

## REPORT OF THE DIRECTORS

The Directors present their Twenty Fourth Annual Report together with Audited Accounts for Financial Year ended 31<sup>st</sup> March, 2008.

Directors are pleased to report a highly satisfactory year for the Company in a flat market for the industry as indicated by the key financials given below :

	Year ended 31st March, 2008	(Rs. Crores) Year ended 31st March, 2007
<b>Sales Volume (Nos.)</b>	<b><u>11272</u></b>	<b><u>10841</u></b>
Net Operating Revenue	671.42	605.48
Operating Profit	53.74	35.45
Profit Before Tax	38.70	23.22
Tax Expense	13.50	7.13
Profit After Tax	25.20	16.09
Balance of Profit from Prior Years	13.13	11.28
<b>Surplus available for Appropriation :</b>	<b>38.33</b>	<b>27.37</b>
<b>Appropriations :</b>		
Transfer to General Reserve	17.00	7.50
Proposed Dividend	5.77	5.77
Tax on Dividend	0.98	0.98
Amount carried to Balance Sheet	14.58	13.12

The tightening of credit and substantial hike in interest rates early in the year by the Central Bank to check inflationary pressures arrested volume growth of the commercial vehicles industry whilst simultaneously it suffered from price hikes for major raw materials. The Company met the consequential challenges in trading with a judicious product-mix with emphasis on higher cash and value generating products, a timely price restructuring of certain models of vehicles and strict controls on expenditure. These measures enabled a 2.2% increase in operating margin.

As a result, on net revenue of Rs. 671.4 crores, operating profit for the year rose to Rs. 53.7 crores from Rs. 35.4 crores – up 52%. Likewise, Profit before tax increased to Rs. 38.7 crores from Rs.23.2 crores – up 67%, both the highest so far in any financial year.

Net Profit after tax of Rs. 25.2 crores (Rs. 16.1 crores) translates to an earning per share of Rs. 24 (Rs. 15.3).

Exports were maintained at the same level as the previous year despite higher material costs and stronger currency.

It is appropriate for Members to note that following the dismal performance in the last two quarters of 2005-06 and first quarter of 2006-07 when profits & margins declined, the Management chalked out a complete plan involving restructuring of marketing and distribution, shift to a more profitable product-mix, an overhaul of resource planning and materials procurement, production planning and material utilization efficiencies and controls on marketing and administrative expenditure. Consequently, not only a disturbing trend was arrested but a clear path to profitability was set out. A consistent improvement in operations has since then led to quarter on quarter increase in profitability in the last seven quarters upto 31<sup>st</sup> March, 2008. That was accompanied by an immense improvement in receivables.

Directors pay tribute to the Management Team for this remarkable performance.

During the period of intense operational improvement, no effort was spared in progressing the development and expansion projects, which remain on schedule. In the year 2007-08, the Company incurred capital expenditure of Rs. 54.6 crores on the new manufacturing facilities for production of Isuzu chassis and a new Bus Body Plant and Rs. 2.7 crores for the existing product-line.

#### **DIVIDEND**

Having regard to the improvement in earnings and the Company's needs for funds for growth, the Directors have decided to recommend payment of dividend at the rate of 55% for Financial Year 2007-08, same as in the previous year.

#### **EXPANSION PROJECT**

The first phase of the expansion project was to set up an assembly plant for the Isuzu chassis and a Bus Body Plant for the manufacture of luxury buses with new design & technology.

Members' kind attention is drawn to the 2007 Annual Report where information had been given that trial production of luxury buses on Isuzu chassis was kicked off on 25<sup>th</sup> July, 2007.

Directors are pleased to report that the new bus body plant was formally inaugurated by Mr. Y. Ida (Chairman), Isuzu Motors Ltd. and Mr. M. Oka (Chairman), Sumitomo Corporation on 11<sup>th</sup> September, 2007. The progress of this new development project, thereafter, has been as envisaged earlier.

Since the Swaraj bus is on Isuzu chassis for which technology was obtained under Technical Assistance Agreement with Isuzu Motors Ltd. and the bus body is built with Malaysian design purchased by the Company and both the chassis and bus body are fitted with many local parts developed by the Company with vendors, it was decided to test this bus thoroughly with a view to establishing that it is trouble free before its launch in the market. As a part of this new development project and before the product was ready for marketing, total testing was required to obtain necessary homologation certification from government agencies as also for establishing structural soundness, trouble free running, product life etc.

All mandatory testing was completed and certification obtained in February, 2008. Local development work with new components, moulds, jigs and fixtures has been highly successful.

In addition to the above testing, anticipating the problems that SML would face on account of poor road surface, over load practices, indifferent maintenance and bad driving habits along with difficulties specific to localization, where consistency in quality and reliability of every component is often not available at the initial stage of supplies from vendors, it was further decided that after obtaining clearance from Government testing agencies, extensive test marketing of batch produced buses would be taken up, a phase that began in March, 2008.

Experience so far gained during test marketing of these buses had brought to focus that for operating under tough local conditions, it is imperative to effect desired technical changes in the buses along with consequential modifications in components etc. which are expected to be completed in time for a launch of the new bus in July, 2008.

#### **BUSINESS OUTLOOK FOR 2008-09**

The state of the world economy, deterioration in national economic indicators, in particular the sharp and continuing rise in prices of oil, steel and basic raw materials, not least because of currency depreciation and an extremely disturbing trend of rising inflation, all have given a sombre start to the current year. These factors do not augur well for the commercial vehicles sector, particularly when professional forecasters predict that continuing rise in oil and commodity prices in the immediate future and possibly double-digit inflation will stem industrial growth in fiscal 2008-09.

Directors, therefore, apprehend that Company may not be able to protect margins even if it is able to sustain its volume turnover. Any long-term assessment, however, continues to give them the confidence that the ongoing expansion plans for capacity and new products should be vigorously pursued.

## **CORPORATE GOVERNANCE**

As required by provisions of the Listing Agreement with Stock Exchanges, reports on Management Discussion and Analysis, Corporate Governance as well as the Auditors' Certificate regarding compliance of conditions of Corporate Governance are annexed to this report.

## **INDUSTRIAL RELATIONS**

Industrial Relations and work atmosphere remained cordial throughout the year. The Management Discussion and Analysis Report gives an overview of the developments in Human Resources during the year.

## **PARTICULARS OF EMPLOYEES**

The Company had 6 employees who were in receipt of remuneration of not less than Rs. 24,00,000 during the year ended 31<sup>st</sup> March, 2008 or not less than Rs. 2,00,000 per month during any part of the said year.

A statement of particulars pursuant to Section 217(2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975, forms part of this report. As per the provisions of Section 219(1)(b)(iv) of the Companies Act, 1956, the Report, together with Accounts, is being sent to the Shareholders of the Company, excluding the statement of particulars of employees under Section 217(2A) of the Act. Members desiring to have a copy of the same, may write to the Company Secretary at the Registered Office of the Company.

## **SAFETY, HEALTH AND ENVIRONMENTAL PERFORMANCE**

The Company attaches utmost importance to safety, health and environment related issues. The Company has in place systems, procedures, tools, equipment etc. to ensure safety of employees, plant & equipment as also compliance of safety statutory rules and regulations applicable in respect of environment.

From time to time, the employees are given training to improve their skills and make them aware of hazards / risks associated with their job. With a view to find out loopholes in the systems and procedures, periodic safety audits are undertaken and to test employees' alertness and response time, mock drills under emergency conditions are also conducted.

All employees go through regular medical check-up during employment, first check-up being at the pre-employment stage. Based on the medical report, necessary medical aid is given to improve the health of the employee and requisite measures are taken to improve working conditions. At the occupational health center, which caters to the medical needs of the employees, a doctor assisted by a qualified pharmacist is available.

## **DIRECTORS**

Mr. S.K. Tuteja retires by rotation and, being eligible, offers himself for re-appointment.

Mr. K. Machida retires by rotation and, being eligible, offers himself for re-appointment.

Mr. Harkirat Singh retires by rotation and, being eligible, offers himself for re-appointment.

## **DIRECTORS' RESPONSIBILITY STATEMENT**

In terms of provision of Section 217(2AA) of the Companies Act, 1956, it is hereby confirmed that :

- i) In the preparation of annual accounts, the applicable Accounting Standards have been followed along with proper explanation relating to material departures;
- ii) The Directors have selected such accounting policies and applied them consistently and made judgments and estimates that are 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 of the Company for the year under review;
- iii) 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 preventing and detecting fraud and other irregularities;
- iv) The Directors have prepared annual accounts on a 'going concern' basis.

**ENERGY CONSERVATION, TECHNOLOGY ABSORPTION ETC.**

A report required under the Companies (Disclosure of particulars in the Report of Directors) Rules, 1988 is annexed to this Report.

**AUDITORS**

Observations made by the Auditors, when read with the relevant notes under schedule 'N' to the Accounts, are self-explanatory. As such, in the opinion of the Directors, they do not call for a specific reply.

M/s Price Waterhouse, Chartered Accountants, Auditors of the Company, retires at the ensuing Annual General Meeting and are eligible for re-appointment. The Company has received a certificate from them that their re-appointment, if made, would be within the limits prescribed under Section 224(1B) of the Companies Act, 1956.

FOR AND ON BEHALF OF THE BOARD

S.K. TUTEJA  
Chairman

YASH MAHAJAN  
Managing Director

Dated : 30<sup>th</sup> May, 2008

## MANAGEMENT DISCUSSION AND ANALYSIS

Swaraj Mazda Limited (SML) is engaged in the manufacture and sale of vehicles for goods and passenger applications.

### 1. COMPANY UPDATE

SML commenced operations in 1985-86, with manufacture and sale of Swaraj Mazda LCVs in 2 wheel bases – 3.3m and 2.5m and GVW of 6 Ton, based on Mazda's T-3500 model vehicles.

SML had set up in-house Design and Development facilities early on which enabled it to develop a portfolio of vehicles for both regular and niche applications. In the category of trucks, 3 more wheelbases have been added – 2.8m, 3.9m and 4.7m and GVW range has been raised to 10.25 Ton. SML's current range has 6 distinct models of 5.8 – 10.25 Ton GVW with several variants.

In the passenger segment, from the original 26-seater version, SML models today span a far wider range of 12-seater to 41-seater range. In addition, a host of specialty vehicles such as ambulances, dumper placers, water tankers, troop carriers etc. have been developed through SML's own initiatives and efforts.

Outside of Mazda's stable, SML has developed its own 4-wheel drive and CNG vehicles, including Airbrake versions. Also power of the engine has been raised from 80 to 100 bhp through own efforts.

SML has also achieved Bharat Stage III compliance (Euro III equivalent).

Since commencement of commercial production in 1986 and until March 2008, SML has sold 120,300 vehicles – 78,000 trucks and 42,300 passenger vehicles.

It is a matter of record that the gestation period for the manufacturing project and initial commercialisation proved extremely difficult for the Company. It suffered further from the consequences of drastic, though necessary, economic policy changes brought in by Government of India in 1991-92. Consequently it became a sick unit.

It is also a matter of record that a determined revival process was successful and accumulated losses were wiped out with the Company coming on to the dividend list from fiscal 1999-2000, with maiden offering of 10%. The continuing profit growth since then is reflected in this year's dividend recommendation of 55%. From 2,975 vehicle sales in 1998-99, these increased to 11,272 in 2007-08, annual growth rate of 16%. Passenger vehicle sales in 2007-08 represented 25% market share in the applicable market segment, showing distinct customer preference for buses supporting brand Swaraj and market share of trucks was 14% in the comparable GVW range.

During the same period, in fiscal 2007-08, PBT has risen to Rs. 38.7 crores from Rs. 3.1 crores in 1998-99, thus registering compound annual growth of 32%. Market capitalization as at 31<sup>st</sup> March, 2008 stood at Rs. 331 crores, a compound annual growth of 27% based on March, 1999 valuations.

### 2. FINANCIAL ANALYSIS 2007-08

#### A. Profit & Loss Account

Total net revenue for the year was Rs. 671.4 crores (Rs.605.5 crores) with the following break down:

	(Rs. Crores)	
	<u>2007-08</u>	<u>2006-07</u>
Sales of Vehicles	626.87	566.52
Sales of Spare Parts	38.56	34.06
Sales of Scrap etc.	5.99	4.90
Total Revenue	<u>671.42</u>	<u>605.48</u>

On all inputs 2007-08 recorded an improvement: Material cost as a percentage of net revenue declined to 82.0% from previous year's 83.3%; Employee costs were 4.3% of net revenue (4.4%); Marketing Expenditure was 3.4% of net revenue (3.6%); and Manufacturing and Administrative expenses were lower at 2.4% of net revenue from 2.8% in the previous year.

Financing costs, however, were inevitably higher due to borrowings for working funds and higher interest rates.

Profit Before Tax at Rs. 38.7 crores (Rs. 23.2 crores) gave a margin of 5.8% against 3.8%.

Net profit after tax of Rs. 25.2 crores (Rs. 16.1 crores) translates to an earning of Rs. 24 per share (Rs. 15.3).

Outgo on dividend inclusive of tax at Rs. 6.75 crores would represent a distribution of 27% (42%).

## **B. Balance Sheet**

At 31<sup>st</sup> March 2008 the Company's net worth stood at Rs. 93.6 crores comprising Equity of Rs.10.5 crores and Reserves of Rs. 83.1 crores. Borrowings from Banks were Rs.142.6 crores (Rs. 109.8 crores).

Gross Block and Net Block of Assets respectively stood at Rs.48.6 crores (Rs. 45.9 crores) and Rs. 18.7 crores (Rs. 19.3 crores). These assets represent a double shift production capacity of 12,000 vehicles p.a. An amount of Rs. 54.6 crores has been incurred during FY 2007-08 on Company's ongoing expansion project which is shown as Capital Work-in-Progress in the Balance Sheet.

Year-end value of Inventories stood at Rs. 123.5 crores against Rs. 87.3 crores as on 31<sup>st</sup> March, 2007.

Trade debtors representing dues against supply of vehicles and spares came down to Rs.185.6 crores as on 31<sup>st</sup> March, 2008 from Rs. 191.5 crores as on 31<sup>st</sup> March, 2007.

Year-end dues to creditors were Rs. 173.0 crores against Rs. 162.7 crores as on 31<sup>st</sup> March, 2007.

