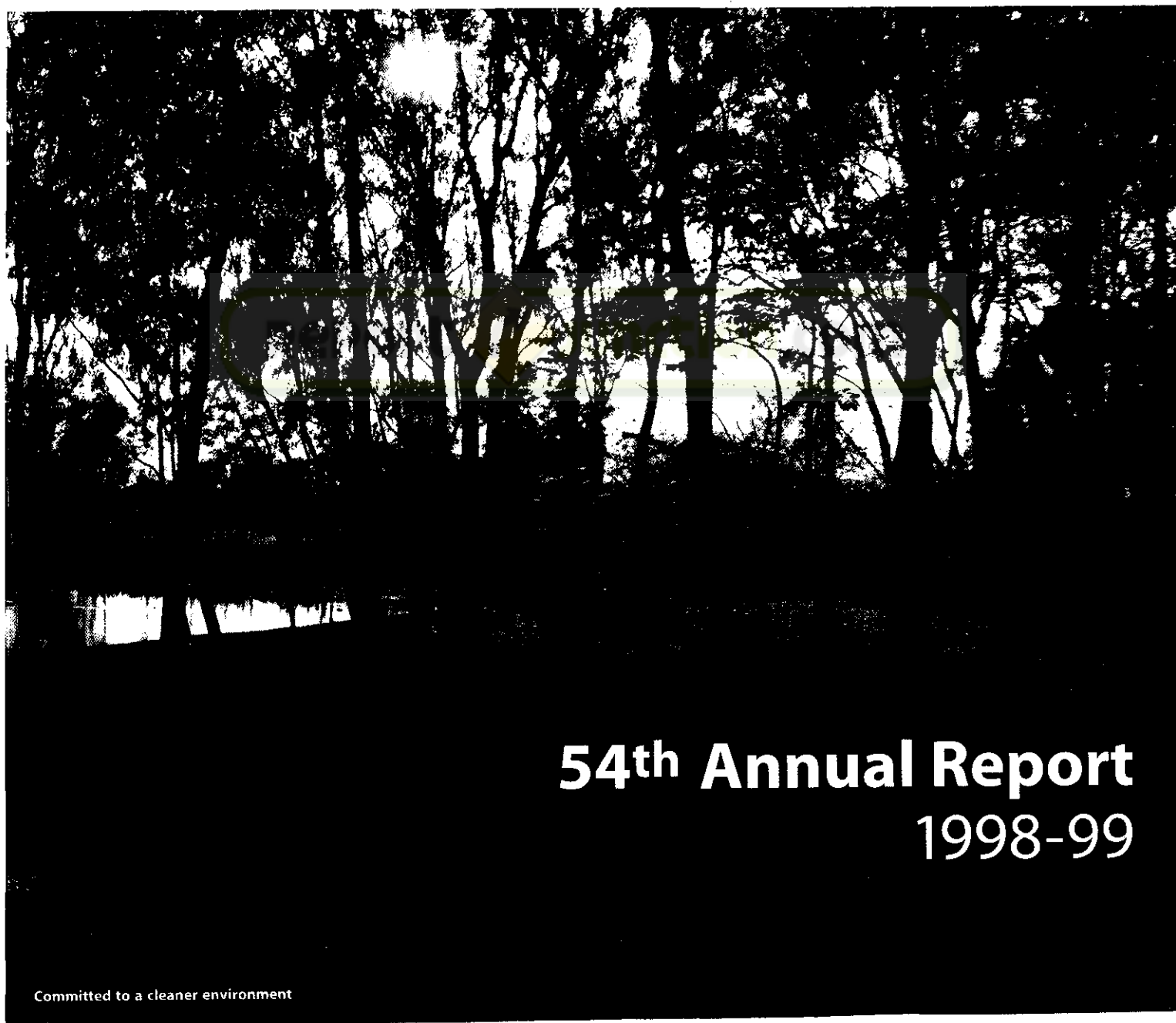


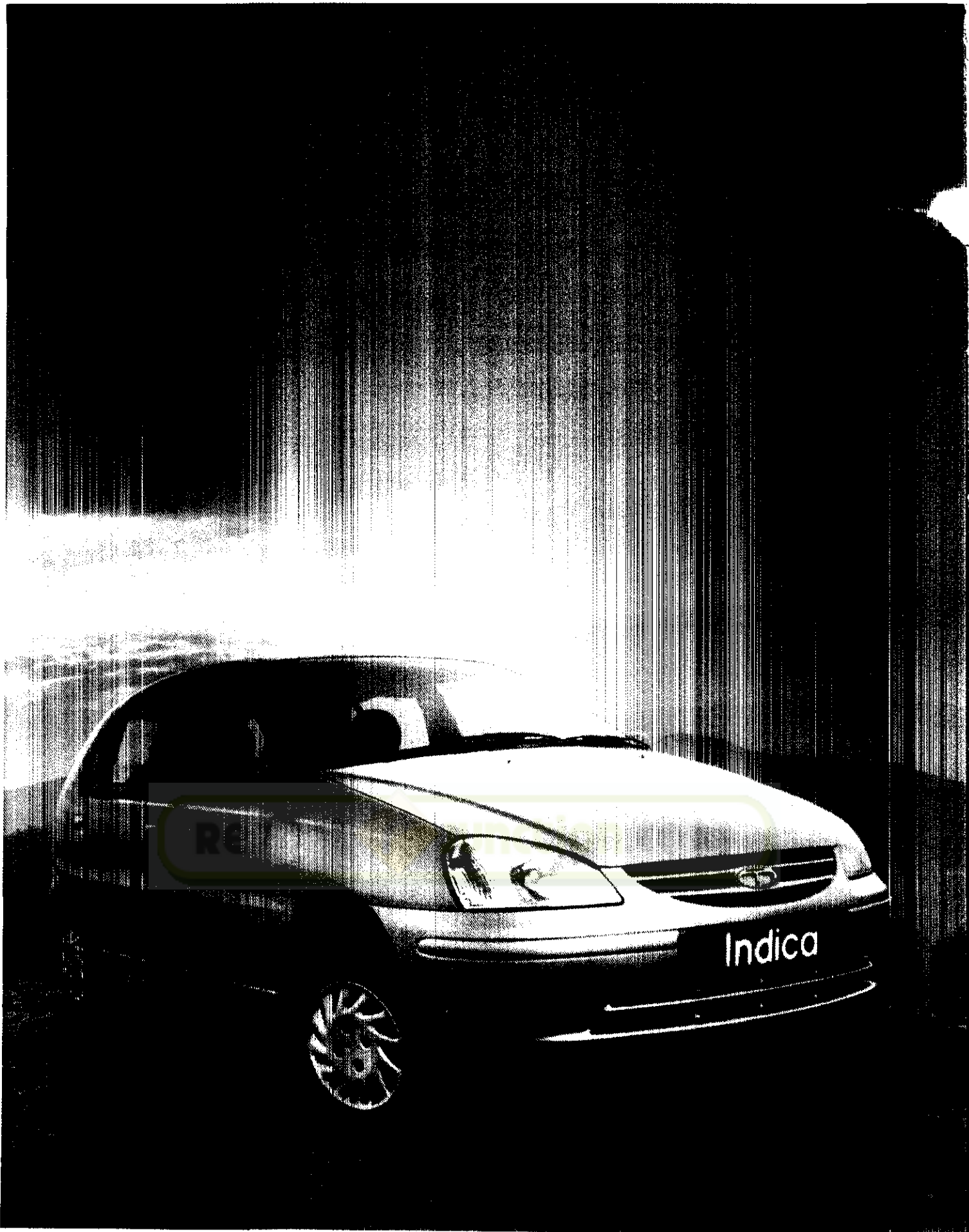


TATA ENGINEERING



54th Annual Report 1998-99

Committed to a cleaner environment



Tata Indica

**TATA ENGINEERING**

Fifty-fourth annual report 1998-99

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Tata Engineering and Locomotive Company Limited

Board of Directors :

Ratan N. Tata (*Executive Chairman*)

N. A. Palkhivala

S. R. Vakil

S. A. Naik

N. A. Soonawala

J. J. Irani

J. K. Setna

P. K. M. Fietzek

V. R. Mehta

R. Gopalakrishnan

N. N. Wadia

S. J. Ghandy

V. M. Raval } (*Executive Directors*)

F. K. Kavarana }

T. Becker de Freitas

(*Alternate Director to Mr. P. K. M. Fietzek*)

Registered Office :

Bombay House
24, Homi Mody Street,
Hutatma Chowk,
Mumbai 400 001.

Share Registrars :

Tata Share Registry Limited,
Army & Navy Building,
148, Mahatma Gandhi Road,
Mumbai 400 001.

