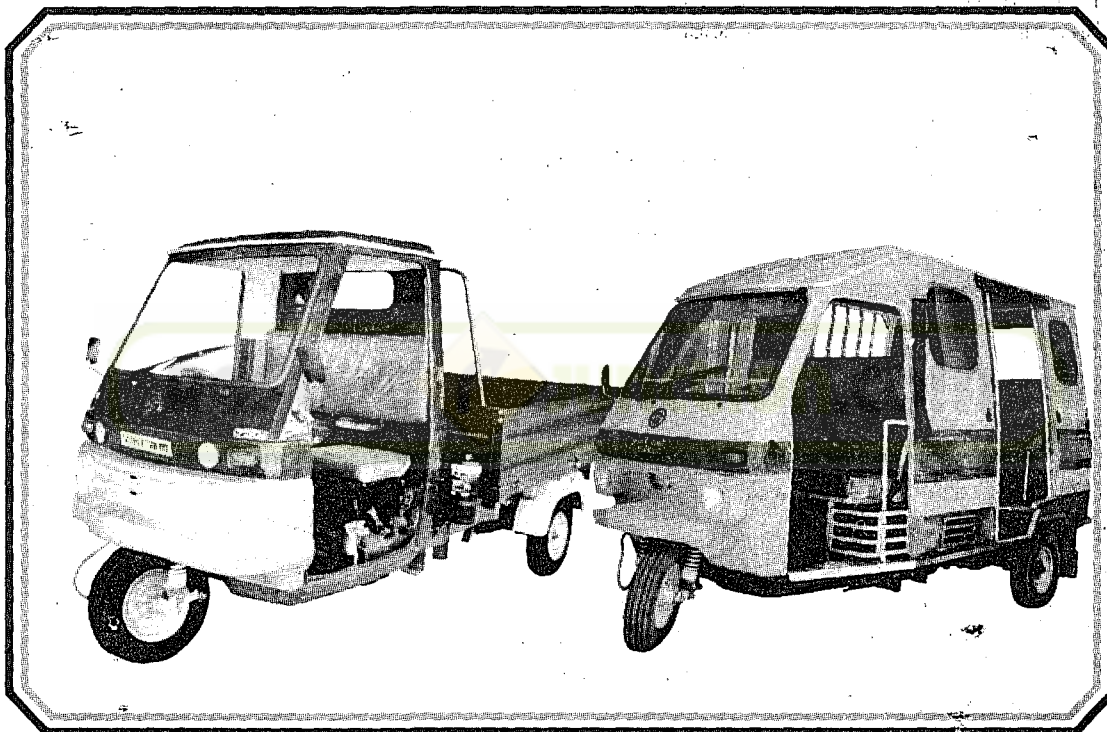


35th Annual Report

2006-07



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



SCOOTERS INDIA LIMITED

BOARD OF DIRECTORS

Shri P. Muthusamy	- Chairman-cum-Managing Director	w.e.f. 13.4.07
	(Additional Charge) &	
	- Director (Finance)	w.e.f. 12.9.06
Shri Shashank Goel	- Director	w.e.f. 22.5.2007
Prof. S. Chakraborty	- Director	w.e.f. 31.1.2007
Shri P.P. Sarkar	- Director (Technical)	w.e.f. 16.5.2007
Shri S.K. Tripathi	- Director	w.e.f. 6.7.2007
Shri P.K. Brahma	- Director	w.e.f. 8.2.2007
Shri P. K. Datta	- Chairman-cum-Managing Director	upto 12.4.2007
Dr. Surajeet Mitra	- Director	upto 3.11.2006
Shri Arun Singhal	- Director	upto 3.11.2006
Shri Manoj Kumar Singh	- Director	w.e.f. 3.11.2006 to 22.5.2007

Company Secretary

Shri Manoj Agrawal upto 23.7.07
(Full time Co. Secy. post is vacant
w.e.f. 24.7.07)

Statutory Auditors

Mittal Gupta & Company,
Chartered Accountants,
302, Chintels House,
16, Station Road, Lucknow-226 001

Cost Auditors

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

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.

Registrar & Transfer Agent

Skyline Financial Services Pvt. Ltd.,
123, Vinoba Puri, Lajpat Nagar - II,
New Delhi - 110024.

INTERNAL AUDITORS

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

M/s Sanjay Rajiv & Company,
Chartered Accountants,
1st Floor, YMCA Complex,
13, Rana Pratap Marg,
Lucknow-226 001.

