

HMT LIMITED

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BOARD OF DIRECTORS

Shri S.G. Sridhar	Chairman & Managing Director
Shri Saurabh Chandra	Director (upto 17.07.2012)
Dr. Vijay Shankar Madan	Director (w.e.f 18.07.2012)
Shri Harbhajan Singh	Director
Shri Antony Chacko	Director (Operations) (w.e.f 23.08.2012)

EXECUTIVE DIRECTOR

Shri Prakash Sharan	Executive Director, Tractors
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CHIEF VIGILANCE OFFICER

Smt M. Indu Madhavi	Chief Vigilance Officer
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COMPANY SECRETARY

Shri U. Jagadish Nayak	General Manager & Company Secretary Compliance Officer
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STATUTORY AUDITORS

M/s S.R.R.K. Sharma Associates
Chartered Accountants
Bangalore

BANKERS

UCO Bank
Punjab National Bank
Andhra Bank

REGISTERED OFFICE

"HMT BHAVAN"
59, Bellary Road
Bangalore - 560 032

PERFORMANCE HIGHLIGHTS

(₹ in Lakhs)

	2011-12	2010-11	2009-10	2008-09	2007-08	2006-07	2005-06	2004-05	2003-04	2002-03
OPERATING STATISTICS										
Sales	16112	20086	19164	16098	17108	22729	24833	20386	15801	18330
Other Income *	4658	5475	1078	1425	1267	11458	5621	9030	6549	3765
Materials	12118	13746	12083	10596	14064	15125	17461	14710	9952	10734
Employee Costs	7499	8371	6762	6367	6472	6106	5813	5930	5231	5188
Other Costs	2906	3140	3252	4811	4080	8351	5868	6236	6863	7351
Depreciation	440	387	392	340	299	321	393	416	419	447
Earnings before Interest	735	(16)	(3323)	(5664)	(4466)	3639	900	2024	(208)	(2304)
Interest	8955	7908	1968	1234	131	(409)	(455)	174	511	1097
Earnings/(Loss) before Tax	(8220)	(7924)	(5291)	(6898)	(4597)	4048	1355	1850	(719)	(3401)
Taxation (net off withdrawal/refunds)	-	-	-	181	(130)	(1382)	28	1252	77	40
Net Earnings	(8220)	(7924)	(5291)	(7079)	(4467)	5430	1327	598	(796)	(3441)
FINANCIAL POSITION										
Net Fixed Assets	3507	3868	4028	4094	3751	3342	3437	3317	3683	4096
Current Assets	70619	65557	72668	71078	73167	112729	111417	115431	95292	95890
Current Liabilities & Provisions	25701	24309	21437	19445	19653	20914	20366	19859	20246	23810
Working Capital	44918	41248	51231	51633	53514	91815	91051	95572	75046	72080
Capital Employed	48425	45116	55259	55727	57265	95157	94488	98889	78729	76176
Investments	76556	76556	76556	76571	76571	76571	7801	4639	4589	4550
Miscellaneous Expenditure	-	-	-	29	197	380	3845	4594	4822	4949
Borrowings	71401	59871	62091	57312	52098	85553	92742	99637	82055	79121
Net Worth	53581	61800	69724	74986	81897	86181	8146	2492	1116	1535
OTHER STATISTICS										
Capital Expenditure	81	227	327	681	707	230	556	54	58	278
Internal Resources Generated	(7780)	(7537)	(4899)	(6739)	(4168)	5751	1720	1014	(377)	(2994)
Working Capital Turnover Ratio	0.36	0.49	0.37	0.31	0.32	0.25	0.27	0.21	0.21	0.24
Current Ratio	2.75	2.70	3.39	3.66	3.72	5.39	5.47	5.81	4.71	4.03
Return on Capital(%)	1.57	(0.03)	(5.99)	(10.03)	(5.86)	3.84	0.93	2.28	(0.27)	(2.99)
Employees (Nos)	1699	1904	2088	2205	2296	2383	2429	2489	2568	2649
Per Capita Sales	9.48	10.55	9.18	7.30	7.45	9.54	10.22	8.19	6.15	6.92

* Includes Extra Ordinary Items/Interest Income

DIRECTORS' REPORT

To
The Members
HMT Limited
Bangalore

Dear Members,

The Annual Accounts of the Company for the year 2011-12 along with the Auditors' Report and the Comments of the Comptroller & Auditor General of India are attached to this Report.

CORPORATE PERFORMANCE

The Indian macroeconomic overview reported that the economic growth in the Country decelerated during the year 2011-12 showing a drop from 7.7 per cent in the first quarter to 6.9 per cent in the second quarter and further down to 6.1 per cent in the third quarter & lastly to 6.9 per cent in the fourth quarter. Overall Growth decelerated significantly to 6.1 per cent in the third quarter of last year, although it is expected to have recovered moderately in the fourth quarter. Based on current assessment, the economy is clearly operating below its post-crisis trend. India's GDP growth rate slowed to 6.9 per cent in 2011-12 against 8.4 per cent in the previous two financial years.