## **3. INTERNAL CONTROL SYSTEM AND ADEQUACY**

In Swaraj Mazda, Finance & Accounts function is adequately staffed and manned by professionally qualified and experienced personnel. Established systems and procedures for internal control are in place on a Company-wide basis. Prior to the commencement of every financial year, Annual Business Plan (ABP) is formulated on the basis of well-defined processes and the ABP is subsequently approved by the Company's Board of Directors. The reporting and monitoring system is elaborate and the same is reviewed at the meetings of the Audit committee and the Board while considering quarterly business performance. Policies and procedures have been laid down to provide reasonable assurance that assets are safeguarded from risks of unauthorised use/disposition and transactions are recorded and reported with propriety, accuracy and speed. These aspects of operations are regularly reviewed and verified by the Internal Audit department and by the Company's Statutory Auditors. The same are also subsequently put up to the Audit Committee of the Board for consideration.

## **4. HUMAN RESOURCES**

Industrial relations were cordial throughout the year under review.

The Company has from the very beginning practiced a lean structure of organization and has conducted its business affairs within the framework of well-defined business plans which have provided guidance and direction to the employees.

After the conclusion of the four year wage agreement (2006), further improvement in work culture is taking shape. Efforts towards raising employees' involvement in the decision making process as also grooming them for leadership are being further improved upon. It is the Company's aim to attract the best talent, provide invigorative work environment, retain achievers and out performers and inculcate in the employees life-long loyalty for the enterprise. Going forward, the Company expects to further raise the already high trust and value-based culture.

The total employees strength as on 31<sup>st</sup> March, 2008 was 881 (687).

## 5. INDUSTRY STRUCTURE AND DEVELOPMENT

In 1985-86, when the new generation Indo-Jap LCVs were commercially introduced including Swaraj Mazda vehicles, the total market size of Commercial Vehicle (CV) Industry was 94,000. Subsequent changes in the policy frame work and easing of controls led industry volumes to reach 2,40,000 in 1996-97, out of which the segment representing SML range accounted for 56,000.

However, because of economic downturn, next 4 years witnessed decline and by 2000-01 volumes had dropped to 1,50,000 - SML segment accounting for 46,000. Thereafter, strong economic upswing, improved road network and easy financing facilities have played the key role in the impressive growth of CV industry - volumes aggregating 5,45,000 in 2007-08; out of which the segment representing SML range accounted for 78,000.

## 6. INDUSTRY FUTURE & COMPANY RESPONSE

The ongoing road development programme will improve connectivity to ports, cities and villages through a network of highways and interconnecting roads by 2012-13. This in turn will help in faster movement of goods and people between villages, towns, cities and Metros and the increasing domestic and international tourism, the last also creating large demand for luxury vehicles, a part of the Company's new portfolio of products.

Keeping in view these positive indicators, the Company has with new Technical Assistance Agreement with Isuzu Motors of Japan and other developments already embarked on expansion of vehicle production capacity, including a new assembly line for ISUZU vehicles and facilities for manufacture of luxury buses, with proposed launch date of July, 2008.

## 7. BUSINESS RISKS AND CONCERNS

Commercial Vehicle industry has close linkage with overall economic growth and infrastructure development. India is heavily reliant on imported oil, thus oil prices have a bearing on transport sector. Stability in rupee value against other currencies and availability of retail finance at reasonable cost would impact demand for commercial vehicles. Rail freight rates too would have a strong bearing on vehicle demand.

Commercial Vehicle Industry has nine active players. Many of them have already increased capacities, concluded new tie-ups and are also widening their product portfolios. Further, 4 more global CV players are reported to be entering the Indian market. Thus, competition will further increase.

Since more than 70% of input materials in a commercial vehicle comprise steel-based components, steep rises in steel prices and other raw materials would inevitably have an adverse impact on cost of production, not necessarily accompanied by selling price rises in view of intensely competitive operating environment. Measures such as value engineering, product upgradation, product-mix planning are constantly reviewed to offset these risks as well as to improve efficiencies and productivity. The in-house R&D activities further support such efforts.

## 8. CAUTIONARY STATEMENT

The above Management Discussion and Analysis Report may constitute "forward looking" with the meaning of applicable laws and regulations. Actual results might differ materially from those either expressed or implied.

## CORPORATE GOVERNANCE REPORT

It has been a core belief with Swaraj Mazda Ltd. (SML) to consider itself custodian and trustee of customers, business associates and stakeholders. SML has been practicing the principles of good corporate governance, disclosure and transparency in all its activities and processes right from the beginning. SML believes that to attain success and retain it over time, an enterprise must be properly governed and managed and it must maintain ethical Corporate Standards. Towards this objective, SML has always focused on good corporate governance, which is a key driver of sustainable corporate growth and long term value creation. SML has sought and will continue to seek corporate excellence and profits through ethical means.

### 1. BOARD OF DIRECTORS

#### (a) Board Composition

The Board of Directors consists of 12 Directors, out of which 4 are Independent Directors. The Chairman of the Board is a Non-Executive Independent Director. Two of the Board Members are Whole-time Directors.

The Non-Executive Directors possess vast knowledge and professional expertise and bring independent judgment to the Board's deliberations and decision making.

None of the Directors on the Board is a Member of more than 10 Committees and Chairman of more than 5 Committees (as specified in Clause 49), across all the Companies in which he is a Director.

There are no pecuniary relationships or transactions of the Non-Executive Directors vis-à-vis the Company, its Promoters, its Directors, its Senior Management or its Associates which in their judgment would affect their independence.

#### (b) Board Meetings

The meetings of the Directors are held at regular intervals which are also attended by the core management team as a matter of practice. In the Board Meetings, corporate operations are elaborately reviewed in the context of Board approved Business Plans. The core management team's presence at the Board Meetings, participation and interaction with Non-Executive Directors enables it to obtain their detached views on corporate operations. This exposure also provides to the core management team an opportunity to receive valuable advice, guidance, direction and motivation from Non-Executive Directors.

During the Financial Year ending 31<sup>st</sup> March, 2008, five Board Meetings were held on 31<sup>st</sup> May, 2007, 27<sup>th</sup> July 2007, 27<sup>th</sup> August, 2007, 30<sup>th</sup> October, 2007 and 31<sup>st</sup> January, 2008 and the maximum interval between any two meetings was not more than four months.

#### (c) Attendance and other Directorships

The details of attendance of the Directors at the Board Meetings during the year and the last Annual general Meeting held on 29<sup>th</sup> September, 2007 and also the number of other Directorships and Committee Memberships / Chairmanship is as follows:

Name of Director	Category	Financial Year 2007-08		Attendance at the last AGM	Number of Directorships in other Public Companies incorporated in India*	Committee Position held in other Companies	
		Board Meetings held	Board Meetings attended			**C	#M
Mr. S.K.Tuteja (Chairman)	Non Executive Independent	5	5	Yes	12	4	4
Mr. K. Machida@	Non Executive	5	Nil	No	Nil	Nil	Nil
Mr. Donald Peck @	Non Executive	5	4	No	5	Nil	1
Mr. M. Sato@	Non Executive	5	1	No	Nil	Nil	Nil
Mr. Y. Watanabe @	Non Executive	5	5	Yes	Nil	Nil	Nil
Mr. Pankaj Bajaj @	Non Executive	5	5	Yes	Nil	Nil	Nil
Mr. Harkirat Singh	Non Executive Independent	5	4	No	Nil	Nil	Nil
Mr. Steven Enderby	Non Executive	5	5	No	2	Nil	3
Mr. A. K. Thakur	Non Executive Independent	5	5	Yes	2	Nil	2
Mr. P. K. Nanda	Non Executive Independent	5	5	No	2	2	1
Mr. Yash Mahajan (Managing Director)	Executive	5	5	Yes	3	Nil	3
Mr. Keiji Nakajima (Whole-time Director)	Executive	5	5	Yes	Nil	Nil	Nil
Mr. T. Hashimoto	Alternate Director to Mr. K. Machida	5	4	No	Nil	Nil	Nil
Mr. T.Kato (Co-opted w.e.f.30.10.2007)	Alternate Director to Mr. M. Sato	2	2	N.A.	Nil	Nil	Nil
<b>Ex-Directors</b>							
Mr. T.Nagashima (Ceased w.e.f. 30.10.2007)	Alternate Director to Mr. M. Sato	3	2	N.A	Nil	Nil	Nil

@ Deemed to be Promoters within the meaning of SEBI (Substantial Acquisition of Shares & Takeovers) Regulation, 1997.

\* Excluding private, foreign and companies registered under Section 25 of the Companies Act, 1956.

\*\* C : Chairman # M : Member N.A. : Not Applicable

**(d) Code of Conduct**

Company's Board has laid down a well-defined Code of Ethics & Conduct (the "Code") to be followed by Board Members and senior management personnel of the Company for ethical professional conduct. The Code is available on the website of the Company ([www.swarajmazda.net](http://www.swarajmazda.net)).

All the members of the Board and senior management personnel have affirmed compliance to the Code of Conduct as on 31<sup>st</sup> March, 2008 and a declaration to that effect signed by the Managing Director and CEO is attached and forms a part of this report.

**2. COMMITTEES OF THE BOARD****(a) Audit Committee**

The Audit Committee of the Board comprises of three Non-Executive Independent Directors - Mr. S.K. Tuteja (Chairman), Mr. Harkirat Singh and Mr. A.K. Thakur. All the Members of the committee possess vast experience in and knowledge of Accounts, Finance and Corporate Affairs. The Company Secretary is the secretary to the Committee.

The role, terms of reference and the authority and powers of this committee are in conformity with the requirements of the Companies Act, 1956 and the Listing Agreement.

The Audit Committee of Swaraj Mazda performs the following functions:

- Overseeing the Company's financial reporting process and disclosure of financial information to ensure that the Financial Statements are correct, sufficient and credible;
- Recommending the appointment of Statutory Auditors and their remuneration.
- Reviewing with management the Quarterly, Half Yearly and Annual Financial Statements before submission to the Board;
- Reviewing with management and External & Internal Auditors, the adequacy of internal control systems;
- Reviewing the adequacy of Internal Audit function;
- Discussing with Internal Auditors and Statutory Auditors any significant finding and follow up on such issues;
- Reviewing the findings of any internal investigations by the Internal Auditors in matters where there is suspected fraud or irregularity or a failure of internal control systems of a material nature and then reporting such matters to the Board;
- Discussing with Statutory Auditors the nature and scope of audit, as well as any area of concern;
- Reviewing the Company's financial and risk management policies.

At the meetings of the Audit Committee, Senior Management is invited to participate in the deliberations along with Internal Auditors. Statutory Auditors also attend these meetings and offer their observations on the operations.

During the Financial Year under review, 6 meetings of the Audit Committee of the Board were held on 31<sup>st</sup> May, 2007, 27<sup>th</sup> July, 2007, 27<sup>th</sup> August, 2007, 11<sup>th</sup> September, 2007, 30<sup>th</sup> October, 2007 and 30<sup>th</sup> January, 2008. The gap between two meetings did not exceed four months. The Chairman of the Audit Committee was present at the Annual General Meeting held on 29<sup>th</sup> September, 2007.

The Audit Committee of the Board also met on 29<sup>th</sup> May, 2008 prior to the finalization of the Accounts for the Financial Year ended 31<sup>st</sup> March, 2008.

In addition to the quarterly meeting for consideration of financial results, the Audit Committee met on 27<sup>th</sup> August, 2007 and 11<sup>th</sup> September, 2007 to review functioning of other disciplines.

The details of attendance of the members of the Audit Committee are as under:

Name of the Member Director	No. of Meetings Held	No. of Meetings Attended
Mr. S.K.Tuteja (Chairman)	6	6
Mr. Harkirat Singh	6	4
Mr. A.K. Thakur	6	6

**(b) Shareholder / Investor Relations Committee**

The Shareholder / Investor Relations Committee comprises of Mr. Harkirat Singh (Chairman), Mr. S. K. Tuteja and Mr. Yash Mahajan.

Mr. Gopal Bansal, Sr. Vice President-Finance & Company Secretary, is the Compliance Officer of the Company.

This Committee of the Board meets at frequent intervals, to approve inter-alia, transfer / transmission of shares, issue of duplicate share certificates and review status of investors' grievances and the functioning of Company's Registrar and Transfer Agents to render effective and quality services to investors.

During the financial year ended 31<sup>st</sup> March, 2008, 15 meetings of the committee were held.

The Company received 22 shareholders' complaints from Stock Exchanges / SEBI / Department of Company Affairs / Registrar of Companies which inter-alia include non-receipt of dividend, annual report, transfer of shares, etc. The complaints were duly attended to and the Company has furnished necessary documents / information to the shareholders. The Company had Nil shares pending for transfers at the close of the financial year.

**(c) Remuneration Committee**

This Committee comprises of Mr. S.K.Tuteja (Chairman), Mr. P.K.Nanda and Mr. M. Sato, all of whom are Non-Executive Directors, out of which two are Independent Directors (Mr. S.K. Tuteja and Mr.P.K. Nanda).

This Committee has been set up by the Board to review, assess and recommend to the Board the compensation package for the Whole-time Director(s).

During fiscal 2007-08 one meeting was held on 11<sup>th</sup> September, 2007 and was attended by all the Member Directors of this Committee.

**(d) Rights Issue Committee**

This Committee comprises of Mr. S.K.Tuteja (Chairman), Mr. P.K.Nanda, Mr. Pankaj Bajaj, Mr. Yash Mahajan and Mr. K. Nakajima.

The role and terms of reference of this committee are to appoint Lead Managers/Merchant Bankers, Registrars, Bankers and such other agencies and professionals as may be required, to give effect to requirements as may be suggested or recommended by any of the concerned authorities or agencies and to do all such acts, deeds, matters and things in connection with issue of Shares on Rights basis including allotment of Rights Shares, seeking listing of such Shares etc.

During fiscal 2007-08 one meeting was held on 20<sup>th</sup> November, 2007 and was attended by all the Member Directors of this Committee.

**3. REMUNERATION OF DIRECTORS**

Remuneration paid to Whole-time Directors is decided by the Board of Directors and approved by the shareholders at the Annual General Meeting. Non-Executive Directors are paid sitting fee for attending the meetings of the Board of Directors and committees thereof within the prescribed limits as decided by the Board.

Following are the details of Directors remuneration for 2007-08:

**Whole-time Directors**

(in Rupees)

Name of Director	Salary (Basic & DA)	Perquisites	Contributions to Provident & other funds	Commission	Stock Option	Total	Service Contract (Tenure)
Yash Mahajan	37,80,000	1,39,025	10,13,850	37,80,000	Nil	87,12,875	Upto 31.05.2011
Keiji Nakajima	48,00,000	-	-	44,41,000	Nil	92,41,000	Upto 31.01.2012

**Non-Executive Directors**

Name of Director	Sitting Fees (Rs.)	Commission (Rs.)
Mr. S.K. Tuteja	4,05,000	Nil
Mr. Harkirat Singh	3,15,000	Nil
Mr. A.K.Thakur	1,65,000	Nil
Mr. P.K.Nanda	1,05,000	Nil

**4. GENERAL BODY MEETINGS**

Details of last three Annual General Meetings of the Company are given below:

Financial Year	Date	Time	Venue	No. of Special Resolutions passed
2004-05	30 <sup>th</sup> September, 2005	11.00 AM	Swaraj Mazda Limited, Village Asron, Distt. Nawanshahar, Punjab.	Nil
2005-06	9 <sup>th</sup> September, 2006	2.00 PM	Swaraj Mazda Limited, Village Asron, Distt. Nawanshahar, Punjab.	Nil
2006-07	29 <sup>th</sup> September, 2007	3.00 PM	Swaraj Mazda Limited, Village Asron, Distt. Nawanshahar, Punjab.	Nil

Pursuant to the provisions of Section 192A of the Companies Act, 1956, there was no matter required to be dealt by the Company to be passed through postal ballot.

