affairs, Government of India. Hindi Divas is commemorated by observing official language week in the month of September, 2004 when various competitions are organized for employees and winners are felicitated.

18. RESERVATION FOR SCHEDULED CASTES & SCHEDULED TRIBE :

As on 31.3.2005, the total strength of the Company was 1747. Out of these, 305 employees belong to Scheduled Castes and 2 employees to Scheduled Tribes.

19. DIRECTORS :

There was no change in the composition of Board of Directors during the financial year 2004-05.

20. DIRECTORS' RESPONSIBILITY STATEMENT:

Pursuant to the requirement under section 217(2AA) of the Companies Act, 1956, with respect to Directors' Responsibility Statement, it is hereby confirmed :

(a) That in the preparation of the accounts for the financial year ended 31st March 2005 the applicable accounting standards have been followed along with proper explanation relating to material departures;

(b) That the Directors have selected such accounting policies and applied them consistently and made judgements and estimates that were 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 or loss of the Company for the year under review;

(c) That 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;

(d) That the Directors have prepared the accounts for the financial year ended 31st March 2005 on a 'going concern' basis.

21. ADEQUACY OF INTERNAL CONTROL :

SIL has proper and adequate system of internal controls to ensure that all activities are monitored and controlled against any unauthorised use of disposition of assets, and that the transactions are authorised, recorded and reported correctly.

SIL ensures adherence to all internal control policies and procedures as well as compliance with all regulatory guidelines.

22. FIXED DEPOSITS :

The Company has not accepted any deposits during the year.

23. **NO DEFAULT :**

The company has not defaulted in payment of Interest and/or in repayment of loans to any Financial Institution and / or to Banks and / or to Government of India during the period under review.

24. **AUDITORS :**

M/s Mohan & Company have been appointed by the Comptroller and Auditor General of India, as Statutory Auditors of the Company for the year 2004-2005.

25. **CORPORATE GOVERNANCE :**

A certificate from the auditors of the Company regarding compliance of conditions of Corporate Governance as stipulated under Clause 49 of the Listing Agreement alongwith the report on Corporate Governance is attached as Annexure - II to this report.

26. **COST AUDIT :**

Shri R.N. Tripathi, Cost Accountant, Lucknow has been appointed as Cost Auditor of the Company vide letter No. 52/412/CAB-89(CLB) dated 6th November, 2003 from the Government of India, Ministry of Law, Justice & Company Affairs, Deptt. of Company Affairs, for auditing cost records relating to manufacture of Motor Vehicles for the financial year ending 31st March, 2005.

27. **AUDITORS' REPORT :**

No Comments Certificate issued by the Comptroller and Auditor General of India is placed at Annexure-III. The review of accounts by the Comptroller and Auditor General of India is annexed at Annexure-IV.

28. **ACKNOWLEDGEMENT :**

The Board of Directors would like to express their grateful appreciation for the sincere support and co-operation extended by its Bankers, Financial Institutions, Dealers and Suppliers. The Directors would also like to express their sincere thanks for the co-operation and advice received from Government of India, particularly, Department of Heavy Industry, the State Government, and the local authorities for their continued support, co-operation and guidance.

Your Directors wish to place on record their deep sense of appreciation for the devoted services of employees, and to you, our Shareholders, the Directors are deeply grateful for the confidence and faith reposed on us.

For and on behalf of the Board

P. K. Datta
Chairman-cum-Managing Director

Place : Lucknow
Date : 5th August, 2005

ACCOUNTING POLICIES

Annexed to and forming part of the Accounts

1. SYSTEM OF ACCOUNTING :

(i) Basic assumptions :

The accounts have been prepared under historical cost convention on accrual basis and as per applicable Mandatory Accounting Standards.

(ii) Going concern :

Accounts have been prepared on the principle applicable to a going concern.

2. DEPRECIATION :

Depreciation on fixed assets is charged on straightline method in accordance with rates prescribed in Schedule XIV to the Companies Act, 1956 as amended vide Companies (Amendment) Act, 1988, except in case of special tools where depreciation is charged @ 20% as was being done prior to introduction of Schedule XIV.

3. INVENTORIES :

(i) Raw-materials, components and spare-parts, tools and consumables and other stocks are valued at cost. Scrap and disposable goods are valued at estimated realisable value.

(ii) Stock-in-trade is valued at lower of cost or realisable value and for this purpose STM prices have been treated as realisable value.

(iii) Customs duty on bonded material is allocated to the cost of goods and equipment.

(iv) Expenditure on stationery, uniform, medicine etc. are charged off to revenue at the time of receipt. But the stock remaining at the year end are credited to the revenue account at cost and shown as closing stock.

(v) Work-in-progress is valued at cost. Where the jobs are in progress their conversion cost is taken at 50% of the standard cost regardless of the stage of completion. Completed jobs pending inspection are valued at cost or realisable value whichever is less.

4. FIXED ASSETS :

(i) Land is valued at cost. The cost of the lease land is amortised over the lease span of 90 years.

(ii) Plant, Machinery, Equipment and Fixture costing individually Rs.5000 and below are depreciated fully in the year of purchase. The tools manufactured departmentally costing individually Rs.5000/- and below are accounted for automatically under relevant natural heads.

(iii) Borrowing cost directly attributable in relation to acquisition, construction of assets are capitalised as part of the cost of such assets upto the date where such assets are ready for intended use. Other borrowing costs are charged as expenses in Profit & Loss Account in the year in which they are incurred.

(iv) Depreciation is not provided on assets which have been declared surplus and are not in use. These assets have been distinctly shown under other Current Assets at net value.

5. INVESTMENTS :

Investments are valued at cost. However, in case of permanent diminution in the value of investments, suitable provision is made in the books of accounts.

6. PROVISION FOR REDUNDANCY/OBSOLESCENCE :

Provision for redundancy is made at 0.5% of the value of closing inventory of raw materials and components, stores and spare-parts excluding finished goods, W.I.P., gasoline in petrol pump, medicines, materials in bond and under inspection and scraps. Wherever necessary, additional provision for redundancy/obsolescence of materials is made in individual cases keeping in view their realisable value.

7. SALES :

Sales are set up as per the Sale of Goods Act. They represent value of goods sold at the ex-factory price plus incidentals like freight, insurance etc. embedded in the sale price The value of sales is inclusive of Excise Duty.

8. ACCOUNTING FOR INCOME AND EXPENDITURE :

Income and expenditure are accounted for in the current year on accrual basis under natural heads of account.

9. RETIREMENT BENEFITS :

Contribution to Provident Fund, Gratuity Fund and Leave Encashment Fund are made to the recognised funds and charged to the Profit and Loss Account. Gratuity and Leave Encashment liability is ascertained by Life Insurance Corporation of India on actuarial valuation.

The compensation payable under Voluntary Retirement Scheme other than through National Renewal Fund from Government of India is amortised equally over a period of five financial years.

10. DEFERRED CREDIT :

In case of purchase of fixed assets on deferred credit, the purchase price of fixed assets and interest on outstanding amount accruing upto the date of erection and commissioning are capitalised.