

35th Annual Report 2002-2003

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V.S.T. TILLERS TRACTORS LIMITED



LORD GANESHA



Idol of Lord Ganesha at V.S.T. TILLERS TRACTORS LTD.,



V.S.T. TILLERS TRACTORS LIMITED

BOARD OF DIRECTORS : Mr. V.K.Surendra *Chairman*
 Mr. V.T.Velu
 Mr. R.Obata
 Mr. A. Hishikawa
 Mr. M.Udoguchi *Alternate to A. Hishikawa*
 Mr. M.K.Bannerjee
 Mr. S.Loganadan
 Mr. R.Subramanian
 Mr. A.K.Gupta *Nominee of IFCI Ltd.*
 Mr. V.V.Vijayendra
 Mr. V.P.Mahendra *Managing Director*
 Mr. A.T.Nahender *Director (Operations)*

COMPANY SECRETARY : Mr.B.L.Akshara

AUDITORS : M/s. Brahmayya & Company
 10/2, Khivraj Mansion,
 Kasturba Road, Bangalore - 560 001

COST AUDITORS : M/s. Rao, Murthy & Associates
 No.23/33, Surveyor's Street
 Basavanagudi, Bangalore - 560 004

FINANCIAL INSTITUTIONS / BANKERS : M/s. IFCI Ltd.
 M/s. Canara Bank
 M/s. State Bank of India
 M/s. State Bank of Indore
 M/s. Canbank Factors Limited

LEGAL ADVISERS : M/s.A.Murali Associates
 112/12, First Floor, (5th Main Road Corner)
 XI Cross Road, Malleswaram
 BANGALORE - 560 003

REGD. OFFICE : Plot No.1, Dyavasandra Industrial Layout,
 P.B.No.4801, Whitefield Road,
 Mahadevapura Post, Bangalore - 560 048

INFORMATION

REQUEST TO MEMBERS

1. Please bring your copy of the Annual Report to the meeting as no extra copies will be distributed owing to limited number of copies printed.
2. Members are requested to send their queries, if any, relating to the annual accounts and reports at least one week prior to the date of meeting to facilitate computation of information.
3. Members/their proxies/representatives are advised to bring their Attendance Slip duly filled in for attending the meeting. An Attendance Slip and Proxy form are attached at the end of this Annual Report
4. Please note that no gifts will be distributed at the meeting.



N O T I C E

Notice is hereby given that the THIRTYFIFTH Annual General Meeting of V.S.T. TILLERS TRACTORS LIMITED will be held on Wednesday the 24th September 2003 at 3.00 p.m. at Woodlands Hotel, No.5, Rajaram Mohanroy Road, Bangalore-560 025 to transact the following business:

ORDINARY BUSINESS

1. To consider and adopt the audited Balance sheet as at 31st March 2003, Profit and Loss Account for the year ended on that date and the Reports of the Board of Directors and Auditors thereon.
2. To declare a dividend
3. To appoint a Director in place of Mr.R.Obata who retires by rotation and being eligible, offered himself for re-appointment.
4. To appoint a Director in place of Mr.R.Subramanian who retires by rotation and being eligible, offered himself for re-appointment.
5. To appoint a Director in place of Mr.M.K.Bannerjee who retires by rotation and being eligible, offered himself for re-appointment.
6. To appoint Auditors to hold office from the conclusion of this Annual General Meeting till the conclusion of the next Annual General Meeting and to fix their remuneration. The retiring Auditors M/s.Brahmayya & Company, Chartered Accountants, being eligible, offered themselves for re-appointment.

SPECIAL BUSINESS

7. To consider and, if thought fit, to pass with or without modification, the following resolution as an Ordinary Resolution :-

RESOLVED that Mr.A.Hishikawa be and is hereby appointed as a Director of the Company.

8. To consider and, if thought fit, to pass with or without modification, the following resolution as a Special Resolution :-

RESOLVED that the equity shares of the Company listed on Madras Stock Exchange Limited be and is hereby delisted with immediate effect.

FURTHER RESOLVED that the Board of Directors may authorise any person to comply with the formalities for delisting of Company's equity shares from the Madras Stock Exchange Limited.