**5. DISCLOSURES**

**a) Disclosure of transactions with related parties**

The Company has not entered into any transaction of material nature with the promoters, the Directors or the management that may have any potential conflict with the interest of the Company. The Company has no subsidiary. Details of related parties and transaction with them are furnished under para 6 of Schedule 'N' of the Annual Accounts.

**b) Disclosure of Accounting Treatment in preparation of Financial Statements**

In preparation of the financial statements, the Company has followed the Accounting Standards issued by the Institute of Chartered Accountants of India. The significant accounting policies which are consistently applied are set out under Schedule 'M' of the Annual Accounts.

**c) Risk Management**

The Company has laid down procedures to inform Board Members about the risk assessment and minimization procedures. These procedures are subject to review to ensure that management controls risks through means of properly defined framework.

**d) Code of prevention of Insider Practices**

In compliance with SEBI's Regulations on prevention of Insider trading, the Company has instituted a comprehensive Code of Conduct for prevention of Insider trading. The code lays down guidelines and procedures to be followed and disclosures to be made, while dealing with shares of the Company and cautioning all concerned of the consequences of violations.

**e) Instances of non-compliance**

There has neither been any non-compliance of any legal provision of applicable law, nor any penalty, stricture imposed by the Stock Exchanges or SEBI or any other authorities, on any matters related to capital market during the last three years.

**f) Compliance with Mandatory Requirements**

The Company has complied with the mandatory requirement of the Code of Corporate Governance as stipulated under clause 49 of the listing agreement with the Stock Exchanges.

**g) Adoption of non-mandatory requirements****i) The Board**

The Company does not maintain the office of the Non-Executive Chairman.

No specific tenure has been specified for the Independent Directors.

**ii) Remuneration Committee**

The Company has set up the Remuneration Committee.

**iii) Shareholder Rights**

Company regularly publishes its quarterly results in the leading national / regional newspapers. These results are also available on Company's website [www.swarajmazda.net](http://www.swarajmazda.net) and at SEBI website [www.sebidifar.nic.in](http://www.sebidifar.nic.in).

**iv) Audit Qualifications**

During the financial year under review, there is no fresh audit qualification in Company's financial statements. The Company continues to adopt best practices to ensure regime of unqualified financial statements.

**v) Training of Board Members / Mechanism for evaluating non-executive Board Members.**

All Non-Executive Directors are given presentations by Whole-time Director / Management Team from time to time for an overview of Company operations. The Company's Board of Directors consists of professionals with expertise in their respective fields and industry. They endeavour to keep themselves updated with the trends in economy and changes in the legislation.

**vi) Whistle Blower Policy**

Company encourages employees and business associates to raise their concerns relating to any unethical business practice at work place with protection against victimisation.

**6. MEANS OF COMMUNICATION**

- a) In compliance with the requirements of Listing Agreement, the un-audited/audited financial results are filed with the Stock Exchanges immediately after they are taken on record by the Board, published in Newspapers and are also displayed on the website of the Company [www.swarajmazda.net](http://www.swarajmazda.net). Results are not sent individually to the shareholders;
- b) The official news releases are displayed on the Company's website;
- c) During the year ended 31<sup>st</sup> March, 2008, no presentations were made to institutional investors or analysts;
- d) Management Discussion and Analysis Report forms part of the Directors' Report.

## SHAREHOLDERS' INFORMATION

1. **Annual General Meeting** : **10th July, 2008 at 2.00 PM**  
**Venue** : **Swaraj Mazda Limited**  
**Village Asron, Distt. Nawanshahar, Punjab**
2. **Financial Calendar (tentative)**  
Financial reporting for  
Quarter ended 30th June, 2008 : 3rd / 4th week of July, 2008  
Quarter ending 30th September, 2008 : 3rd / 4th week of October, 2008  
Quarter ending 31st December, 2008 : 3rd / 4th week of January, 2009  
Year ending 31st March, 2009 : May / June, 2009
3. Book Closure : 24th June, 2008 to 1st July, 2008 (both days inclusive)
4. Dividend Payment : On or after 10th July, 2008, but with in the statutory time limit.
5. Listing on Stock Exchanges : Bombay Stock Exchange (BSE) & National Stock Exchange (NSE).  
Listing fee for 2008-09 for both these stock exchanges has been paid.
6. Stock Market Data  
Monthwise high and low price for one equity share of Rs.10 at BSE & NSE is given below :

Month	Bombay Stock Exchange (BSE)		National Stock Exchange (NSE)	
	High (Rs.)	Low (Rs.)	High (Rs.)	Low (Rs.)
<b>2007</b>				
April	358	322	383	310
May	372	326	363	321
June	359	305	349	307
July	389	254	370	269
August	350	260	340	290
September	370	301	330	295
October	340	255	325	255
November	296	267	335	268
December	339	281	337	286
<b>2008</b>				
January	395	224	398	226
February	343	267	331	269
March	337	288	325	272
April	360	271	335	301
May	355	284	335	295

7. **Stock Code: BSE - 505192 & NSE - SWARAJMAZD**

8. Dematerialisation of Shares:

The Securities & Exchange Board of India (SEBI), with effect from 28<sup>th</sup> August, 2000 has included the shares of Swaraj Mazda Limited in the compulsory demat list for all categories of investors. The Company has joined National Securities Depository Limited (NSDL) and Central Depository Services (India) Ltd. (CDSL) to avail this facility. Over 93.5% of the Company's shares are now held in electronic form.

International Securities Identifications Number : INE294B01019 (with NSDL and CDSL)

**For shares held in electronic form**, all instructions regarding change of address, nomination, power of attorney etc., should be given directly to their Depository Participants and the Company will not entertain any such requests directly from shareholders.

9. Transfer System for physical shares

Share transfer would be registered & returned within a period of 30 days from the date of receipt, if the documents are clear in all respect.

Total No. of shares transferred during 2007-08 was 15950 (Previous Year 35152)

10. Share Transfer & other Communication : Swaraj Mazda Limited, OR M/s. MCS Limited,  
regarding Share Certificates, Dividend 204-205, Sector 34-A, Sri Venkatesh Bhawan,  
and Change of Address etc. may be Chandigarh-160 022 W-40, Okhla Industrial Area,  
addressed to Tele : 0172-2647700-10 Phase-II,  
Fax : 0172-2615111 New Delhi-110 020  
Tele : 011-41404149  
Fax : 011-41709881

11. Shareholding Pattern as on 30<sup>th</sup> May, 2008

Category	No. of Share-holders	Voting Strength %	No. of Shares held
Promoters	2	53.52	5,612,953
Mutual Funds & UTI	8	7.90	828,516
Other Bodies Corporate	167	2.78	291,643
FII's/NRI's/OCB's	1,091	21.58	2,263,282
Individuals	9,597	14.22	1,490,306
Total	10,865	100.00	10,486,700

12. Distribution of Shareholding as on 30<sup>th</sup> May, 2008

No. of Equity Shares held	No. of Share-holders	No. of Shares	%age of Share-holding
1-100	9,230	668,550	6.38
101-200	781	142,086	1.36
201-500	523	182,926	1.74
501-1000	151	116,664	1.11
1001-5000	139	297,298	2.83
5001-above	41	9,079,176	86.58
Total	10,865	10,486,700	100.00

13. The Company has not issued any GDRs/ADRs/ Warrants or any convertible instruments.

14. Plant Location : Swaraj Mazda Limited,  
Village Asron, Distt. Nawanshahar,  
Punjab.

15. Investor queries etc. with respect to the financial statements and secretarial matters may be addressed to :

**Mr. Gopal Bansal**

Sr. Vice President – Finance & Company Secretary  
Swaraj Mazda Limited  
204-205, Sector 34 – A  
Chandigarh – 160 022  
Tele: 0172-2647700-10  
Fax: 0172-2615111

16. Website Address : [www.swarajmazda.net](http://www.swarajmazda.net)

## ANNEXURE TO DIRECTORS' REPORT

Information in accordance with the Companies (Disclosure of Particulars in the Report of Directors) Rules, 1988.

### 1. CONSERVATION OF ENERGY

The company has taken following initiatives for conservation of energy:

- Improvement of Power factor to 0.98.
- Installation of energy saving CFL Lamps and Reflectors in the Offices.
- Installation of most modern energy saving light fittings in the Bus Body Plant.
- Installation of submersible pumps in Paint Booth for improved water circulation resulting in energy saving.
- Installation of energy saving compressed air 'transair pipeline fitting' resulting saving in consumption of compressed air and maintaining desired air pressure.
- Installation of all new welding machines with inverter based technology which are energy efficient by 45%.
- Improvement in sealant curing oven resulting in reduction of diesel consumption by 15%.

### 2. TECHNOLOGICAL DEVELOPMENT

2.1 After conclusion of Technical Assistance Agreement with Isuzu Motors Ltd., Japan in 2006 and obtaining of technical know-how for manufacturing bus bodies from two overseas parties, SML has set up new facilities for manufacturing ultra luxury buses. The new plant was formally inaugurated in September, 2007. All mandatory testing of buses produced in new plant was completed and certification obtained in February, 2008. Local development work with new components, moulds, jigs and fixtures has been highly successful. After obtaining clearance from Government testing agencies, test marketing of batch produced buses began in March, 2008.

2.2 Expenditure on Research & Development during 2007-08:

	(Rs. in lacs)
(a) Capital	245.74
(b) Recurring	<u>297.99</u>
(c) Total	<u>543.73</u>
(d) R&D expenditure as a %age of total turnover	0.72%

Major R&D achievements have been :

- A new chassis fabrication line for LT1 Chassis has been set-up based on in-house Know-how.
- All vehicles manufactured by the Company are made compliant with regulatory norms applicable in India from time to time.
- SML also manufactures in-house developed vehicles which run on alternate fuel like CNG.

### 3. FOREIGN EXCHANGE EARNINGS AND OUTGO

	(Rs. in lacs)
Earnings in foreign currency	3,334.05
Expenditure in foreign currency	2,663.89

**AUDITORS' CERTIFICATE ON COMPLIANCE WITH THE CONDITIONS OF CORPORATE GOVERNANCE****To the Members of Swaraj Mazda Limited**

We have examined the compliance of conditions of Corporate Governance by Swaraj Mazda Limited, for the year ended March 31, 2008, as stipulated in Clause 49 of the Listing Agreement(s) of the said Company with Stock Exchange(s) in India.

The compliance of conditions of Corporate Governance is the responsibility of the Company's management. Our examination was carried out in accordance with the Guidance Note on Certification of Corporate Governance (as stipulated in Clause 49 of the Listing Agreement), issued by the Institute of Chartered Accountants of India and was limited to procedures and implementation thereof, adopted by the Company for ensuring the compliance of the conditions of Corporate Governance. It is neither an audit nor an expression of opinion on the financial statements of the Company.

In our opinion and to the best of our information and according to the explanations given to us, we certify that the Company has complied with the conditions of Corporate Governance as stipulated in the above mentioned Listing Agreement(s).

We state that such compliance is neither an assurance as to the future viability of the Company nor the efficiency or effectiveness with which the management has conducted the affairs of the Company.

Place : New Delhi  
Dated : 30<sup>th</sup> May, 2008

V. Nijhawan  
Partner  
M. No. F87228  
For and on behalf of  
PRICE WATERHOUSE  
Chartered Accountants

**DECLARATION BY THE MANAGING DIRECTOR UNDER  
CLAUSE 49 OF THE LISTING AGREEMENT**

I, Yash Mahajan, Managing Director of Swaraj Mazda Limited declare that all the Directors and Senior Management Personnel of the Company have affirmed compliance with Company's code of conduct for the financial year ended 31<sup>st</sup> March, 2008.

Dated : 30<sup>th</sup> May, 2008

(Yash Mahajan)  
Managing Director

**BALANCE SHEET AS AT 31ST MARCH, 2008**

(Rs. in lacs)

	Schedule	2008		2007
<b>SOURCES OF FUNDS</b>				
<b>Shareholders' Funds</b>				
Share Capital	A	1,049.38	1,049.38	
Reserves and Surplus	B	<u>8,308.67</u>	<u>9,358.05</u>	<u>6,516.59</u>
				7,565.97
<b>Loan Funds</b>				
Secured Loans	C	1,356.87		2,950.14
Unsecured Loans	D	<u>12,900.00</u>		<u>8,028.62</u>
			<u>23,614.92</u>	<u>18,544.73</u>
<b>APPLICATION OF FUNDS</b>				
<b>Fixed Assets</b>				
Gross Block	E	4,863.88	4,590.58	
Less : Depreciation		<u>2,991.12</u>	<u>2,662.30</u>	
Net Block			1,872.76	1,928.28
Capital Work-in-Progress			8,090.59	2,628.82
Capital Spares			3.21	4.62
Deferred Tax Assets	F		164.96	47.46
<b>Current Assets, Loans &amp; Advances</b>				
Inventories	G	12,349.80	8,733.03	
Sundry Debtors		18,560.06	19,154.79	
Cash and Bank Balances		914.28	2,272.81	
Other Current Assets		457.95	716.64	
Loans and Advances		<u>2,488.54</u>	<u>2,654.96</u>	
		<u>34,770.63</u>	<u>33,532.23</u>	
Less :				
Current Liabilities and Provisions	H	<u>21,287.23</u>	<u>19,596.68</u>	
Net Current Assets			<u>13,483.40</u>	<u>13,935.55</u>
			<u>23,614.92</u>	<u>18,544.73</u>
<b>Significant Accounting Policies</b>				
<b>Notes to Accounts</b>				
	M			
	N			

This is the Balance Sheet referred to in our report of even date.

The Schedules referred to above form an integral part of the Balance Sheet.