Solicitors :

Messrs Mulla & Mulla and
Craigie Blunt & Caroe
S. R. Vakil

Auditors :

A. F. Ferguson & Co.
S. B. Billimoria & Co.

Works :

Jamshedpur
Pune
Lucknow
Dharwad

Bankers :

State Bank of India
Central Bank of India
Bank of India
Bank of Baroda
ANZ Grindlays Bank
Bank of Maharashtra
Hongkong Bank
Union Bank of India
Citibank N. A.
Bank of Nova Scotia
Deutsche Bank
Bank of America
American Express Bank
Corporation Bank



Summarised Balance Sheet

(Rupees Crores)

WHAT THE COMPANY OWNED	As at 31-3-1999	As at 31-3-1998
1. NET FIXED ASSETS	4045.31	3451.74
2. INVESTMENTS	1029.38	837.10
3. NET CURRENT ASSETS	1396.44	2243.16
4. MISCELLANEOUS EXPENDITURE	735.05	531.92
5. TOTAL ASSETS (NET)	7206.18	7063.92
WHAT THE COMPANY OWED		
1. LOANS	3445.23	3308.74
2. NET WORTH	3760.95	3755.18
Represented by :		
Share Capital	Rs. 255.90 Crores (1997-98 : Rs. 255.88 Crores)	
Reserves	Rs. 3505.05 Crores (1997-98 : Rs. 3499.30 Crores)	
3. TOTAL FUNDS EMPLOYED	7206.18	7063.92

Summarised Profit and Loss Account

(Rupees Crores)

	1998-99	1997-98
1. INCOME		
SALE OF PRODUCTS AND OTHER INCOME	6637.05	7362.79
2. EXPENDITURE		
RAW MATERIALS, STORES AND OTHER EXPENSES	5346.48	5894.51
SALARIES, WAGES ETC.	694.90	609.37
DEPRECIATION	281.32	259.24
INTEREST	309.57	272.01
TOTAL EXPENDITURE	6632.27	7035.13
PROFIT BEFORE EXTRAORDINARY ITEM	4.78	327.66
PROFIT ON SALE OF CONSTRUCTION EQUIPMENT BUSINESS	102.38	—
3. PROFIT BEFORE TAX	107.16	327.66
4. TAX FOR THE YEAR	9.70	33.00
5. PROFIT AFTER TAX	97.46	294.66
6. WEALTH TAX PROVISION FOR EARLIER YEARS WRITTEN BACK	0.39	—
7. DEBENTURE REDEMPTION RESERVE	—	(50.00)
8. BALANCE BROUGHT FORWARD FROM PREVIOUS YEAR	128.12	138.30
	225.97	382.96
9. APPROPRIATIONS		
(i) General Reserve	10.00	100.00
(ii) Proposed Dividend	76.76	140.76
(iii) Tax on Proposed Dividend	8.44	14.08
(iv) Balance carried to Balance Sheet	130.77	128.12
	225.97	382.96

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HIGHLIGHTS

	1998-99 (Rupees Crores)	1997-98 (Rupees Crores)
Sales and Other Income	6637.05	7362.79
Depreciation	281.32	259.24
Profit before Tax	107.16	327.66
Tax for the year	9.70	33.00
Profit after Tax	97.46	294.66
Dividend (including tax thereon)	85.20	154.84
Plough back (including Depreciation)	293.58	399.06
Shareholders' Funds (Net Worth)	3760.95	3755.18
Debt/Equity Ratio	0.92:1	0.88:1
Number of Shareholders	238354	228856

Chairman's Statement

Dear Shareholder,

1998-99 has been a distressing year for much of Indian industry. The demand for many goods and services has remained weak, with several sectors witnessing an actual contraction of their markets. The much-publicised investments in mega projects seem to have been deferred for one reason or another, and in general, the level of economic activity has remained very subdued. While the economic fundamentals for India have remained sound, the psychological fundamentals appear to have evaporated in a haze of domestic uncertainty, external sanctions and a general lack of optimism.

For the Company, the year has been a mixture of disappointment and a sense of great achievement. There has been disappointment that the market for commercial vehicles has continued to be depressed and that the total demand shrank by a further 9% in volumes compared to the previous year, which itself had witnessed lower demand as compared to the year before. In essence, the market for commercial vehicles in the year under review was only 58% of the market size that existed in 1996-97! Although the Company gained market share in the Light Commercial Vehicle segment, it lost market share in the Medium and Heavy as well as the Multi Utility Vehicle segments. A drastic reduction of production in the first half of the year became necessary in order to avoid a build-up of inventories. On the other hand, there was a great sense of achievement when the **Indica**, India's first truly "indigenous" low-end passenger car was launched in December 1998. The enormous sense of national pride evoked and the unprecedented demand for the **Indica** has been a fitting tribute to the effort of all those who worked on the project. The car has been enthusiastically received in the marketplace.