By order of the Board of Directors
for **VST TILLERS TRACTORS LIMITED**

Sd/-

(B.L.Akshara)

Company Secretary

Place: Bangalore

Dated: 28th August 2003

35th ANNUAL REPORT**NOTES:**

1. **A member entitled to attend and vote at the meeting is entitled to appoint proxies to attend and vote instead of himself / herself on a " POLL " and A PROXY NEED NOT BE A MEMBER.** The proxy form is annexed hereto. Proxy in order to be valid must be deposited at the Company's Registered Office not less than fortyeight hours before the commencement of the meeting.
2. The Register of Members and the Share Transfer Books of the Company will remain closed from 22.9.2003 to 24.9.2003 (both days inclusive)
3. Explanatory Statement pursuant to Section 173 (2) of the Companies Act, 1956 in respect of Special Business is annexed hereto.
4. Documents relating to any of the items mentioned in the Notice are open for inspection at the Registered Office of the Company on any working day during business hours.
5. Members are requested to notify immediately any change in their address to the Company.
6. Members are requested to bring their copy of the Annual Report with them to the meeting.
7. The dividend on the equity shares as recommended by the Directors, if declared at the Annual General Meeting will be disbursed on or before 23rd October 2003.
8. Members may please note that the Dividend Warrants are payable at par at the designated branches of the Bank for an initial period of 6 months only.
9. In order to provide protection against fraudulent encashment of the warrants, shareholders holding shares in physical form are requested to intimate the Company under the signature of the Sole/First joint holder, the bank particulars to be incorporated on the Dividend Warrants.
10. Shareholders holding shares in electronic form may kindly note that their Bank account details as furnished by their Depositories to the Company will be printed on their Dividend Warrant as per the applicable regulations of the Depositories and the Company will not entertain any direct request from such shareholders for deletion of/change in such Bank details. Further, instructions, if any, already given by them in respect of shares held in physical form will not be automatically applicable to shares held in the electronic mode. Shareholders who wish to change such Bank Account details are therefore requested to advise their Depository Participants about such change, with complete details of Bank account.
11. Pursuant to the provisions of Section 205A(5) of the Companies Act, 1956, dividend which remain unclaimed for a period of 7 years will be transferred to the **Investor Education and Protection Fund (EPF)** established by the Central Government pursuant to Section 205C of the Companies Act, 1956. Shareholders who have not

**V.S.T. TILLERS TRACTORS LIMITED**

so far encashed the dividend warrant(s) are requested to seek issue of duplicate warrant(s) by writing to the Company.

12. Consequent upon the introduction of Section 109A of the Companies Act, 1956, shareholders are entitled to make nomination in respect of shares held by them. The Shareholders holding shares in physical form desirous of making nominations are requested to send their requests in Form 2B (which will be made available on request) to the Company.
13. Members desirous of obtaining any information on the Annual Accounts to be explained at the meeting are requested to write to the Company at an early date to facilitate computation of information.

By order of the Board of Directors
for **VST TILLERS TRACTORS LIMITED**

Place: Bangalore
Dated: 28th August 2003

Sd/-
(B.L.Akshara)
Company Secretary

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35th ANNUAL REPORT**EXPLANATORY STATEMENT PURSUANT TO SECTION 173 (2) OF THE COMPANIES ACT, 1956****ITEM No.7**

Mitsubishi Heavy Industries Limited, Tokyo withdrew the nomination of Mr.S.Sugiyama from the post of Director of the Company with effect from 27th June 2003 and appointed Mr.A.Hishikawa in his place. The Board in its meeting held on 27th June 2003 appointed Mr.A.Hishikawa as an Additional Director with effect from 27th June 2003. Being an Additional Director, he will cease to be a Director from the date of the 35th Annual General Meeting.

Mr.A.Hishikawa is the General Manager, Engine Department, General Machinery & Special Vehicle Headquarters, Mitsubishi Heavy Industries Limited, Japan.

The Company has received notice from a member under Section 257 of the Companies Act 1956, signifying his intention to propose the name of Mr.A.Hishikawa for appointment as a Director at this Annual General Meeting.