FOR AND ON BEHALF OF THE BOARD

 For and on behalf of  
PRICE WATERHOUSE  
Chartered Accountants

 K. NAKAJIMA  
Whole-time Director

 S.K. TUTEJA  
Chairman

 V. NIJHAWAN  
Partner  
M.No. : F87228

 GOPAL BANSAL  
Sr. Vice President - Finance  
& Company Secretary

 YASH MAHAJAN  
Managing Director

New Delhi, 30th May, 2008

New Delhi, 30th May, 2008

## PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH, 2008

(Rs. in lacs)

	Schedule	2008		2007
<b>INCOME</b>				
Sales		75,882.81		68,738.39
(Refer Note 2 on Schedule M and 10 (b) on Schedule N)				
Less : Excise Duty		9,339.36		8,680.06
Net Sales Revenue		66,543.45		60,058.33
Other Income	I	598.75		490.05
		<u>67,142.20</u>		<u>60,548.38</u>
<b>EXPENDITURE</b>				
Manufacturing and Other Expenses	J	61,768.44		57,003.63
Finance Charges (Net)	L	1,173.42		933.53
Depreciation	E	330.07		289.11
		<u>63,271.93</u>		<u>58,226.27</u>
Profit for the year before Tax Expense		3,870.27		2,322.11
Tax Expense/(Saving) (Refer Note 10 on Schedule M)				
- Current Tax		1,380.00		734.00
- Deferred Tax (Refer Note 8 on Schedule N)		(90.00)		(71.75)
- Fringe Benefit Tax		60.00		50.92
Profit for the year after Tax Expense		<u>2,520.27</u>		<u>1,608.94</u>
Balance brought forward from previous year		1,312.74		1,128.59
Profit available for Appropriation		<u>3,833.01</u>		<u>2,737.53</u>
<b>APPROPRIATIONS</b>				
Proposed Dividend		576.77	576.77	
Dividend Tax and Surcharge		<u>98.02</u>	<u>98.02</u>	674.79
General Reserve		1,700.00		750.00
Balance Carried to Balance Sheet		<u>1,458.22</u>		<u>1,312.74</u>
		<u>3,833.01</u>		<u>2,737.53</u>
<b>Earning Per Share</b> (Refer Note 7 on Schedule N)				
Basic/Diluted Earning Per Share (Rs.)		24.03		15.34
<b>Significant Accounting Policies</b>				
<b>Notes to Accounts</b>				

This is the Profit and Loss Account referred to in our report of even date.

The Schedules referred to above form an integral part of the Profit and Loss Account.

FOR AND ON BEHALF OF THE BOARD

For and on behalf of  
PRICE WATERHOUSE  
Chartered Accountants

K. NAKAJIMA  
Whole-time Director

S.K. TUTEJA  
Chairman

V. NIJHAWAN  
Partner  
M.No. : F87228

GOPAL BANSAL  
Sr. Vice President - Finance  
& Company Secretary

YASH MAHAJAN  
Managing Director

New Delhi, 30th May, 2008

New Delhi, 30th May, 2008

**SCHEDULES FORMING PART OF THE ACCOUNTS**
**SCHEDULE A**

(Rs. in lacs)

	2008	2007
<b>SHARE CAPITAL</b>		
<b>Authorised</b>		
2,00,00,000 Equity Shares (Previous year 2,00,00,000) of Rs. 10/- each	<u>2,000.00</u>	<u>2,000.00</u>
<b>Issued, Subscribed and Paid-up</b>		
1,04,86,700* Equity Shares (Previous year 1,04,86,700) of Rs. 10/- each fully paid-up	1,048.67	1,048.67
Add : Forfeited Shares [Amount paid up on 13,300 Equity Shares (Previous year 13,300) of Rs.10/- each]	0.71	0.71
	<u>1,049.38</u>	<u>1,049.38</u>

\*Includes 100 Equity Shares (Previous year 100) of Rs.10/- each fully paid up and held by a NRI but not allotted pending clearance from the Reserve Bank of India.

**SCHEDULE B**

(Rs. in lacs)

	2008	2007
<b>RESERVES AND SURPLUS</b>		
<b>Capital Reserve</b>	15.00	15.00
(Refer Note 11 on Schedule M)		
<b>General Reserve</b>		
Balance brought forward	5,188.85	4,438.85
Less : Adjustment for change in Accounting Policies	53.40	—
(Refer Note 21 on Schedule N)		
Add : Transferred from Profit and Loss Account	<u>1,700.00</u>	<u>750.00</u>
	6,835.45	5,188.85
<b>Profit and Loss Account</b>	<u>1,458.22</u>	<u>1,312.74</u>
	<u>8,308.67</u>	<u>6,516.59</u>

**SCHEDULES FORMING PART OF THE ACCOUNTS**

**SCHEDULE C**

(Rs. in lacs)

	2008	2007
<b>SECURED LOANS</b>		
<b>From Banks</b>		
– Cash Credit	<u>1,356.87</u>	2,950.14
	<u>1,356.87</u>	<u>2,950.14</u>

**Notes :**

1. The limits sanctioned by the bankers are secured by a first charge by way of hypothecation of the Company's Current Assets i.e. Stocks, Bills Receivable, Book Debts and other movables of the Company and also by way of a second mortgage and charge on the Company's immovable property. The said second charge is yet to be created by the Company.
2. The Company had in an earlier year taken loans from Financial Institutions against first charge on its movable and immovable property. The said loans have since been repaid. However the charges in respect of these loans are in the process of being vacated.

**SCHEDULE D**

(Rs. in lacs)

	2008	2007
<b>UNSECURED LOANS</b>		
<b>From Banks</b>		
- Long Term Loans*	6,000.00	–
- Short Term Loans	<u>6,900.00</u>	8,028.62
	<u>12,900.00</u>	<u>8,028.62</u>

\* Repayable within one year Rs. 6000.00 lacs (Previous year Rs. Nil)

## SCHEDULES FORMING PART OF THE ACCOUNTS

### SCHEDULE E

#### FIXED ASSETS

(Refer Notes 3, 4, 9, 12 and 14 on Schedule M and Note 19 and 23 on Schedule N)

(Rs. in lacs)

Description	GROSS BLOCK				DEPRECIATION				NET BLOCK	
	As at 01.04.2007	Additions during the year	Adjust- ments	As at 31.03.2008	As at 01.04.2007	For the year	Adjust- ments	As at 31.03.2008	As at 31.03.2008	As at 31.03.2007
Freehold Land	48.74	-	-	48.74	-	-	-	-	48.74	48.74
Building	869.43	30.48	-	899.91	450.73	29.05	-	479.78	420.13	418.70
Plant and Machinery	2,432.96	67.39	1.25	2,499.10	1,507.32	142.67	1.25	1,648.74	850.36	925.64
Jigs and Fixtures	383.53	3.94	-	387.47	320.55	16.76	-	337.31	50.16	62.98
Furniture, Fixtures & Office Equipments	406.18	76.34	-	482.52	249.10	73.18	-	322.28	160.24	157.08
Vehicles	449.74	96.40	-	546.14	134.60	68.41	-	203.01	343.13	315.14
Total	4,590.58	274.55	1.25	4,863.88	2,662.30	330.07	1.25	2,991.12	1,872.76	1,928.28
Previous Year	4,152.46	484.21	46.09	4,590.58	2,416.71	289.11	43.52	2,662.30	1,928.28	

#### CAPITAL WORK-IN-PROGRESS (CWIP)

Capital Advance		88.97	484.19
Direct Capital Expenditure		6,024.72	1,633.71
Indirect expenditure pending allocation :			
- Interest Cost		361.03	5.58
- Other Expenditure		1,615.87	505.34
<b>Total CWIP</b>		<b>8,090.59</b>	<b>2,628.82</b>

#### Notes :

- Indirect other expenditure pending allocation includes salary, power charges, travelling, foreign technician expenses, testing expenses & other administrative expenses and is net of amount recovered from sale (net of excise Rs. 13.23 lacs) of vehicles during test run Rs. 81.57 lacs (Previous year Rs. Nil).
- Additions to Plant & Machinery includes Rs. Nil (Previous year Rs. 4.84 lacs) loss on account of Foreign currency transactions.

### SCHEDULE F

(Rs. in lacs)

	2008	2007
<b>DEFERRED TAX (LIABILITIES) / ASSETS</b>		
(Refer Note 10 on Schedule M & Note 8 on Schedule N)		
Deferred Tax (Liability) / Assets		
- At the beginning of the year	47.46	(24.29)
Less : Adjustment for change in Accounting Policies	27.50	-
(Refer Note 21 on Schedule N)		
- Adjustment during the year	90.00	71.75
	<u>164.96</u>	<u>47.46</u>
	<u>164.96</u>	<u>47.46</u>

**SCHEDULES FORMING PART OF THE ACCOUNTS**
**SCHEDULE G**

(Rs. in lacs)

	2008		2007
<b>CURRENT ASSETS, LOANS &amp; ADVANCES</b>			
<b>CURRENT ASSETS</b>			
<b>INVENTORIES</b>			
(Refer Note 5 on Schedule M)			
Raw Materials & Components	5,552.63		3,475.99
Goods in Transit	700.52		650.80
Stores and Spare Parts	78.74		58.23
Loose Tools	49.09		27.70
Work-in-Progress *	1,289.93		605.54
Finished Goods			
– Vehicles **	4,258.86	3,541.14	
– Spares ***	<u>420.03</u>	<u>373.63</u>	<u>3,914.77</u>
	<u>4,678.89</u>		<u>8,733.03</u>
	<u>12,349.80</u>		
* - Includes Work-in-Progress during test run production amounting to Rs. 651.58 lacs (Previous year Rs. Nil).			
** - Includes Finished goods of vehicles produced during test run production amounting to Rs. 896.15 lacs (Previous year Rs. Nil) valued at material cost.			
*** - Includes Finished goods of spare parts amounting to Rs. 47.52 lacs (Previous year Rs. Nil) valued at material cost.			
<b>SUNDRY DEBTORS</b>			
(Considered good unless otherwise stated)			
Debts outstanding for more than six months :			
– Secured		10.14	31.09
– Unsecured [Including Rs. 503.12 lacs considered doubtful (Previous year Rs. 353.90 lacs)]	761.92	942.48	
Less : Provision for doubtful debts	<u>503.12</u>	<u>258.80</u>	<u>353.90</u>
		<u>268.94</u>	<u>588.58</u>
Other Debts :			
– Secured		328.28	210.65
– Unsecured [including Rs. 30.16 lacs considered doubtful (Previous year Rs. Nil)]	17,993.00	18,324.47	
Less : Provision for doubtful debts	<u>30.16</u>	<u>17,962.84</u>	<u>18,324.47</u>
		<u>18,560.06</u>	<u>19,154.79</u>
<b>CASH AND BANK BALANCES</b>			
Cash-in-Hand		27.27	34.16
[Includes Stamps in Hand Rs. 1.35 lacs (Previous year Rs. 1.35 lacs)]			
Balances with Scheduled Banks on :			
– Current Accounts	661.65	2,079.48	
– Cash Credit Accounts	9.06	–	
– Unpaid/Unclaimed Dividend Accounts	114.03	100.54	
– Fixed Deposits	<u>102.27</u>	<u>58.63</u>	<u>2,238.65</u>
(Pledged as Margin Money with banks against issue of Letters of Credit & Bank Guarantees)		<u>914.28</u>	<u>2,272.81</u>

**SCHEDULES FORMING PART OF THE ACCOUNTS**
**SCHEDULE G (Continued)**

(Rs. in lacs)

	2008	2007
<b>OTHER CURRENT ASSETS</b>		
(Unsecured considered good unless otherwise stated)		
Prepaid Expenses	13.33	3.36
Export Incentives Receivables	444.62	713.28
(Refer Note 2 on Schedule M)	<u>457.95</u>	<u>716.64</u>
<b>LOANS AND ADVANCES</b>		
(Unsecured considered good unless otherwise stated)		
Advances recoverable in cash or in kind or for value to be received	1,646.76	1,537.68
[Including Rs. 10.45 lacs considered doubtful (Previous year Rs.10.89 lacs)]		
Less : Provision for doubtful advances	<u>10.45</u>	<u>10.89</u>
Security Deposits	130.97	180.02
[Including Rs. 0.36 lacs considered doubtful (Previous year Rs. 0.36 lacs)]		
Less : Provision for doubtful deposits	<u>0.36</u>	<u>0.36</u>
Balance with Excise Authorities	692.23	704.32
(Refer Note 2 on Schedule N)		
Advance Tax	29.39	244.19
[Net of Provision Rs. 7058.26 lacs (Previous year Rs. 5678.86 lacs)]		
	<u>2,488.54</u>	<u>2,654.96</u>

**SCHEDULE H**

(Rs. in lacs)

	2008	2007
<b>CURRENT LIABILITIES AND PROVISIONS</b>		
<b>CURRENT LIABILITIES</b>		
Acceptances*	5,104.64	3,769.70
Sundry Creditors	12,200.61	12,499.89
(Refer Note 16 on Schedule N)		
Customer Advances	640.22	485.91
Unclaimed Dividends	114.03	100.54
Other Liabilities	<u>1,225.76</u>	<u>1,109.10</u>
	<u>19,285.26</u>	<u>17,965.14</u>
<b>PROVISIONS</b>		
Fringe Benefit Tax	15.00	5.92
Wealth Tax	0.60	1.00
Proposed Dividend	576.77	576.77
Tax on Proposed Dividend	98.02	98.02
Retirement Benefits (Refer Note 6 on Schedule M & Note 21 on Schedule N)	848.58	526.83
Warranty [Refer Note 8 on Schedule M & Note 4(b) on Schedule N]	<u>463.00</u>	<u>423.00</u>
	<u>21,287.23</u>	<u>19,596.68</u>

\* Secured to the extent of Rs. 1740.37 lacs (Previous year Rs. 359.81 lacs) against hypothecation of Raw Material &amp; Components.

