



TATA ENGINEERING





TATA SEMI-LOW FLOOR BUS

TATA ENGINEERING

Fifty-fifth annual report 1999-2000

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Tata Engineering and Locomotive Company Limited

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Tata Engineering and Locomotive Company Limited

Board of Directors :

Ratan N. Tata (*Executive Chairman*)

N. A. Palkhivala

N. A. Soonawala

J. J. Irani

J. K. Setna

V. R. Mehta

R. Gopalakrishnan

N. N. Wadia

Helmut Petri

F. K. Kavarana (*Executive Director*)

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

Company Secretary :

H. K. Sethna

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 :

Mulla & Mulla and
Craigie, Blunt & Caroe

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 31-3-2000 | As at 31-3-1999 |
|------------------------------------|--------------------|--------------------|
| 1. NET FIXED ASSETS | 3984.15 | 4045.31 |
| 2. INVESTMENTS | 1200.74 | 1029.38 |
| 3. NET CURRENT ASSETS | 786.31 | 1396.44 |
| 4. MISCELLANEOUS EXPENDITURE | 787.18 | 735.05 |
| 5. TOTAL ASSETS (NET) | 6758.38 | 7206.18 |

WHAT THE COMPANY OWED

| | | |
|-------------------------------|--|---------|
| 1. LOANS | 3004.26 | 3445.23 |
| 2. NET WORTH | 3754.12 | 3760.95 |
| Represented by : | | |
| Share Capital | Rs. 255.90 Crores (1998-99 : Rs. 255.90 Crores) | |
| Reserves | Rs. 3489.22 Crores (1998-99 : Rs. 3505.05 Crores) | |
| 3. TOTAL FUNDS EMPLOYED | 6758.38 | 7206.18 |

Summarised Profit and Loss Account

(Rupees Crores)

| | 1999-2000 | 1998-99 |
|---|----------------|---------|
| 1. INCOME | | |
| SALE OF PRODUCTS AND OTHER INCOME | 8963.02 | 6593.95 |
| 2. EXPENDITURE | | |
| RAW MATERIALS, STORES AND OTHER EXPENSES | 7572.53 | 5303.38 |
| SALARIES, WAGES ETC. | 702.28 | 694.90 |
| DEPRECIATION | 342.61 | 281.32 |
| INTEREST | 404.74 | 309.57 |
| TOTAL EXPENDITURE | 9022.16 | 6589.17 |
| PROFIT BEFORE EXTRAORDINARY ITEM | (59.14) | 4.78 |
| PROFIT ON SALE OF UNDERTAKING | 134.34 | 102.38 |
| 3. PROFIT BEFORE TAX | 75.20 | 107.16 |
| 4. TAX FOR THE YEAR | 4.00 | 9.70 |
| 5. PROFIT AFTER TAX | 71.20 | 97.46 |
| 6. WEALTH TAX PROVISION FOR EARLIER YEARS WRITTEN BACK | — | 0.39 |
| 7. INVESTMENT ALLOWANCE (UTILISED) RESERVE WRITTEN BACK | 21.55 | — |
| 8. BALANCE BROUGHT FORWARD FROM PREVIOUS YEAR | 130.77 | 128.12 |
| | 223.52 | 225.97 |
| 9. APPROPRIATIONS | | |
| (i) General Reserve | 10.00 | 10.00 |
| (ii) Proposed Dividend | 63.96 | 76.76 |
| (iii) Tax on Proposed Dividend | 14.07 | 8.44 |
| (iv) Balance carried to Balance Sheet | 135.49 | 130.77 |
| | 223.52 | 225.97 |

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HIGHLIGHTS

| | 1999-2000 (Rupees Crores) | 1998-99 (Rupees Crores) |
|---|--|----------------------------|
| Sales and Other Income | 8963.02 | 6637.05 |
| Depreciation | 342.61 | 281.32 |
| Profit before Tax | 75.20 | 107.16 |
| Tax for the year | 4.00 | 9.70 |
| Profit after Tax | 71.20 | 97.46 |
| Dividend (including tax thereon) | 78.03 | 85.20 |
| Plough back (including Depreciation) | 335.78 | 293.58 |
| Shareholders' Funds (Net Worth) | 3754.12 | 3760.95 |
| Debt/Equity Ratio | 0.80:1 | 0.92:1 |
| Number of Shareholders | 235667 | 238354 |

Chairman's Statement

Dear Shareholder,

During the year, India has gained considerable international prominence through its political stability, greater confidence in its fiscal policies, and the most recent boom in the New Economy sector. The level of domestic industrial activity has increased, reflecting confidence in the country's direction.

The increase in demand for goods and services provided a welcome boost to the commercial vehicle segment of the automobile sector, which had seen its market size shrink by as much as 40% over the previous two years. However, increases in diesel fuel prices resulted in some temporary stagnation in this segment, and the recent decision to classify commercial vehicles under the highest slab of the unified sales tax has once again put a dampener on the demand for commercial vehicles. The passenger car segment continued to see growth during the year, particularly in the low-end price category. This segment is, however, crowded by several international vehicle manufacturers selling low volumes, and the situation is likely to get even more crowded when entry barriers are lifted in the next few years.

Future growth of the Indian automotive industry would depend on considerable upgradation and expansion of roads. India's roadway network remains primitive. The absence of a good road network will choke our transportation system and inordinately delay the transport of goods between locations in the country. There is an urgent need to establish a national network such as the North-South and East-West highway system touching the major cities in India, announced by the Prime Minister in October 1998. An integrated national roadway system deserves the Government's urgent attention.