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

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

The Delhi Stock Exchange
Association, Ltd.,
DSE House,
3/1 Asaf Ali Road,
New Delhi - 110002

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

M/s A.K. Mukherjee & Co.
Chartered Accountants,
58/1, Kali Banerjee Lane,
Howrah-711 101.

M/s R. Balaji & Co.
Chartered Accountants,
New No.2, Balaji Street,
Rangarajapuram,
Chennai-600 024.

M/s K.S. Ramakrishna & Co.
Chartered Accountants,
285 & 286, 2nd Floor,
Chenoy Trade Centre,
'C' Block, Park Lane,
Secunderabad-500 003.

Bombay Stock Exchange Ltd.,
1st Floor,
Phiroze Jeejeebhoy Towers,
Dalal Street,
Mumbai - 400001

STOCK EXCHANGES



DIRECTORS' REPORT

Dear Shareholders,

The Board of Directors of your Company is pleased to present the **35th 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, 2007.

1. PRODUCTION REVIEW:

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

	<u>2005-2006</u>	<u>2006-2007</u>
Three wheelers	15,632	15,162

2. SALES REVIEW:

The Sales performance for the year is shown below :

	<u>2005-2006</u>		<u>2006-2007</u>	
	Physical (in Nos.)	Financial (Rs. in lakhs)	Physical (in Nos.)	Financial (Rs. in lakhs)
Three Wheelers	15,182	14,848.57	15,239	17,056.59
Spares	-	923.14	-	875.65
Petrol, Diesel, Lubricants etc.	-	896.74	-	1,087.73
Other Sales	-	84.78	-	108.83
TOTAL	-	<u>16,753.23</u>	-	<u>19,128.80</u>

3. FINANCIAL REVIEW:

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

	<u>2005-2006</u>	<u>2006-2007</u>
		(Rs. in Lakhs)
a) Profit/(Loss) before Depreciation	343.47	(836.36)
b) Depreciation	153.11	202.46
c) Profit/(Loss) for the year	190.36	(1038.82)
d) Prior period adjustment		(1204.18)
e) Income Tax	16.03	
f) FBT	18.34	7.20
Net Profit/(Loss) (PAT)	<u>155.99</u>	<u>(2250.20)</u>

During the year under review inspite of increase in turnover both in terms of value and in physical numbers the company registered a loss of Rs. 22.50 crores mainly attributable to increase in input cost and one time adjustment pertaining to the previous years.

4. CONTRIBUTION TO NATIONAL EXCHEQUER

The company has contributed a sum of Rs. 4,958.46 lakhs to the exchequer during the period under review.



SCOOTERS INDIA LIMITED

5. EXPORTS

Your company has achieved exports of Rs. 35.46 lakhs during the period under review. The royalty income by way of foreign exchange remittances amounted to be Rs. 249 lakhs during the year.

6. MANAGEMENT DISCUSSION AND ANALYSIS:

(A) Mission, Vision & Objective

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

(B) MARKET

(i) The total number of 3 wheelers produced and sold in the domestic market by manufacturers in India during the year 2006-07 as against 2005-06 is given below :

<u>Category</u>	<u>Production</u>		
<u>Segment/Sub-segment</u>	<u>Apr.-Mar.06</u>	<u>Apr.-Mar.07</u>	<u>(% Growth)</u>
Passenger Carrier	2,86,987	3,85,443	34.31
Goods Carrier	1,47,436	1,70,681	15.77
Total :	4,34,423	5,56,124	28.01
		<u>Sales</u>	
Passenger Carrier	2,12,699	2,36,788	11.32
Goods Carrier	1,47,221	1,67,121	13.51
Total :	3,59,920	4,03,909	12.22

Note : Sales excludes Export of 76,881 Nos. in 2005-06 and 143,896 Nos. in 2006-07.

Source-SIAM

(ii) 3-Wheeler growth drivers are as under :

- ☐ Increase disposable income more families graduating to the threshold level required for potential two wheeler customers and affording three wheelers.
- ☐ Rapid urbanization with cities becoming larger increasing need for mobility.
- ☐ Need for economically viable transport solution.
- ☐ The domestic demand for 3-wheelers passengers version is driven by availability of permits.
- ☐ Increased demand from Semi-Urban & Rural Areas.
- ☐ Wider product range/choice available to customer.
- ☐ Real Price of products going down.
- ☐ Greater Finance Options.