**SCHEDULES FORMING PART OF THE ACCOUNTS**
**SCHEDULE I**

(Rs. in lacs)

	2008	2007
<b>OTHER INCOME</b>		
Sale of Scrap	208.29	149.64
Export Incentives	241.94	206.37
Liabilities/Provisions no longer required written back	78.71	71.75
Miscellaneous Income	69.81	62.29
	<u>598.75</u>	<u>490.05</u>

**SCHEDULE J**

(Rs. in lacs)

	2008	2007
<b>MANUFACTURING AND OTHER EXPENSES</b>		
<b>Materials Consumed</b>		
Raw Materials and Components consumed* (Refer Note 11 on Schedule N)	53,852.23	48,536.38
Movement of Finished Goods and Work-in-Progress		
Opening Stock		
– Finished Goods	3,914.77	3,611.20
– Work-in-Progress	605.54	604.16
	<u>4,520.31</u>	4,215.36
Add : Purchases of Finished Goods	2,566.11	2,135.85
	<u>7,086.42</u>	6,351.21
Less : Closing Stock		
– Finished Goods	4,678.89	3,914.77
– Work-in-Progress	1,289.93	605.54
	<u>5,968.82</u>	4,520.31
	<u>1,117.60</u>	1,830.90
Total Consumption	54,969.83	50,367.28
Increase / (Decrease) in excise duty on finished goods	36.78	74.21
Net Consumption	<u>55,006.61</u>	50,441.49
Operating, Administrative and Other Expenses (as per Schedule K)	6,761.83	6,562.14
	<u>61,768.44</u>	<u>57,003.63</u>

\* Includes Exchange loss on Foreign Currency transactions Rs 162.80 lacs (Previous year Rs. 23.26 lacs)

**SCHEDULES FORMING PART OF THE ACCOUNTS**
**SCHEDULE K**

(Rs. in lacs)

	2008	2007
<b>OPERATING, ADMINISTRATIVE &amp; OTHER EXPENSES</b>		
Salaries, Wages and Bonus (Refer Note 20 & 21 on Schedule N)	2,369.36	2,217.95
Contribution to Provident and Other Funds (Refer Note 6 on Schedule M & 21 on Schedule N)	348.79	281.35
Workmen and Staff Welfare	195.96	168.93
Consumption of Stores, Spares and Tools (including Capital Spares) (Refer Note 12 (b) on Schedule N)	136.64	173.92
Repair and Maintenance :		
– Machinery	22.67	33.84
– Building	30.62	14.67
– Others	11.94	13.28
Power and Fuel	354.66	375.79
Rent (Refer Note 13 on Schedule M & 18 on Schedule N)	122.84	122.22
Rates and Taxes	23.05	94.39
Legal and Professional (Refer Note 9 on Schedule N)	118.22	85.98
Insurance	65.72	71.51
Printing, Stationery, Postage and Telephone	105.72	113.26
Travelling and Conveyance	382.77	362.92
Advances Written off	–	2.00
Provision for Doubtful Debts	395.38	136.18
Marketing, Sales and Promotion Expenses (Refer Note 4 on Schedule N)	1,858.09	1,983.63
Research and Development (Refer Note 7 on Schedule M & 22 on Schedule N)	93.20	154.49
Directors' Sitting Fees	9.90	7.80
Miscellaneous Expenses (Refer Note 19 on Schedule N)	132.25	148.41
	<u>6,777.78</u>	<u>6,562.52</u>
Less : Expenditure Transferred to Fixed Assets (Refer Note 3 on Schedule M)	15.95	0.38
	<u>6,761.83</u>	<u>6,562.14</u>

**SCHEDULES FORMING PART OF THE ACCOUNTS**

**SCHEDULE L**

(Rs. in lacs)

	2008		2007
<b>FINANCE CHARGES / INCOME</b>			
(Refer Note 12 on Schedule M)			
Interest on Loans*	1,036.79		822.15
Interest Others	63.33		32.94
Bank Charges	<u>95.91</u>		<u>87.06</u>
	<b>1,196.03</b>		<b>942.15</b>
<b>LESS :</b>			
Interest on Fixed Deposits (Gross)	4.49	2.67	
[Tax deducted at source Rs. 0.91 lacs (Previous year Rs. 0.62 lacs)]			
Interest on Income Tax refund	12.37	-	
Interest Others	<u>5.75</u>	<u>5.95</u>	<u>8.62</u>
	<b><u>1,173.42</u></b>		<b><u>933.53</u></b>

\* Net of interest recovered from customers Rs. 10.11 lacs (Previous year Rs. 90.74 lacs).

**SCHEDULES FORMING PART OF THE ACCOUNTS****SCHEDULE M****SIGNIFICANT ACCOUNTING POLICIES****1) ACCOUNTING CONVENTION**

The Financial Statements are prepared to comply in all material aspects with the applicable accounting principles in India, the applicable Accounting Standards notified under Section 211(3C) of the Companies Act, 1956 and the relevant provisions of the Companies Act, 1956.

**2) REVENUE RECOGNITION**

Sales are recognized on transfer of significant risks and rewards to the customer that usually takes place on dispatch of goods to the customer from the factory/ stockyard/ storage area. In case of export sales, revenue is recognized as on the date of bill of lading, being the effective date of transfer of significant risks and rewards to the customer. Export benefits are accounted for on accrual basis.

**3) FIXED ASSETS**

Fixed Assets are recorded at cost of acquisition. Cost includes freight, duties, taxes and expenses incidental to acquisition and installation of fixed assets. In case of self-constructed fixed assets, appropriate overheads including salaries & wages are allocated to the cost of the asset. The Cost of Capital Spares is capitalized along with the cost of the related Asset.

Capital work-in-Progress includes cost of assets at site, direct and indirect expenditure incidental to construction, advances made for acquisition of capital assets and interest on the funds deployed for construction.

**4) DEPRECIATION**

Depreciation on fixed assets is provided on a straight-line method on a monthly pro-rata basis at the rates and in the manner prescribed in Schedule XIV to the Companies Act, 1956, except on following assets which are being depreciated at the rates mentioned below:

Motor Cars and Air Conditioners	25.00%
Computers	33.33%

All assets costing up to Rs. 5,000/- are being fully depreciated in the year of purchase.

Capital spares are amortized in a systematic manner over a period not exceeding the useful life of the asset to which they relate.

**5) INVENTORIES**

Finished Goods, Raw Material and Components, Loose Tools, Stores & Spares, Work-in-Progress and Goods in Transit are valued at lower of cost or net realizable value. Cost for the purpose of valuation is calculated on a quarterly weighted average method. In respect of finished goods & work-in-progress, applicable manufacturing overheads and other costs incurred in bringing the items of inventory to their present location and condition are also included. Excise duty is included in finished goods valuation.

**6) EMPLOYEE BENEFITS**

(a) Post-employment benefit plans

- i. Defined Contribution Plans - The Company contributes to the appropriate authorities its share of the Employees' Provident & Pension Fund, which is charged to revenue every year. The Company has created trust which has taken Master policy with the Life Insurance Corporation of India to cover its liability towards employees' Superannuation. Annual contribution of Superannuation is charged to revenue every year.

- ii. Defined Benefit Plans - The estimated liability towards Gratuity and Leave Encashment is being provided for based on the actuarial valuation carried out at the year-end using Projected Unit Credit Method. Actuarial gains and losses are recognized in full in the Profit and Loss Account for the period in which they occur.

The Company has created trust which has taken Master policy with the Life Insurance Corporation of India to cover its liability towards employees' Gratuity. The Gratuity obligation recognized in the Balance Sheet represents the present value of the defined benefit obligation as adjusted for unrecognized past service cost and as reduced by the fair value of Gratuity Fund.

(b) Short term employment benefits

The undiscounted amount of short term employee benefits expected to be paid in exchange for services rendered by employees is recognized during the period when the employee renders the services. These benefits include compensated absences and performance incentives.

## **7) RESEARCH & DEVELOPMENT**

Revenue expenditure on Research and Development is charged to the Profit and Loss Account in the year in which it is incurred. Capital expenditure on Research and Development is shown as an addition to fixed assets and depreciated at the rate as applicable to respective assets.

## **8) WARRANTY EXPENSES**

Provision for warranty is made in the accounts on the basis of past experience and technical evaluation in respect of vehicles sold.

## **9) FOREIGN CURRENCY TRANSACTIONS**

Foreign currency transactions are recorded at exchange rates prevailing at the date of transaction. Exchange differences, if any, arising on settlement of transactions are recognized as income or expense in the year in which they arise.

At the Balance Sheet date all monetary assets and monetary liabilities denominated in foreign currency are reported at the exchange rates prevailing at the Balance Sheet date and the resultant exchange difference, if any, is recognized in the Profit & Loss Account.

## **10) TAXATION**

Tax Expense, comprising current tax, deferred tax & fringe benefit tax is included in determining the net profit for the year. The current tax & fringe benefit tax has been computed in accordance with relevant tax rates and tax laws.

In accordance with Accounting Standard – 22 'Accounting for Taxes on Income', notified under Section 211(3C) of the Companies Act, 1956, the deferred tax for timing differences between the book and the tax profits for the year is accounted for using the tax rates and laws that have been enacted or substantially enacted as on the Balance Sheet date. However, in the year of transition, the accumulated deferred tax (liabilities) / assets at the beginning of the year has been recognized with a corresponding charge to the General Reserve.

Deferred tax assets arising from temporary timing differences are recognized to the extent there is a reasonable / virtual certainty that the assets can be realised in the future and are reviewed for the appropriateness of their respective carrying values at each Balance Sheet date.

## **11) GOVERNMENT GRANTS**

Grants in the form of Capital/Investment subsidy are treated as Capital Reserve.

## **12) BORROWING COSTS**

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the cost of that asset. Other borrowing costs are recognized as an expense in the period in which they are incurred.

**13) LEASES**

As lessee:

Lease rental in respect of assets taken on “Operating Lease” are charged to Profit & Loss Account on straight-line basis over the lease term.

**14) IMPAIRMENT OF ASSETS**

In accordance with Accounting Standard – 28 on ‘Impairment of Assets’, notified under Section 211(3C) of the Companies Act, 1956, recoverable amount of relevant assets is computed and compared with the carrying amount for determining impairment loss, if any, at the Balance Sheet date in case there is an indication that any asset may be impaired.

**15) PROVISIONS AND CONTINGENCIES**

Provisions are recognized when the Company has a present obligation as a result of past events, for which it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount can be made. Provisions required to settle are reviewed regularly and are adjusted where necessary to reflect the current best estimates of the obligation. Where the Company expects a provision to be reimbursed, the reimbursement is recognized as a separate asset, only when such reimbursement is virtually certain. Contingent liabilities are disclosed after an evaluation of the facts and legal aspects of the matters involved.

## SCHEDULE N

### NOTES TO ACCOUNTS

1. There are Contingent Liabilities in respect of :

a) Claims against the Company not acknowledged as debts :

Details of various cases against which the Company / Department is in appeal are given below :

Name of the statute	Nature of dues	Amount (Rs.)	Period to which the amount relates	Forum-where the dispute is pending
Central Sales Tax Act, 1956	Demand raised for difference in the rate of tax.	Rs.218.23 lacs (Rs.87.30 lacs deposited by the Company)	1 <sup>st</sup> April 2000 to 30 <sup>th</sup> September, 2000	Sales Tax Appellate Tribunal, Chandigarh.
Central Sales Tax Act, 1956	Vehicles impounded for inadequacy of papers.	Rs.9.65 lacs (Surety bond and Rs. 2.42 lacs deposited by the Company)	May, 2001	High Court of Punjab & Haryana (Appeal filed by Company).
Punjab VAT Act, 2005	Vehicles impounded for inadequacy of papers.	Rs.2.10 lacs (Surety bond and Rs. 0.53 lacs deposited by the Company)	March, 2008	Deputy Excise and Taxation Commissioner cum Director Enforcement, Patiala.
Punjab VAT Act, 2005	Vehicles impounded for inadequacy of papers.	Rs. 1.57 Lacs (Surety bond and Rs. 0.39 lacs deposited by the company)	August, 2007	Excise & Taxation Office, Mohali.
Karnataka Value Added Tax, 2003	Demand raised by Sales tax Authorities for late submission of Return.	Rs. 1.97 lacs (Rs. 0.99 lacs deposited by the company)	December, 2007	Assistant Commissioner of Commercial Taxes, Hubli.
Gujarat Sales Tax Act	Vehicles impounded for inadequacy of papers.	Rs. 11.78 lacs (Rs. 2.37 lacs deposited & Rs. 9.25 lacs has been given as bank guarantee by the company)	2001-02	Deputy Commissioner of Sales Tax, Gujarat.
Haryana VAT Act, 2003	Demand raised by Sales Tax Authority, Panchkula against non submission of C forms.	Rs. 2.93 Lacs	2004-05	Excise & Taxation Officer, Panchkula.

Central Excise Act, 1944	Denial of benefit of notification for fuel efficient chassis for Motor Vehicles.	Rs147.66 lacs (already deposited by the Company)	1995-96 to 96-97	The case has been referred back by Supreme Court of India to Central Excise and Service Tax Appellate Tribunal (CESTAT).
Central Excise Act, 1944	Demand raised to re-determine the assessable value of components supplied to spare parts division under Rule 7 of Valuation Rules.	Rs 4.25 lacs (Includes penalty of Rs. 2.12 lacs)	1-04-2000 to 31-03-2004	Central Excise and Service Tax Appellate Tribunal (CESTAT).
Central Excise Act, 1944	Demand raised on non-receipt of material sent to job workers within 180 days under Rule 4(5a) of Cenvat Credit rules.	Rs. 1.76 lacs (amount of penalty)	01.04.2003 to 31.10.2003	Central Excise and Service Tax Appellate Tribunal (CESTAT).
Central Excise Act, 1944	Demand raised in context with Service tax on royalty received on account of use of brand name of SML.	Rs. 8.65 lacs (includes penalty of Rs 6.62 lacs)	April, 2002 to March, 2005	Appeal is to be filed before Central Excise and Service Tax Appellate Tribunal (CESTAT).
Central Excise Act, 1944	Demand raised for non-inclusion of cost of publicity items sold to dealers on trading basis as part of Transaction Value.	Rs. 3.19 lacs (includes penalty of Rs 0.30 lacs)	01.01.2004 to 30.09.2004	Central Excise and Service Tax Appellate Tribunal (CESTAT).
Central Excise Act, 1944	Demand raised for non-inclusion of cost of publicity items sold to dealers on trading basis as part of Transaction Value.	Rs. 5.79 lacs (includes penalty of Rs. 2.90 lacs)	April, 2005 to January, 2006	Commissioner (Appeals).
Central Excise Act, 1944	Demand raised for short payment of Education Cess.	Rs. 0.10 lacs (on account of penalty)	March, 2006	Commissioner (Appeals).
Income Tax Act, 1961	Disallowance of provision for bad and doubtful debts.	Rs.36.74 lacs for the assessment year 1992-93 (representing the amount of provision)	1991-92	High Court of Punjab & Haryana (Appeal filed by Department).
Income Tax Act, 1961	Demand raised under section 234 B & C.	Rs.22.02 lacs for the assessment year 1998-99 (Rs.22.02 lacs deposited by the Company)	1997-98	High Court, Chandigarh. (Appeal filed by the Company).