Review of a Difficult Year

In the commercial vehicle segment, our Company was able to register a growth of 36% in numbers over the previous year in medium and heavy commercial vehicles, and increased its market share. In the light commercial

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vehicle and utility vehicle segments, however, the Company saw a marginal fall in sales, with an erosion in its market shares. Steps were initiated during the year to arrest these trends and some of these initiatives are already beginning to show results. The most heartening aspect of the year has been the strong market demand for the Indica, which saw customer sales of over 54,000 cars and a year-end market share of 21% in its price segment. Indica sales would have been higher were it not for constraints on production, caused to a great extent, by limitations in vendor supplies.

The effects of the economic downturn over the previous two years continued to have a serious impact on our Company during the year. The situation was compounded by the early start-up costs of the Indica car project, which is only expected to reach a break-even level of operation in the latter part of the year 2000-01. Given this environment, the Company has seen an urgent need to review and revitalize the manner in which it conducts its business. Greater attention to improved and sustained high quality, the need to reduce costs and increase margins, and above all, the need to satisfy the customer, have been recognized as priorities. Programs specifically focussing on product reliability, spanning the robustness of design, component reliability and build quality of all vehicles have been put in place during the year. Cost reduction programs at all the plants have been implemented as it is recognized that the scope for cost reduction is substantial. The Company is also examining various initiatives to educate and train its sales executives as also those of its dealers, to be more customer-oriented. The effects of these initiatives will begin to bear fruit in the coming years.

Global Restructuring in the Automotive Industry

The global automobile industry is undergoing dramatic change in recent times. There has been enormous consolidation, both amongst vehicle manufacturers and component vendors to achieve economies of scale, product synergies and strong brand presence. By contrast, there has been little or no consolidation in either the vehicle or the components area in India. Size remains small by international standards and therefore economies of large-scale manufacturing cannot be attained in India. The component industry, which until recently was reserved for the small-scale sector, continues to be fragmented, with a vast number of enterprises starved of cash and technology. The model of the Indian automobile industry is therefore considerably different from the global model, and as entry barriers

in India are removed, both the domestic vehicle and component manufacturers will need to consolidate themselves through mergers or acquisitions to approach the levels of competitiveness that may exist elsewhere. Global products with international brands, supported by high levels of promotional spending, will win a significant share of the domestic market for all vehicles, particularly passenger cars. Indian manufacturers will therefore need to offer products and services which differentiate themselves in these mass markets or confine themselves to niche markets.

In this emerging environment in the passenger car segment, Tata Engineering has plans to introduce several new products, but these may still not be adequate to enable the Company to compete with the global majors. It would therefore, be essential for Tata Engineering to establish a partnership or an alliance with one or more global carmakers. This would enable the Company to offer a wider product range to its customers and better address the domestic market.

The Environment – A Growing Concern

Rapid industrial development, the increase in vehicular population, and the absence of firm enforcement of emission standards in power plants, fertilizer plants, industrial enterprises and vehicles, have led to an alarming increase in pollution levels in some of our major cities.

There has rightly been great concern over the high level of air pollution in the National Capital Region (NCR). The results of studies by the Central Pollution Control Board showing the proportion of particulates in the air in Delhi from various sources are tabulated below –

| Suspended Particulate Matter in Delhi | |
|--|-----------------------|
| Source | Proportion (%) |
| Industry | 44 |
| Power generation | 37 |
| Transport* | 10 |
| Domestic** | 9 |

* Comprises 69% 2 and 3 wheelers, 6% commercial vehicles, and 25% cars and multi-utility vehicles

** Coal-based cooking stoves, diesel gensets, etc.

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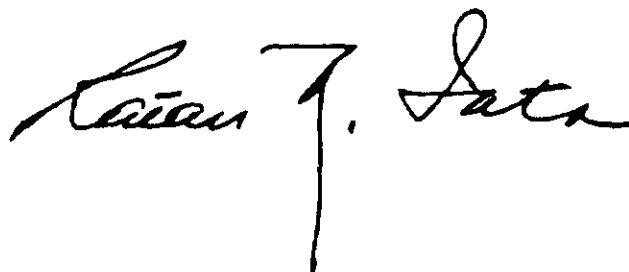
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The Supreme Court, which is hearing a public interest litigation on the issue of environmental degradation in the NCR, has appropriately indicated that the whole issue of air pollution (in terms of particulates and noxious gases) should be addressed in a holistic manner. Our Company fully supports the approach of the Supreme Court in this matter and is confident that it will comply with or better emission standards that may be mandated in the vehicular area by the Court.

Our Company has a history of being concerned about improving the environment in all its forms so as to improve the quality of life of the population. The Company has invested over Rs. 400 crores in ensuring that its vehicles meet or better the mandatory emission standards in the country and in treating all its effluents. In fact, in several products, the Company complies with standards in force elsewhere, which are ahead of those imposed in India. Initiatives have also been undertaken to develop public transport vehicles operating on alternative fuels like CNG, which will help the concerned authorities in reducing pollution levels in major cities.

Looking Ahead

The main challenge for our Company is to enhance its quest to be a more customer-oriented, high quality, viable yet competitive company in the coming years. While the Company has gone through three difficult years, the silver lining perhaps is the realization of the need for change, most obvious at a time of crisis. Tata Engineering has a long-standing tradition of technical strength and adaptability and given the sound fundamentals of the Company and the level of skill and capability of its people, I am convinced that it will succeed in securing its leadership position in the industry in the coming years.



Mumbai, June 23, 2000.

Chairman