Infrastructure Investment — The Key to Growth

In the first months of the current year, there are some signs of a market revival. Several industry sectors are showing indications of increased demand and in the commercial vehicle sector also the first quarter of the current year shows small signs of a recovery. The big question is whether this trend will be sustained.

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Earlier Chairman's Statements have drawn attention to the urgent need for investment in infrastructure, with particular emphasis on roads, national highways and expressways. There does appear to have been recognition of this need, and the Prime Minister's announcement in October 1998 of a North-South, East-West expressway system spanning the country, if implemented, along with other roadway projects, will have a major long-term positive impact on the domestic economy through a dramatic improvement of the connectivity throughout the country. It would enable the distribution of agricultural and manufactured goods more effectively across the country in less time, and will foster a new era in special-purpose transportation services in the form of refrigerated containers and door-to-door service, which hardly exist today.

The importance of such an enhancement in road infrastructure cannot be stressed enough. For example, today, it takes a truck an average of 6-7 days to carry goods from, say, Mumbai to Calcutta. It must traverse no less than 15 checkpoints/octroi stations during the trip, where approximately 2 days are lost in waiting. The average speeds on existing roads are 40 kms. per hour. The layout of the present roadways are inadequate and dangerous for the density of commercial vehicles, passenger cars and other local forms of transport which ply these roads. Roadway deaths have become an issue of national concern — and rightly so. Trips between Mumbai and Calcutta, or Delhi and Chennai, should not take more than about 2 days at safe average speeds of about 60-80 kms. per hour on a reasonable roadway system. The savings in fuel costs and better transport turnaround times would by themselves constitute significant amounts.

The Future Indian Automobile Scene***Commercial Vehicles***

It is expected that the demand for commercial vehicles will increase in line with India's growing economic prosperity. There will conceivably be a number of international vehicle manufacturers which may establish themselves in the country. Global scale will be an important factor that will determine the survivability of each player. In the commercial vehicle segment, the Company does have world scale.

It should therefore be able to hold its own against several global commercial vehicle manufacturers, although it would need to accelerate its product development and product improvement programmes to meet global requirements.

Passenger Cars

The passenger car segment has already seen considerable activity in the last two years, with several international players establishing themselves with proven world-class products. In this segment, the Company is more vulnerable in terms of manufacturing scale as compared to some of the international manufacturers who will continue to have a presence in this segment in the coming years.

While it should be possible for the Company to remain competitive at the low-end of the car market, where its own engineering and product development capabilities will give it a tremendous cost advantage, it might be difficult for it to match new model introductions or an expansion of its product range in line with international manufacturers. It may, therefore, conceivably be worthwhile at some stage to establish alliances with international component manufacturers and even car manufacturers to adopt specific new technologies in its products.

Over a period of time, the Company would also need to re-focus itself on the design and assembly of vehicles and buy in from various vendors the main sub-assemblies which it presently manufactures in-house. This is the trend the world over and is a sensible way to conserve resources, which could be focussed into the Company's main core competence.

Environment

The protection of the environment has quite correctly been attracting growing public concern. Over the years, the Company has been very conscious of its responsibility to the environment and the communities around its manufacturing plants. It has ensured that all effluents are fully treated and that airborne pollution is absent. Great investments have been made on its vehicles to ensure that emission

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levels meet or better mandated norms. In fact, the Company has consciously decided to lead the domestic industry in complying with international emission standards, and in this context, fully supports and endorses the recent directives of the Supreme Court on the imposition of low-emission standards for all vehicles.

It is clear that the auto industry in India will undergo tremendous change, both from the opening of the domestic market to imports and through the development of local assembly by international manufacturers. To meet the need of these changing times and to safeguard its leadership position, the Company must address itself to the challenges that lie ahead. The Company will require to further reduce its costs, improve its productivity, increase its market orientation and be successful in creating a high level of customer loyalty.

The Company's entire team, which has already been involved with many new internal initiatives, will have to continue to redefine the manner in which the Company conducts its business, while maintaining its value systems and traditions. This will call for their resolve, their commitment and their oneness of purpose. Our people will surely rise to the occasion, and the Company will continue to be a major Indian automotive enterprise playing its role in the development and growth of this exciting industry, which forms a foundation for the country's industrial future.



A handwritten signature in black ink, which appears to read 'Ratan T. Tata', is written over the watermark.

Mumbai, June 24, 1999.

Chairman