Income Tax Act, 1961	Demand raised for excess deduction claimed u/s 80HHC.	Rs.3.43 lacs for the assessment year 2004-05.	2003-04	Appeal filed by the Company to ITAT Chandigarh.
Income Tax Act, 1961	Demand raised for TDS on payment of Fee for Technical Services/ Royalty.	Rs. 28.51 lacs for the Assessment Year 1987-88	1986-87	Appeal filed by Department before Punjab & Haryana High Court.
Income Tax Act, 1961	Demand raised on expenses disallowed /R&D deduction disallowed.	Rs. 185.51 lacs Assessment year 2005-06 (Rs. 62 lacs deposited by the Company)	2004-05	Appeal filed before CIT (A).
Civil Recovery Suit	Claim filed by finance company for non supply of vehicles by the dealer even after receiving money.	Rs. 12.70 lacs claimed by Luxmi General Finance	1997	Chennai High Court.

b) Counter Guarantees given by the Company to its bankers and outstanding as on 31.03.2008 amounting to Rs. 331.94 lacs (Previous Year Rs. 397.48 lacs).

c) Letters of Credit issued on behalf of the Company by its bankers and outstanding as on 31.03.2008 amounting to Rs. 2,681.07 lacs (Previous Year Rs. 1,626.57 lacs).

2. Through issue of excise notification no 11/95 dated March 16, 1995 Government sought to lapse Rs. 488 lacs out of Modvat Credit Receivable balance as on March 16, 1995. Petition by the Company and others with the Delhi High Court challenging the said notification on grounds of law and equity was allowed by the Supreme Court vide order dated January 28, 1999. The Finance Act, 1999 has, however, brought in retrospective amendment w.e.f. March 16, 1995 in the Central Excise Act, empowering the Central Government to lapse such modvat. On legal advice obtained by the Company to seek redressal against the action of the Government, the Company has filed writ petition before the Delhi High Court on the ground that the Government action violates the doctrine of promissory estoppel/expectation principle beside other grounds. The Court has already admitted the petition. Accordingly, pending Company's petition and decision thereupon, the amount of Rs. 488 lacs though adjusted in excise records has not been provided in the books of account.

3. Estimated amount of contracts remaining to be executed on capital account and not provided for (net of advances) Rs. 240.00 lacs (Previous Year Rs. 1,246.66 lacs).

4. (a) Market promotion expenses (Schedule K) include discounts on sales allowed to customers during the year amounting to Rs. 96.19 lacs (Previous Year Rs. 293.99 lacs) and Commission on Sales amounting to Rs. 84.15 lacs (Previous Year Rs. 62.71 lacs).

(b) Provision For Warranty*	<b>2007-08</b>	2006-07
	<b><u>(Rs. in Lacs)</u></b>	<u>(Rs. in Lacs)</u>
Opening Balance	<b>423.00</b>	431.00
Additions during the year	<b>303.00</b>	272.00
Utilized during the year	<b>263.00</b>	280.00
Closing Balance	<b>463.00</b>	423.00

\*As per warranty policy, the Company is required to provide free repair and replacement of parts required due to manufacturing defects which appear during the warranty period.

5. As the Company's business activities fall within a single primary business segment, viz., "Commercial Vehicles and Spares", the disclosure requirement of Accounting Standard (AS) – 17 "Segment Reporting" are not applicable.
6. In accordance with Accounting Standard on "Related Party Disclosures" (AS 18), the disclosure in respect of transactions with the company's related parties is as follows:

- i) Associate Companies\* Sumitomo Corporation, Japan
- ii) Key Management Personnel\* Mr. Yash Mahajan - Managing Director  
(With effect from June 1, 2006)  
Mr. K. Nakajima - Whole-time Director  
(With effect from February 1, 2007)

\* As identified and certified by the Management.

- iii) Transactions with Associate Companies\*\*

	<u>2007-2008</u> <u>(Rs. in lacs)</u>	<u>2006-2007</u> <u>(Rs. in lacs)</u>	
<b>a. Purchase of components/spares :</b>			
Sumitomo Corporation, Japan	3,222.50	1,002.56	
Punjab Tractors Limited	–	360.60	
Swaraj Engines Limited	–	295.46	
Swaraj Automotives Limited	<u>–</u>	<u>77.59</u>	1,736.21
<b>b. Purchase of fixed assets</b>			
Sumitomo Corporation, Japan	29.66		80.37
<b>c. Sale of components</b>			
Punjab Tractors Limited	–	2.42	
Swaraj Engines Limited	–	112.46	
Swaraj Automotives Limited	<u>–</u>	<u>2.51</u>	117.39
<b>d. Expenses rembursement in respect of services received</b>			
Punjab Tractors Limited	–	52.35	
Swaraj Engines Limited	<u>–</u>	<u>3.81</u>	56.16
<b>e. Expenses reimbursement in respect of services rendered</b>			
Punjab Tractors Limited	–	10.23	
Swaraj Engines Limited	–	3.17	
Swaraj Automotives Limited	<u>–</u>	<u>1.26</u>	14.66
<b>f. Discounting charges paid</b>			
Sumitomo Corporation, Japan	22.41		2.50
<b>g. Dividend paid (Gross)</b>			
Sumitomo Corporation, Japan	236.67	236.67	
Punjab Tractors Limited	<u>–</u>	<u>80.96</u>	317.63
Aggregate balances outstanding at year end – Payables			
Sumitomo Corporation, Japan	1712.55		306.73

\*\*Transactions with Punjab Tractors Limited, Swaraj Engines Limited & Swaraj Automotives Limited disclosed above were for the period from 1<sup>st</sup> April, 2006 to 31<sup>st</sup> May, 2006 in the previous year.

iv) Remuneration to Key Management Personnel (Also Refer Note 20 on Schedule N)

	<b>2007-2008</b> <b>(Rs. in lacs)</b>		2006-2007 <b>(Rs. in lacs)</b>	
Yash Mahajan	<b>87.13</b>		59.38	
K. Nakajima	<b>92.41</b>	<b>179.54</b>	12.26	71.64

7. **Earning Per Share (EPS) :**

	<b>31.03.2008</b>	31.03.2007
Profit attributable to Equity Shareholders (Rs. in lacs)	<b>2,520.27</b>	1,608.94
Basic/Weighted average number of equity shares outstanding during the year [excluding 13,300 forfeited equity shares (Previous Year 13,300)].	<b>10,486,700</b>	10,486,700
Basic/Diluted Earning Per Share (Rs.)	<b>24.03</b>	15.34
Face value Per Share (Rs.)	<b>10.00</b>	10.00

8. In view of Accounting Standard – 22 “Accounting for Taxes on Income” , the Company has accounted for deferred tax as follows:

Particulars	Balance as at 01.04.2007	Amount (Rs. in lacs)	
		<b>Expense/ (Saving) during the year</b>	<b>Balance as at 31.03.2008</b>
<b>(A) Deferred Tax Liabilities</b>			
(i) Tax impact of difference between carrying amount of fixed assets in the financial statements and income tax returns	196.70	<b>78.69</b>	<b>275.39</b>
Sub Total	196.70	<b>78.69</b>	<b>275.39</b>
<b>(B) Deferred Tax Assets</b>			
(i) Tax impact of expenses charged in the financial statements but allowable as deductions in future years under income tax.	114.81	<b>(60.83)</b>	<b>175.64</b>
(ii) Tax impact of expenditures disallowed under section 40(a)(ia) and 43B of the Income Tax Act.	129.35	<b>(135.36)</b>	<b>264.71</b>
(iii) Adjustment on account of changes in accounting policy (Refer Note 21 on Schedule N)	27.50	<b>27.50</b>	–
Sub Total	271.66	<b>(168.69)</b>	<b>440.35</b>
<b>Deferred Tax Assets (B-A)</b>	74.96	<b>(90.00)</b>	<b>164.96</b>

The Deferred Tax Saving (net) for the current year aggregating to Rs. 90 lacs has been credited to the Profit and Loss Account.

**9. Auditors' Remuneration:**

	<u>2007-2008</u> Rs. in lacs	<u>2006-2007</u> Rs. in lacs
Statutory Audit Fee	18.50	15.00
Tax Audit Fee	5.00	4.00
Other Audit Services/Certification	8.50	7.50
Reimbursement of Out of Pocket Expenses	1.28	1.32
	<u>33.28</u>	<u>27.82</u>

**10. Information with regard to Licensed Capacity, Installed Capacity\*, Production, Sales and Stocks:**
**a) Capacities:**

	Unit of Measurement	Licensed Capacity (Per annum)		Installed Capacity (Per annum)	
		<u>31.3.2008</u>	31.3.2007	<u>31.3.2008</u>	31.3.2007
On-road automobiles (having four or more wheels such as light, medium and heavy commercial vehicles and passenger cars).	Nos.	<u>10,000</u>	10,000	<u>6,000*</u>	6,000

\* On single shift basis as certified by the management being technical matter.

**b) Production, Sales and Stocks of Finished Goods:**

	<u>2007-2008</u>		<u>2006-2007</u>	
	<u>Qty. (Nos.)</u>	<u>Rs. in lacs</u>	Qty. (Nos.)	Rs. in lacs
<b>VEHICLES</b>				
Opening Stock	708	3,541.14	636	3,198.23
Production	11,214*	—	10,915	—
Sales	11,272**	71,328.46	10,841	64,838.01
Closing Stock	645***	3,362.71	708	3,541.14

\*Excludes 27 buses (Previous Year Nil) produced during test run.

\*\*Excludes 5 vehicles (Previous Year 2) capitalized during the year and 2 buses (Previous Year Nil) sold during test run which is netted off from Capital work-in-progress.

\*\*\*Excludes 25 buses (Previous Year Nil) produced during test run amounting to Rs.896.15 lacs.

	<u>2007-2008</u> Rs. in Lacs	<u>2006-2007</u> Rs. in Lacs
<b>SPARES</b>		
Opening Stock	373.63	412.97
Purchases	2,566.11	2,135.85
Sales	4,554.35	3,900.38
Closing Stock	420.04	373.63

Note: It is not possible to furnish quantitative information in respect of spares in view of large number of items of varied nature.

**11. Raw Material & Components Consumed :**

	2007-2008		2006-2007	
	Qty. (Nos.)	Rs. in lacs	Qty. (Nos.)	Rs. in lacs
CKD Kits	11,241	1,759.18	10,915	1,939.30
Tyres, Tubes & Rims	228,075	3,820.58	217,081	3,504.06
Cargo Boxes	2,226	840.01	2,565	957.12
Batteries	11,528	306.40	10,976	208.98
Others	–	47,126.06	–	41,926.92
		<u>53,852.23</u>		<u>48,536.38</u>

- i) In view of varied nature of large number of items, it is not possible to furnish quantitative information on components.
- ii) The figure of others is a balancing figure based on total consumption shown in Schedule J and includes adjustments for excess/shortage found on physical verification.
- iii) Quantities and values of all items except CKD kits (where actuals are taken) represent issues from stores made during the period.

**12. Value of imported and indigenous Raw Material & Components, Stores & Spares consumed and percentage of each to total consumption:**

	2007-2008		2006-2007	
	%	Rs. in lacs	%	Rs. in lacs
a) Raw Material & Components:				
Imported	5.15	2,774.20	5.41	2,625.95
Indigenous	94.85	51,078.03	94.59	45,910.43
	<u>100.00</u>	<u>53,852.23</u>	<u>100.00</u>	<u>48,536.38</u>
b) Stores & Spares:				
Imported	7.22	9.87	6.77	11.78
Indigenous	92.78	126.77	93.23	162.14
	<u>100.00</u>	<u>136.64</u>	<u>100.00</u>	<u>173.92</u>

**13. C.I.F. Value of Imports :**

	2007-2008	2006-2007
	Rs. in lacs	Rs. in lacs
Raw Material & Components	3,906.87	1,307.78
Spares & Stores (including Capital Spares)	8.84	50.56
Capital Goods	122.47	260.68
	<u>4,038.18</u>	<u>1,619.02</u>

**14. Earnings in Foreign Currency:**

	2007-2008		2006-2007	
	Nos.	Rs. in lacs	Nos.	Rs. in lacs
Exports including Deemed Exports of Vehicles at FOB Value	585	3,242.21	598	3,106.87
Export of Spare Parts		91.84		86.92
		<u>3,334.05</u>		<u>3,193.79</u>

**15. Expenditure in Foreign Currency (on payment basis - net of tax):**

	<u>2007-2008</u> <u>Rs. in lacs</u>	<u>2006-2007</u> <u>Rs. in lacs</u>
Travelling	21.79	10.03
Know-how	16.98	146.16
Interest	11.56	3.18
Technician Fees	76.56	-
Others	-	2.56
	<u>126.89</u>	<u>161.93</u>

16. There are no Micro and Small Enterprises, to whom the Company owes dues, which are outstanding for more than 45 days as at 31<sup>st</sup> March, 2008 and 31<sup>st</sup> March, 2007. This information as required to be disclosed under the Micro, Small and Medium Enterprises Development Act, 2006 has been determined on the basis of information available with the Company.

17. The Company has a system for maintenance of information and documents as required by the transfer pricing regulation under Sections 92-92F of the Income Tax Act, 1961, as applicable. Since the law requires existence of such information and documentation to be contemporaneous in nature, the Company also updates its information and documentation for international transactions entered into with the associated enterprises during the financial year. The management is of the opinion that its international transactions are at arms length so that the aforesaid legislation will not have any impact on the financial statements, particularly on the amount of tax expense and that of provision for taxation.

18. The Company has taken certain premises under operating lease arrangements. The lease period varies from 3 to 15 years with the option to extend the same with mutual consent. The total lease rental recognized as expense aggregate to Rs.122.84 lacs (Previous Year Rs.122.22 lacs).

Future minimum lease payments under non-cancelable operating leases:

	<u>2007-2008</u> <u>Rs. in lacs</u>	<u>2006-2007</u> <u>Rs. in lacs</u>
Not later than one year	7.17	9.50

19. Miscellaneous Expenses include assets written off during the year Rs. Nil (Previous Year Rs. 2.57 lacs).

**20. Managerial Remuneration :**

	<u>2007-2008</u> <u>Rs. in lacs</u>	<u>2006-2007</u> <u>Rs. in lacs</u>
1. Remuneration* :		
i) Salaries and Allowances	85.80	38.00
ii) Commission	82.21	25.56
iii) Contribution to Provident & Other Funds	10.14	6.75
iv) Other Perquisites	1.39	1.33
	<u>179.54</u>	<u>71.64</u>

2. Computation of net profit in accordance with Sec. 309(5) of the Companies Act, 1956 for the calculation of commission

Profit Before Tax	3,870.27	2,322.11
Add Depreciation charged in accounts	330.07	289.11
Provision for doubtful debts	395.38	136.18
Provision for doubtful Advances / Advances written off	-	12.45
Director's remuneration	179.54	71.64
Director's sitting fee	9.90	7.80
Assets written off	-	2.57
	<u>4,785.16</u>	<u>2,841.86</u>
Less Depreciation as per section 350 of the Companies Act,1956	293.85	263.94
Less Provision for doubtful debts written back	50.33	22.33
	<u>4,440.98</u>	<u>2,555.59</u>

Maximum Commission to Managing Director @ 1% (Within the overall limit of Rs. 37.80 lacs being 100% of salary and allowance as approved by Members / Board of Directors).	<b>37.80</b>	21.30
Maximum Commission to Whole-time Director @ 1% (Within the overall limit of Rs. 48.00 lacs being 100% of salary and allowance as approved by Members / Board of Directors).	<b>44.41</b>	4.26

**\*Notes:**

- i. Contribution to Provident and other funds does not include contribution towards gratuity & leave encashment, as the separate figures for the directors are not available.
- ii. Other Perquisites does not include premium in respect of personal accident insurance, as the separate figures for the directors are not available.