Your Directors are of the opinion that it would be in the best interests of the Company to appoint Mr.A.Hishikawa as a Director and accordingly commend the resolution for approval of the Shareholders.

Except Mr.A.Hishikawa, no other Director is interested in the resolution.

ITEM No.8

The equity shares of the Company are listed on Bangalore, Mumbai and Madras Stock Exchanges. The trading volume in Madras Stock Exchange Limited is negligible in the last few years. As the Company's shares are also listed on Mumbai Stock Exchange which has nationwide electronic connectivity, it is felt that continued listing in the Madras Stock Exchange Limited is no longer required. Hence it is proposed to voluntarily delist the shares from the Madras Stock Exchange.

The proposed delisting of shares requires the approval of Shareholders by way of special resolution in the General Body Meeting as per the SEBI guidelines.

None of the Directors of the Company are concerned nor interested in the above resolution.

By order of the Board of Directors
for **VST TILLERS TRACTORS LIMITED**

Place: Bangalore
Dated: 28th August 2003

Sd/-
(B.L.Akshara)
Company Secretary

**DIRECTORS' REPORT**

Dear Shareholder,

Your Directors are pleased to present a report on the performance of your Company alongwith audited accounts for the year ended 31st March 2003.

FINANCIAL HIGHLIGHTS

The financial results are summarised below :

(Rupees in lacs)

	Year 2002-03	Year 2001-02
TURNOVER	6807	6244
OTHER INCOME	92	214
TOTAL INCOME	6899	6458
PROFIT BEFORE DEPRECIATION & INTEREST	761	579
INTEREST	156	172
DEPRECIATION	194	138
PROFIT BEFORE TAX	411	269
INCOME TAX	10	79
DEFERRED TAX	(16)	19
PROFIT AFTER TAX	417	171
BALANCE B/F	403	612
SURPLUS AVAILABLE FOR	820	783
APPROPRIATION TO:		
DIVIDEND	115	58
TAX ON DIVIDEND	15	-
TRANSFER TO GENERAL RESERVE	260	95
PROVISION FOR DIMINUTION IN INVESTMENTS	2	227
BALANCE CARRIED FORWARD	428	403

COMPANY'S PERFORMANCE

The year under review witnessed various factors like continued economic slowdown, decline in agricultural output due to severe drought conditions in various parts of the country and a negative growth of 25% in the domestic tractor industry. In this backdrop, your Company has performed reasonably well during the year compared to 2001-02. Sales revenue increased by 9.0% primarily due to an increase of 14% in the volume of Power Tillers sold during the year despite a fall in tractor production on account of labour unrest in the Company's Bangalore Plant. The operating profit during the year grew significantly from Rs.579 lacs to Rs.761 lacs. This has been due to higher sales realisation on Power Tillers and decline in the cost of borrowings. The profit after tax has increased substantially due to the benefits which accrued to the Company consequent to the merger of VST Precision Components Limited.

DIVIDEND

Your Directors recommend a dividend of Rs.2 per equity share of face value of Rs.10 for the year 2002-03.

AMALGAMATION OF VST PRECISION COMPONENTS LIMITED (VPCL) WITH THE COMPANY

During the year, VPCL, the erstwhile wholly owned subsidiary of your Company located at Mysore was merged with the Company following the approval of the Scheme of Amalgamation by the shareholders of both the companies and the Hon'ble High Court's order dated 18th July 2003. The transfer date for the above scheme is 1st April 2002. The financial results of the erstwhile VPCL for the period 1st April 2002 to 31st March 2003 are reflected in the Company's accounts for the same period.

The Precision Components Division accredited with QS9000 Certification supplies a variety of critical engine components to your Company and to the export market which is encouraging.

The decision to amalgamate was taken for strategic reasons as well as to achieve greater financial strength and contribute towards the profits of the Company in the overall interest of maximising shareholder value.