Apart from macro economic factors, major demand drivers have been:

- High product maneuverability & driveability. Ideal for congested Indian roads and tropical conditions.
- Self-employment opportunity for a large segment of youth.
- The domestic demand of passenger version of 3-wheelers driven by availability of permits.

(iii) Scooters India Limited has been a pioneer in bringing out various models of 3-wheelers running on petrol, diesel, electric and gas for application as both passengers and load carrier versions. Company has played an important role in popularizing 3-wheelers of larger capacities in the country.

The introduction of Vikram CG-1500 model of 3-wheeler has contributed significantly to the sale in 2006-07. The company continues to be leader in passenger carrier (6+1) segment of vehicles and has a share of 49.94% in 2006-07 as against 31.20% in 2005-06. With various cities legislating in favour of CNG/LPG vehicles, the company has geared itself to introduce new products on CNG/LPG mode during 2007-08.

It is expected that demand for 3-wheeler shall continue to be buoyant during the year 2007-08.

(C) Resources and Liquidity :

The Cash Flow constraints due to cash losses could be managed due to reduction of Sundry Debtors from a level of Rs. 24.61 crores as on 31.3.06 to Rs. 8.66 crores as on 31.3.2007 (i.e.) a reduction of Rs. 15.95 crores. Further, enhanced working capital borrowing was finalized with Banks to take care of increasing working capital requirements.

(D) Quality :

Your company is an ISO 9001 and ISO 14001 company. The company has taken several initiatives to ensure that the best quality products are made available to its customers.

(E) Opportunities & threats :

E.1. Opportunities :

1. GDP growth is expected to be in the range of 9% showing development in infrastructure including roads connecting smaller towns to cities, which would facilitate running of smaller vehicles.
2. CNG and LPG would be fuel of choice due to low emission and this would give opportunity for 3-wheelers run on LPG & CNG.

E.2 Threats :

1. Smaller passenger vehicle and sub 1.0 ton load carriers on 4-wheels have been introduced/ is being introduced by other automobile companies.
2. Rise in cost of fuel and problems in issue of permits by Regional Transport Authorities shall continue to pose problem for growth of 3-wheeler industry.

(F) Outlook :

i) Challenges faced by the Company :

- 1) The need for consistency in quality demands for enhanced investment in R & D and 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.


SCOOTERS INDIA LIMITED

3) Through 3-Wheeler as industry continue to grow but increase in competition and introduction of 4-Wheeler in 1.0 ton category is expected to aggravate the extremely competitive scenario and impact the volumes & margin.

4) Emission and safety norms are getting continuously upgraded by authorities which call for product upgradation and investments.

(ii) Strategic Road Map :

When Auto sector in India has been showing impressive improvement for the past few years, the performance of your company has not been impressive enough as is evident from the financial results. With the help of Govt. of India, a study was undertaken to address the various issues faced by the company. Based on the outcome of the report a short term project proposal of product improvement, manpower training and upgradation of facilities for testing and evaluation has been taken-up by your company at approved cost of Rs. 18.63 crores. The implementation of the project is expected to bring in 'no problem vehicle'; modification of existing 3-wheelers to comply with the changing emission and safety rules; introduction of 3-wheeler upgrades to meet the market requirements; upgradation of CAE/CAD and Testing and evaluation facilities in addition to addressing various manufacturing and other issues.

This is expected to result in improvement in operational efficiency of the company and also enable the company to go for higher volume of production and sales to sustain itself in the long run.

7. EXPENDITURE ON ADVERTISEMENT AND PUBLICITY :

An expenditure of Rs. 61.02 lakhs was incurred on account of advertisement and publicity during the year.

8. MATERIAL CHANGES AND COMMITMENTS AFFECTING THE FINANCIAL POSITION OF THE COMPANY WHICH HAVE OCCURRED FROM 1.4.2007 TO DATE :

No material change and commitments have been made by the company from 1-04-07 to date that has adverse effect on the financial position of the company.

9. 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 provision 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 to this report.

10. 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.

11. INDUSTRIAL RELATIONS :

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

12. 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 6.11.2006 to 10.11.2006. The employees participated in various programmes enthusiastically.