21. The Company has adopted Accounting Standard-15 'Employee Benefits' (Revised 2005) notified under Section 211(3C) of the Companies Act, 1956. Consequent upon its adoption, in accordance with the transitional provisions contained in the Accounting Standard, the net difference of Rs. 53.40 lacs (after adjustment for deferred tax of Rs. 27.50 lacs) between the liability in respect of Gratuity and Leave Encashment existing on the date of adoption and the liability that would have been recognized at the same date under the previous Accounting Standard, has been adjusted against the opening balance of General Reserve.

Disclosures as per AS - 15 (Revised) 'Employee Benefits' for year ended March 31, 2008 :

<b>Actuarial Assumptions</b>	<b>Leave Encashment (Unfunded)</b>	<b>Gratuity(Funded)</b>
Mortality Table	<b>LIC 1994-96 Ultimate</b>	<b>LIC 1994-96 Ultimate</b>
Attrition Rate	<b>5.00% p.a</b>	<b>5.00% p.a</b>
Imputed Rate of Interest	<b>8.00% p.a</b>	<b>8.00% p.a</b>
Salary Rise	<b>5.00% p.a</b>	<b>5.00% p.a</b>
Return on Plan Assets	<b>N.A.</b>	<b>9.25% p.a</b>
Remaining Working Life	<b>21.31 Years</b>	<b>19.32 Years</b>
<b>Change in the present value of obligation</b>		<b>Amount (Rs. in lacs)</b>
Defined benefit obligation as at April 1, 2007	<b>203.57</b>	<b>442.43</b>
Service cost	<b>59.52</b>	<b>37.85</b>
Interest cost	<b>15.00</b>	<b>33.67</b>
Actuarial loss/(gain)	<b>8.33</b>	<b>89.81</b>
Benefits paid	<b>(32.22)</b>	<b>(43.11)</b>
Defined benefit obligation as at March 31, 2008	<b>254.20</b>	<b>560.65</b>
<b>Change in fair value of plan</b>		
Fair value of plan assets as at April 1, 2007		<b>208.77</b>
Expected return on plan assets		<b>19.06</b>
Contributions by employer		<b>40.28</b>
Actuarial (loss)/gain		<b>0.52</b>
Benefits paid		<b>(43.11)</b>
Fair value of plan assets as at March 31, 2008		<b>225.52</b>
<b>Reconciliation of present value of defined benefit obligation and the fair value of assets</b>		
Present value of obligation as at March 31, 2008		<b>560.65</b>
Fair value of Plan Assets as at the end of period funded status		<b>225.52</b>
Present value of unfunded obligation as at March 31, 2008		<b>335.13</b>
<b>Expenses recognised in the Profit and Loss Account</b>		
Current Service Cost	<b>59.52</b>	<b>37.85</b>
Interest Cost	<b>15.00</b>	<b>33.67</b>
Expected return on plan assets	<b>-</b>	<b>(19.06)</b>

Net actuarial loss/ (gain) recognized	8.33	89.29
Total Expenses recognised in the Profit & Loss Account	82.85	141.75

The major categories of plan assets as a percentage of total plan assets as at March 31, 2008 are as follows:

Government of India Securities	Nil
Insurer Managed Funds	100%

**Note:** The estimates of future salary increase, considered in actuarial variation, take account of inflation, seniority, promotion and other relevant factors, such as supply and demand in the employment market.

22. Research and Development Costs:

	<u>2007-08</u> <u>Rs. in lacs</u>	<u>2006-07</u> <u>Rs. in lacs</u>
<b>a. Revenue Expenditure</b>		
Salaries & Wages	98.94	53.27
Contribution to Provident and other funds	6.25	3.06
Materials	55.94	76.95
Testing & Analytical	81.19	149.25
Traveling, Telephone & Others	55.67	35.70
Total	<u>297.99</u>	<u>318.23</u>
<b>b. Capital Expenditure</b>	<u>245.74</u>	<u>206.21</u>

23. During the year, the company has changed its accounting policy relating to exchange differences on fixed assets acquired outside India in foreign currency as per revised AS-11 'Effects of changes in foreign exchange rates'. In the previous years, exchange differences arises on repayment of foreign currency liabilities incurred for the purpose of acquiring fixed asset were adjusted in the cost of the asset. Accordingly, these exchange differences are recognised in the Profit & Loss Account from the current year. As a result of policy change, the profit for the year is higher by Rs.0.69 lacs (Previous year Nil) with consequential effect on net block at the year end.

24. Previous year figures have been regrouped / reclassified wherever considered necessary to conform to current year's classification.

**BALANCE SHEET ABSTRACT AND COMPANY'S GENERAL BUSINESS PROFILE :**
**1. REGISTRATION DETAILS :**

Registration No.	5516	State Code	16
Balance Sheet Date	31 03 08		

**2. CAPITAL RAISED DURING THE YEAR (Rs. in lacs) :**

Public Issue	NIL	Right Issue	NIL
Bonus Issue	NIL	Private Placements	NIL

**3. POSITION OF MOBILISATION AND DEPLOYMENT OF FUNDS (Rs. in lacs) :**

Total Liabilities	23615	Total Assets	23615
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**SOURCES OF FUNDS**

Paid-up Capital	1050	Reserves and Surplus	8308
Secured Loans	1357	Unsecured Loans	12900

**APPLICATION OF FUNDS**

Net Fixed Assets	9967	Deferred Tax Assets	165
Net Current Assets	13483	Investments	NIL

**4. PERFORMANCE OF COMPANY (Rs. in lacs) :**

Turnover	67142	Total Expenditure	63272
Profit / Loss before Tax	3870	Profit / Loss after Tax	2520
Earning Per Share (Rs.)	24.03	Dividend Rate (%)	55

**5. GENERIC NAMES OF THREE PRINCIPAL PRODUCTS OF COMPANY (As per monetary terms) :**

Item Code No. (ITC CODE)	374201000
Product Description	COMMERCIAL VEHICLES

## CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST MARCH, 2008

(Rs. in lacs)

	Year ended March 31, 2008	Year ended March 31, 2007
<b>A. CASH FLOW FROM OPERATING ACTIVITIES</b>		
<b>Net Profit Before Tax Expense</b>	<b>3,870.27</b>	2,322.11
Adjustments For :		
Depreciation	330.07	289.11
Foreign Exchange Fluctuation	63.74	(4.98)
Interest Expense	1,036.79	822.15
Interest Income	(22.61)	(8.62)
Assets Written off	-	2.57
Provision for Doubtful Debts & Advances	395.38	138.18
Provision for Retirement Benefits	240.85	148.36
Provision for Warranty	40.00	(8.00)
Excess Provision of Wealth Tax written back	(0.40)	-
Liabilities/Provisions no longer required written back	(78.71)	(71.75)
	<u>2,005.11</u>	<u>1,307.02</u>
<b>Operating Profit Before Working Capital Changes</b>	<b>5,875.38</b>	3,629.13
Adjustments for :		
Decrease/(Increase) in Sundry Debtors	249.68	6,073.37
Decrease/(Increase) in Other Current Assets	258.69	(115.61)
Decrease/(Increase) in Loans and Advances	(48.38)	120.11
Decrease/(Increase) in Inventories	(3,616.77)	381.43
(Decrease)/Increase in Current Liabilities	<u>1,285.59</u>	<u>(4,430.94)</u>
	<u>(1,871.19)</u>	<u>2,028.36</u>
<b>Cash Generated From Operations</b>	<b>4,004.19</b>	5,657.49
Less: Direct Tax Paid (net of refunds)	1,163.69	804.73
Wealth Tax Paid	0.60	-
Fringe Benefit Tax Paid	50.92	53.85
<b>Net Cash From Operating Activities</b>	<b><u>2,788.98</u></b>	<u>4,798.91</u>
<b>B. CASH FLOW FROM INVESTING ACTIVITIES</b>		
Purchase of Fixed Assets	(5,393.57)	(2,600.59)
Interest Received	21.70	8.00
<b>Net Cash Used In Investing Activities</b>	<b><u>(5,371.87)</u></b>	<u>(2,592.59)</u>

**C. CASH FLOW FROM FINANCING ACTIVITIES**

Unsecured Loans taken during the year	13,331.42		9,300.00	
Unsecured Loans repaid during the year	<u>8,460.04</u>	4,871.38	<u>5,783.38</u>	3,516.62
Secured Loans taken / (repaid) during the year		(1,602.33)		(3,885.86)
Dividend Paid		(563.28)		(559.06)
Dividend Tax		(98.02)		(80.89)
Interest Paid		<u>(1,392.24)</u>		<u>(827.73)</u>
<b>Net Cash Inflow / Used in Financing Activities</b>		<u>1,215.51</u>		<u>(1,836.92)</u>
Net Increase/(Decrease) in Cash and Cash Equivalents		(1,367.38)		369.40
Cash and Cash Equivalents as at 01.04.2007 (#1)		2,272.81		1,903.41
Cash and Cash Equivalents as at 31.03.2008 (#2)		905.43		2,272.81

**Notes :**

# 1 Cash and Bank Balances as at 01.04.2007	2,272.81	1,903.41
# 2 Cash and Bank Balances as at 31.03.2008	914.49*	2,272.81
Less : Cash Credit Accounts (being treated as financing activity)	<u>(9.06)</u>	-
Cash and Cash Equivalents as at 31.03.2008	<u>905.43</u>	<u>2,272.81</u>

\* Net of unrealised foreign exchange loss of Rs. 0.21 lacs (Previous year Rs. Nil).

**Notes :**

- The above "Cash Flow Statement" has been prepared under the Indirect method as set out in the Accounting Standard-3 on Cash Flow Statements.
- Figures in bracket indicates cash outflows.
- Previous year figures have been regrouped and recasted, wherever necessary to conform to the current year's classification.

This is the Cash Flow Statement referred to in our report of even date.

FOR AND ON BEHALF OF THE BOARD

For and on behalf of  
PRICE WATERHOUSE  
Chartered Accountants

K. NAKAJIMA  
Whole-time Director

S.K. TUTEJA  
Chairman

V. NIJHAWAN  
Partner  
M.No. : F87228

GOPAL BANSAL  
Sr. Vice President - Finance  
& Company Secretary

YASH MAHAJAN  
Managing Director

New Delhi, 30th May, 2008

New Delhi, 30th May, 2008

**AUDITORS' REPORT TO THE MEMBERS OF SWARAJ MAZDA LIMITED**

1. We have audited the attached Balance Sheet of Swaraj Mazda Limited, as at March 31, 2008, and the related Profit and Loss Account and Cash Flow Statement for the year ended on that date annexed thereto, which we have signed under reference to this report. These financial statements are the responsibility of the Company's Management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with the auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. As required by the Companies (Auditor's Report) Order, 2003, as amended by the Companies (Auditor's Report) (Amendment) Order, 2004 issued by the Central Government of India in terms of sub-section (4A) of Section 227 of 'The Companies Act, 1956' of India (the 'Act') and on the basis of such checks of the books and records of the company as we considered appropriate and according to the information and explanations given to us, we give in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.
4. Further to our comments in the Annexure referred to in paragraph 3 above, we report that:
  - (a) We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit;
  - (b) In our opinion, proper books of account as required by law have been kept by the company so far as appears from our examination of those books;
  - (c) The Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report are in agreement with the books of account;
  - (d) In our opinion, the Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report comply with the accounting standards referred to in sub-section (3C) of Section 211 of the Act;
  - (e) On the basis of written representations received from the directors and taken on record by the Board of Directors, none of the directors is disqualified as on March 31, 2008 from being appointed as a director in terms of clause (g) of sub-section (1) of Section 274 of the Act;
  - (f) *Attention is invited to non provision of Rs.488 lacs in respect of MODVAT credit receivable as explained in Note 2 on Schedule N. Had the said amount been provided, the net current assets and profit for the year would have been lower by the corresponding amount.*
  - (g) In our opinion and to the best of our information and according to the explanations given to us, the said financial statements together with the notes thereon and attached thereto give in the prescribed manner the information required by the Act and subject to our comments in para (f) above, give a true and fair view in conformity with the accounting principles generally accepted in India:
    - (i) in the case of the Balance Sheet, of the state of affairs of the company as at March 31, 2008;
    - (ii) in the case of the Profit and Loss Account, of the profit for the year ended on that date; and
    - (iii) in the case of the Cash Flow Statement, of the cash flows for the year ended on that date.

V. Nijhawan  
Partner  
Membership No : F87228  
For and on behalf of  
PRICE WATERHOUSE  
Chartered Accountants

New Delhi, 30th May, 2008

## ANNEXURE TO AUDITORS' REPORT

[Referred to in paragraph 3 of the Auditors' Report of even date to the members of Swaraj Mazda Limited on the financial statements for the year ended March 31, 2008]

1. (a) The company is maintaining proper records showing full particulars including quantitative details and situation of fixed assets.
- (b) The fixed assets are physically verified by the management according to a phased programme designed to cover all the items over a period of three years, which in our opinion, is reasonable having regard to the size of the company and the nature of its assets. Pursuant to the programme, a portion of the fixed assets has been physically verified by the management during the year and no material discrepancies between the book records and the physical inventory have been noticed.
- (c) In our opinion and according to the information and explanations given to us, a substantial part of fixed assets has not been disposed off by the company during the year.
2. (a) The inventory (excluding stocks with third parties) has been physically verified by the management during the year. In respect of inventory lying with third parties, these have substantially been confirmed by them. In our opinion, the frequency of verification is reasonable.
- (b) In our opinion, the procedures of physical verification of inventory followed by the management are reasonable and adequate in relation to the size of the company and the nature of its business.
- (c) On the basis of our examination of the inventory records, in our opinion, the company is maintaining proper records of inventory. The discrepancies noticed on physical verification of inventory as compared to book records were not material.
3. (a) The company has not granted any loans, secured or unsecured, to companies, firms or other parties covered in the register maintained under Section 301 of the Act.
- (b) The company has not taken any loans, secured or unsecured, from companies, firms or other parties covered in the register maintained under Section 301 of the Act.
4. In our opinion and according to the information and explanations given to us, having regard to the explanation that certain items purchased are of special nature for which suitable alternative sources do not exist for obtaining comparative quotations, there is an adequate internal control system commensurate with the size of the company and the nature of its business for the purchase of inventory, fixed assets and for the sale of goods. Further, on the basis of our examination of the books and records of the company, and according to the information and explanations given to us, we have neither come across nor have been informed of any continuing failure to correct major weaknesses in the aforesaid internal control system.
5. According to the information and explanations given to us, there have been no contracts or arrangements referred to in Section 301 of the Act during the year to be entered in the register required to be maintained under that Section. Accordingly, commenting on transactions made in pursuance of such contracts or arrangements does not arise.
6. The company has not accepted any deposits from the public within the meaning of Sections 58A and 58AA of the Act and the rules framed there under.
7. In our opinion, the company has an internal audit system commensurate with its size and nature of its business.
8. We have broadly reviewed the books of account maintained by the company in respect of products where, pursuant to the Rules made by the Central Government of India, the maintenance of cost records has been prescribed under clause (d) of sub-section (1) of Section 209 of the Act and are of the opinion that prima facie, the prescribed accounts and records have been made and maintained. We have not, however, made a detailed examination of the records with a view to determine whether they are accurate or complete.