CURRENT YEAR OUTLOOK

Your Directors wish to state with cautious optimism that your Company's efforts in increasing brand equity and market share through various marketing strategies is a reflection of the performance during the first quarter despite the closure of the main plant at Bangalore until 14th May 2003. Production and sale of tractors was adversely affected due to the above factor. However the company is making all efforts to recoup the loss in production over the

next three quarters. Nevertheless, it is gratifying to note that the results for the first quarter ending 30.06.2003 are almost on par with the corresponding quarter of the previous year.

The higher allocation of tillers under subsidy schemes in many states would improve the overall performance in the current year. Alongside, the Company is also pursuing to market Tractors aggressively and consolidate its presence. It is also heartening to note that the operational profits of the Precision Components Division has substantially improved. Your Directors are confident that with the current order position for Power Tillers, Tractors as well as export order for precision components, the financial performance of the Company for the current year is promising.

HOSUR PLANT OPERATIONS

During the year, your Company set up a Power Tiller assembly Plant at Hosur, Tamil Nadu with a view to benefit from logistical advantages and higher productivity at lower costs. This unit has reached its optimum capacity and is aiding the Company to attain higher growth.

INDUSTRIAL RELATION

The three year wage agreement with the Employees Union of the Bangalore Plant expired on 31st March 2002. Several parleys were held between the Management and the Workers Union on their charter of demands. The operations of the Company at the Bangalore Plant was affected due to goslow adopted by the workmen which finally led to the Management suspending the operations with effect from 3rd December 2003.

The matter was later referred to conciliation in the Labour Department which yielded no positive results. In spite of the efforts to resolve the issue at the highest level, the impasse could not be overcome. Subsequently, as per



the Government's directive, the Company revoked suspension of operations with effect from 14th May 2003. Simultaneously, the Government referred the entire matter to adjudication. The Management and the workers union have since re-commenced negotiations with an aim to settle the matter amicably.

DIRECTORS

The Board places on record its appreciation of the services rendered by Mr.S.Sugiyama who relinquished his office during the year. In his place Mr.A.Hishikawa was appointed as Director.

Mr. A.K. Gupta, Nominee Director of erstwhile V.S.T. Precision Components Limited representing IFCI Limited was inducted as Director on the Board of the Company with effect from 28th August 2003.

The Directors retiring by rotation are Mr.R.Obata, Mr.R.Subramanian and Mr.M.K.Bannerjee. Being eligible, they offered themselves for re-appointment.

CORPORATE GOVERNANCE

Your Company's objective is to maintain highest standards of corporate governance in all its activities and processes. We believe that best Board practices, integrity and accountability are necessary for creating shareholder value. A separate Report on Corporate Governance is given in this Annual Report.

DIRECTORS' RESPONSIBILITY STATEMENT

Pursuant to Section 217(2AA) of the Companies Act, the Directors Responsibility Statement, reporting the compliance with the Accounting Standards is attached to this report as Annexure-1.

MANAGEMENT DISCUSSION AND ANALYSIS REPORT

The Indian economy passed through a difficult phase during the year under review

due to severe drought situation prevailed in the country and thus the agricultural sector was affected posting a negative growth of 3.1 percent. The fall in rural income and surplus food grains available in the country is also a cause for concern. Against this back drop, the Company achieved a modest growth in the sale of Power Tillers as compared to previous year. However, due to production constraints and slowdown of operations in the Bangalore plant on account of industrial relation problem, Tractor production declined during the year.

The tiller industry continues to substantially rely on subsidy provided by the Government under various scheme sales. Any change in the Government policy to curtail subsidy would have a negative impact on the industry.

The import of low cost tillers continues though they are technologically less efficient. Further the cost of imports has gradually declined due to the appreciation of the rupee vis-a-vis dollar. The Company is taking adequate steps to continuously improve its brand image as well as expand its infrastructure for better after-sales-service in remote places to enable improve its market share.

During the year under review, the measures taken to rationalise cost continued across various business processes in your Company. However, the steady increase in steel prices over the past six months has contributed to higher cost of raw materials. Consequently, to protect operating margins that are under pressure, the Company increased the selling price of Power Tillers.

The Precision Components Division of your Company is exporting diesel engine components to Korea, Europe and Canada. Considering the significant business opportunity in the international market for engine components, it is envisaged that further investments in infrastructure