13. HUMAN RESOURCE DEVELOPMENT :

Company has been laying emphasis on the development of its employees treating them as key resource. For upgradation of their skills and their over all professional development, the Company sponsors employees for external and in-house training programmes related, in particular, to Quality Management System, Environmental Management System, Health & Safety, Attitudinal Change, Product upgradation etc.

14. HINDI IMPLEMENTATION :

Official Language implementation Committee monitors and reviews 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 when various competitions are organized for employees and winners are felicitated.

15. RESERVATION FOR SCHEDULED CASTES & SCHEDULED TRIBE :

As on 31.3.2007, the total strength of the Company was 1601 including 01 deputationist. Out of these, 298 employees belong to Scheduled Castes and 2 employees to Scheduled Tribes.

16. DIRECTORS :

Shri P. Muthusamy joined as Director (Finance) w.e.f. 12th September, 2006. He was entrusted additional charge of Chairman-cum-Managing Director w.e.f. 13th April, 2007 in place of Shri P.K. Datta who demitted office on 12th April, 2007. Shri P.P. Sarkar joined as Director (Technical) w.e.f. 16th May, 2007. Shri Shashank Goel, Director, Govt. of India, Ministry of HI & PE, Deptt. of Heavy Industry, joined as Non Executive Director on 22nd May, 2007 in place of Shri Manoj Kumar Singh, Shri S. Chakraborty, Shri P.K. Brahma and Shri S.K. Tripathi joined as Independent Directors on 31st Jan, 8th Feb & 6th July, 2007 respectively.

17. 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 2007, 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 2007 on a 'going concern' basis.

18. 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.



SCOOTERS INDIA LIMITED

19. FIXED DEPOSITS :

The Company has not accepted any deposits during the year.

20. 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.

21. AUDITORS REPORT :

M/s Mittal Gupta & Company have been appointed by the Comptroller and Auditor General of India, as Statutory Auditors of the Company for the year 2006-07. The Statutory Auditors' Report on the Accounts of the Company for the financial year ended 31st March, 2007 alongwith Management replies are enclosed at Annexure-1.

- The Accounts of the company were submitted to the Comptroller & Auditor General of India for their report under Section 619(4) of the Companies Act 1956 and their report is appended as annexure-2.

22. COST AUDITOR :

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 13th June, 2006 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, 2007.

23. 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-3 to this report.

24. 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 in us.

For and on behalf of the Board

P. Muthusamy

Chairman-cum-Managing Director

Place : Lucknow

Date : 24th August, 2007



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.

(iii) Use of Estimates :

The preparation of financial statements requires management to make certain estimates and assumptions that affect the amounts reported in the financial statement and notes thereto. Differences between actual results and estimates are recognized in the period in which they materialize.

2. DEPRECIATION :

Premium on leasehold land is amortised over the period of lease.

Depreciation on other fixed assets is charged on straightline method in accordance with rates prescribed in Schedule XIV to the Companies Act, 1956 as amended from time to time, except.

- (a) Plant, Machinery, Equipment and Jigs & Fixtures costing individually Rs. 5000 and below are depreciated fully in the year of purchase.
- (b) In case of tools where estimated useful life is greater than five years but less than ten years, depreciation is charged @ 20% as was being done prior to introduction of Schedule XIV.

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

3. INVENTORIES :

- (i) Raw materials, components, stores & spares, tools, consumables and other stocks are valued at cost (net of CENVAT) determined on FIFO Basis. Scrap and disposable goods are valued at estimated realisable value.
- (ii) Stock-in-trade is valued at lower of cost or realisable value.



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

4. FIXED ASSETS :

- (i) Fixed Assets are stated at original cost and are inclusive of all expenses to bring them to a state of use.
- (ii) Land is valued at original cost.
- (iii) The cost of the leasehold land is amortized over the lease span.
- (iv) The tools manufactured departmentally costing individually Rs.5000 and below are accounted for as revenue expenditure under relevant natural heads.
- (v) Construction period expenses exclusively attributable to projects are capitalized.
- (vi) Borrowing cost directly attributable in relation to acquisition, construction of assets that takes substantial period of time to get ready for its intended use 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.

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. CENVAT

Cenvat credit on eligible Revenue / Capital purchase is taken on receipt of such materials.

7. PROVISION FOR REDUNDANCY/OBSOLESCENCE :

A general provision for redundancy is made at 0.5% of the value of closing inventory of raw materials and components, stores and spares excluding finished goods, W.I.P., gasoline in petrol pump, medicines, materials in bond and under inspection. Wherever necessary,