9. (a) According to the information and explanations given to us and the records of the company examined by us, in our opinion, the company is generally regular in depositing the undisputed statutory dues including provident fund, investor education and protection fund, employees' state insurance, income-tax, sales-tax, value added tax, wealth tax, service tax, customs duty, excise duty, cess and other material statutory dues as applicable with the appropriate authorities.
- (b) According to the information and explanations given to us and the records of the company examined by us, the particulars of dues of income-tax, sales-tax, wealth tax, service tax, customs duty, excise duty and cess as at March 31, 2008 which have not been deposited on account of a dispute are stated in Note 1(a) on Schedule N.
10. The company has no accumulated losses as at March 31, 2008 and it has not incurred any cash losses in the financial year ended on that date or in the immediately preceding financial year.
11. According to the records of the company examined by us and the information and explanations given to us, the company has not defaulted in repayment of dues to any financial institution or bank or debenture holders as at the Balance Sheet date.
12. The company has not granted any loans and advances on the basis of security by way of pledge of shares, debentures and other securities.
13. The provisions of any special statute applicable to chit fund/nidhi/mutual benefit fund/societies are not applicable to the company.
14. In our opinion, the company is not a dealer or trader in shares, securities, debentures and other investments.
15. In our opinion and according to the information and explanations given to us, the company has not given any guarantee for loans taken by others from banks or financial institutions during the year.
16. The company has not obtained any term loans.
17. On the basis of an overall examination of the balance sheet of the company, in our opinion and according to the information and explanations given to us, there are no funds raised on a short-term basis which have been used for long-term investment.
18. The company has not made any preferential allotment of shares to parties and companies covered in the register maintained under Section 301 of the Act during the year.
19. The Company has not issued any debentures during the year and there are no debentures outstanding as at the year-end.
20. The company has not raised any money by public issues during the year.
21. During the course of our examination of the books and records of the company, carried out in accordance with the generally accepted auditing practices in India, and according to the information and explanations given to us, we have neither come across any instance of fraud on or by the company, noticed or reported during the year, nor have we been informed of such case by the management.

New Delhi, 30th May, 2008

V. Nijhawan  
Partner  
Membership No : F87228  
For and on behalf of  
PRICE WATERHOUSE  
Chartered Accountants

## NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Twenty Fourth Annual General Meeting of the Company will be held at its Registered Office at Village Asron, Distt. Nawanshahar – 144 533 (Punjab) on 10<sup>th</sup> July, 2008 at 2.00 PM to transact the following business:

### ORDINARY BUSINESS

1. To receive, consider and adopt the Audited Balance Sheet as at 31<sup>st</sup> March, 2008 and Profit & Loss Account for the year ended 31<sup>st</sup> March, 2008 together with the Directors' Report and Auditors' Report thereon.
2. To declare dividend.
3. To appoint a Director in place of Mr. S. K. Tuteja who retires by rotation and, being eligible, offers himself for re-appointment.
4. To appoint a Director in place of Mr. K. Machida who retires by rotation and, being eligible, offers himself for re-appointment.
5. To appoint a Director in place of Mr. Harkirat Singh who retires by rotation and, being eligible, offers himself for re-appointment.
6. To appoint Price Waterhouse, Chartered Accountants, the retiring Auditors of the Company, as Auditors, who shall hold office from the conclusion of this Annual General Meeting, until the conclusion of the next Annual General Meeting of the Company on such remuneration as may be mutually agreed upon between the Board of Directors and the Auditors.

Regd. Office:  
Village Asron  
Distt. Nawanshahar (Punjab)  
Dated: 30<sup>th</sup> May, 2008

By Order of the Board  
  
(GOPAL BANSAL)  
Sr. Vice President – Finance & Company Secretary

### NOTES:

1. A MEMBER ENTITLED TO ATTEND AND VOTE IS ENTITLED TO APPOINT A PROXY TO ATTEND INSTEAD OF HIMSELF. SUCH PROXY NEED NOT BE A MEMBER OF THE COMPANY. Proxies in the Form Annexed hereto must be lodged at the Registered Office of the Company not later than 48 hours before the commencement of the meeting.
2. The Register of Members and Transfer Books of the Company will remain closed from 24<sup>th</sup> June to 1<sup>st</sup> July, 2008 (both days inclusive).
3. Members are requested to bring their copy of Annual Report to the Meeting. Members desirous of obtaining any information concerning the accounts and operations of the Company are requested to address their question in writing to the Company Secretary of the Company at least 7 days before the date of the Meeting so that information required may be made available at the Meeting.
4. Subject to the provisions of section 206A of the Companies Act, 1956, dividend, as recommended by the Board of Directors, if approved at the Meeting, will be payable on or after 10<sup>th</sup> July, 2008 but within the statutory time limit, to those Members whose names appear in the Register of Members as on 1st July, 2008. In respect of shares held in electronic form, the dividend will be payable to the beneficial owners of the shares as per details furnished by the depositories for this purpose.
5. Members who have not encashed their Dividend Warrant(s) for the financial year ended 31<sup>st</sup> March, 2001 and onward are requested to make their claims to the Company, without any delay. **It may also be noted that once the unclaimed dividend is transferred to the Central Government, no claim shall lie in respect thereof with the Company.**

6. Members are requested to notify any change in their address, mandates etc., to the Company's Registrar and Share Transfer Agents, M/s MCS Limited, Sri Venkatesh Bhawan, W – 40, Okhla Industrial Area, Phase – II, New Delhi – 110 020. **In case of dematerialised shares, the change of address requests, bank mandates etc. should be directly sent to the concerned Depository Participant.**
7. Members holding shares in Demat form may please note that the bank account details given by them to their Depository Participants (DPs) and passed on to the Company by such DPs would be printed on the dividend warrants of the concerned members. However, if any Member wants to receive dividend in any other bank account, such Member should change / correct the bank account details with their concerned DPs. The Company would not entertain any request from such shareholders directly for deletion / change in the bank account details printed on the dividend warrants on the basis of information furnished by the DPs to the Company.  
  
Members holding shares in physical form are advised to submit particulars of their bank account, viz., name and address of the branch of the bank, 9 digit MICR code of the branch, type of account and account number latest by 1<sup>st</sup> July, 2008 to the Company or the Registrar M/s MCS Limited, Sri Venkatesh Bhawan, W-40, Okhla Industrial Area, Phase II, New Delhi - 110 020.
8. Members who hold shares in physical form may nominate a person in respect of all the shares held by them whether singly or jointly. Members who hold shares singly are advised to avail nomination facility by filling Form 2B in their own interest. Blank forms will be supplied by the Company on request. Members holding shares in demat form may contact their respective depository participants for recording of nomination.
9. Members having multiple folios are requested to intimate to the registrar MCS Limited, New Delhi such folios to enable the Company to consolidate all shareholdings into one folio.
10. Members / Proxy holders are requested to produce the Attendance Slip duly completed and signed, for admission to the Meeting Hall.
11. Appointment / Re-appointment of Directors:

Information / details as required under the Corporate Governance Code in respect of persons being appointed as Directors at the forthcoming Annual General Meeting is given below:

- a) Mr. S.K. Tuteja holds a Masters degree in Commerce. He joined the Indian Administrative Services (IAS) in 1968 and retired from the IAS in 2005 as Secretary, Food & Public Distribution, Government of India.

During his long distinguished service career, Mr. Tuteja held several key positions with the Punjab Government and Central Government - District Administration, Departments of Education, Industry, Trade & Commerce, Finance, Management and Company Affairs. He was also the Chairman of Punjab State Electricity Board.

Mr. Tuteja was appointed Chairman of the Pay Commission by the Government of Punjab in 2006.

Mr. Tuteja has been associated with Swaraj Mazda as a Director for nearly two decades. During this period, he has made invaluable contributions to the growth of the Company by lending crucial support and providing strategic guidance. Mr. Tuteja was appointed non-executive Chairman of the Company in 2005.

Mr. Tuteja is also the Chairman of Abhishek Industries Ltd., Shri Renuka Infraprojects Ltd., and Adani Logistics Ltd. He is a Director on the Boards of Small Industries Development Bank of India (SIDBI), HMT Ltd., Mundra Port & Special Economic Zone Ltd., Shri Renuka Sugars Ltd., Adani Power Ltd., Abhishek Global Ventures Ltd., Precision Pipes & Profiles Ltd., SVIL Mines Ltd. and Ambience Ltd.

Mr. Tuteja is the founder Chairman of the Chandigarh Chapter of the Institute of Company Secretaries of India.

Mr. Tuteja does not hold any shares in the Company.

Mr. Tuteja's re-appointment would be in the category of Independent Directors.

Details of Mr. Tuteja's Membership in Committees are as under:

<b>Name of the Committee</b>		<b>Name of the Company</b>
Investor Grievance Committee	Chairman	Abhishek Industries Ltd. Shri Renuka Sugars Ltd.
	Member	Mundra Port & SEZ Ltd. Precision P&P Ltd.
Shareholder / Investor Relation Committee	Member	Swaraj Mazda Ltd.
Audit Committee	Chairman	Swaraj Mazda Ltd. Abhishek Industries Ltd. Adani Power Ltd.
	Member	HMT Ltd. Mundra Port & SEZ Ltd.

- b) Mr. K. Machida is a nominee director of Sumitomo Corporation (SC), Japan and has been a Director of the Company Since June, 2001.

Mr. Machida is a graduate in Economics from Keio University, Tokyo. Mr. K. Machida joined SC in 1975 and has held various key positions. Presently he is the General Manager. He has vast and varied experience in Marketing and Management.

Mr. Machida does not hold any shares in the Company.

Mr. Machida's re-appointment would be in the category of Promoter Directors.

- c) Mr. Harkirat Singh holds a Master's degree in Economics and retired as Executive Director of Life Insurance Corporation of India. He has been a Director of the Company since 1990 and is Chariman of Shareholders / Investor Relation Committee of the Board and is also Member of the Audit Committee.

Mr. Singh does not hold any shares in the Company.

Mr. Harkirat Singh's re-appointment would be in the category of Independent Directors.

**SWARAJ MAZDA LIMITED**

Village Asron, Distt. Nawanshahar-144 533 (Punjab)

**24th Annual General Meeting - 10th July, 2008**

Please complete this Attendance Slip and hand it over at the entrance of the Meeting Hall.

NAME OF THE SHAREHOLDER/PROXY  
ADDRESS

Folio No. ....

DP ID\* .....

No. of Shares held :

Client ID\* .....

I hereby record my presence at the 24th ANNUAL GENERAL MEETING of the Company at its Regd. Office &amp; Works at Village Asron, Distt. Nawanshahar-144 533 (Punjab) on Thursday, the 10th July, 2008 at 2.00 P.M.

\*To be used for shares held in  
electronic form

SIGNATURE OF THE SHAREHOLDER/PROXY

**PROXY****SWARAJ MAZDA LIMITED**

Village Asron, Distt. Nawanshahar-144 533 (Punjab)

Folio No. .... DP ID\* ..... Client ID\* .....

I/We .....

of ..... being a member/members

of SWARAJ MAZDA LIMITED hereby appoint .....

of .....

or failing him .....

of .....

as my/our proxy to vote for me/us and on my/our behalf at the 24th ANNUAL GENERAL MEETING of the Company to be held on Thursday, the 10th July, 2008 at 2.00 P.M. and at any adjournment thereof.

Signed this ..... day of ..... 2008 by the said.

\*To be used for shares held in  
electronic form.

Signature

Affix  
Revenue  
Stamp**Note :** This proxy must be returned so as to reach the Registered Office of the Company not less than 48 hours before the meeting. The Proxy need not be a member of the Company.

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<b>CONTENTS</b>	<b>PAGE NO.</b>
1 Report of the Directors	1
2 Management Discussion and Analysis	5
3 Corporate Governance Report	8
4 Shareholders' Information	14
5 Annexure to Directors' Report	16
6 Balance Sheet	18
7 Profit & Loss Account	19
8 Schedules Forming part of the Accounts	20
9 Notes to Accounts	31
10 Balance Sheet Abstract & Company's General Business Profile	41
11 Cash Flow Statement	42
12 Auditors' Report	44
13 Notice of Annual General Meeting	47

**24TH ANNUAL GENERAL MEETING**  
on Thursday, 10th July, 2008  
at 2.00 P.M. at Village Asron  
Distt. Nawanshahar, Punjab.

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# SWARAJ MAZDA LIMITED

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## BOARD OF DIRECTORS

S.K. TUTEJA - Chairman  
HARKIRAT SINGH  
A.K. THAKUR  
P.K. NANDA  
DONALD PECK  
STEVEN ENDERBY  
K. MACHIDA  
M. SATO  
Y. WATANABE  
PANKAJ BAJAJ  
K. NAKAJIMA - Whole-time Director  
YASH MAHAJAN - Managing Director

## Sr. VICE PRESIDENT - FINANCE & COMPANY SECRETARY

GOPAL BANSAL

**AUDITORS** PRICE WATERHOUSE

**LISTING OF SHARES** BOMBAY STOCK EXCHANGE LTD.  
THE NATIONAL STOCK EXCHANGE  
OF INDIA LTD.

**BANKERS** CANARA BANK  
INDIAN OVERSEAS BANK  
ALLAHABAD BANK  
MIZUHO CORPORATE BANK LTD.

**REGISTERED  
OFFICE & WORKS** VILLAGE ASRON,  
DISTT. NAWANSHAHAR-144 533  
(PUNJAB)

**CORPORATE  
OFFICE** 204-205, SECTOR 34-A,  
CHANDIGARH-160 022

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