On the demand side, gross fixed capital formation contracted both in the second and third quarters of the year 2011-12, and on the other hand, the share of gross Fixed Capital Formation (GFCF) in GDP was down by almost 1 percentage point (from 30.4 per cent to 29.5 per cent). The more recent data on industrial production suggest that activity may have expanded at a slower pace than last year.

Looking ahead, the overall growth outlook for the current year appears to be marginally better than it was last year.

Accordingly, a projection of GDP growth for the current year is 7.3 per cent. Prospects for agriculture are encouraging. The assessment of leading indicators suggests that the overall situation of monsoon for the year 2012 may be near normal. Growth may have bottomed out in the 3rd Quarter of 2011-12, but recovery ahead is likely to be slow. Revival in the industrial sector hinges on the impetus to ease supply-side constraints, especially in the energy and mineral deficits. Government initiatives to revive the power sector would lead to reviving the growth momentum.

On the Company's main business portfolio of Tractors, the market indicators reveal that the industry recorded growth of 4% in terms of quantity, but there was a negative growth in value terms to 10% during the year under review. As a result, your Company also had to face severe pressure on performance during the year. Your Company recorded a Production of ₹ 182.98 Crore (4453 Nos. of Tractors) as against ₹ 187.24 Crore (4812 Nos. of Tractors), in the previous year, and Sales of ₹ 161.12 Crores (3639 Nos. of Tractors) compared to ₹ 200.86 Crores (4920 Nos. of Tractors) in the previous year.

HMT Group along with its Subsidiaries achieved an aggregate Production of ₹ 428.83 Crore and Sales of ₹ 449.67 Crore for the year 2011-12. The overall performance was marginally better than that of the previous year.

OPERATING RESULTS

Your Company achieved a Gross Margin of ₹ 11.77 Crore during the Year under review as compared to the Gross Margin of ₹ 3.71 Crore in the previous year. The Operations of your Company resulted in a Net Loss of ₹ 82.20 Crore during the year 2011-12, when compared with ₹ 79.24 Crores recorded in the previous year, which was mainly due to the higher interest burdens on account of Loans availed from the Govt of India under various heads. The financial highlights for the year 2011-12, are as under:

FINANCIAL HIGHLIGHTS

(₹ in crore)

Particulars	2011-12	2010-11
Gross Profit/(Loss) (PBITD)	11.77	3.71
Depreciation & Amortization	4.40	3.87
Finance Cost	89.55	79.08
Profit/(Loss) before PPA	(82.18)	(79.24)
Less: Prior Period Adjustments (PPA)	0.02	-
Net Profit/(Loss) before tax	(82.20)	(79.24)
Tax Provision (Net)		
Net Profit/(Loss) after tax	(82.20)	(79.24)
Net Profit/(Loss) carried to Balance Sheet	(82.20)	(79.24)

DIVIDEND & PROVISIONS

Owing to the losses incurred during the year, the Directors are unable to recommend any dividend on the paid up equity share capital. Hence, no reserve has been created for Bonds redemption as required.

FINANCIAL POSITION

Due to liquidity constraints, the production value of Tractors remained at ₹ 182.98 Crore during the year under review. Further, the high interest on account of loans availed from Government of India to discharge liabilities, affected the bottom line to a large extent.

During January 2012, your Company received financial assistance in the form of Non Plan Loan of ₹ 38 Crore from the Government of India, for meeting the urgent working capital needs of the Tractor Division, which helped improve the Production in the last Quarter of the year under review.

FUTURE OUTLOOK

Two distinct trends are emerging in the Indian tractor market, first being the increase in market share of low HP tractors. Although low HP tractors have only a negligible

presence even now, the segment has more than doubled its market share in the past three years. There is an inherent expansion in tractor demand in this segment because of shortage of farm labour/increase in wage rates due to alternative employment opportunities available to workers under National Rural Employment Guarantee Act leading to increased tractor viability even for small/medium size land owners. Low HP tractors are also affordable for farmers with small land holdings that make them a viable option.

Growth in the segment is expected to remain buoyant because of increased application of lower HP tractors for smaller grounds, narrow spaces, orchards and cropping, etc.

The other trend that is evident is increased use of tractors in infrastructure and construction sectors which has led to a huge growth in purchase of higher HP tractors. High growth in this segment is expected to continue because of the following:

- Replacement demand turning towards higher HP tractors.
- Increased usage of tractors for non-agricultural applications across India

The Industry growth is projected at 8-12 per cent for current financial year 2012-13, with the monsoon being normal.

The Tractor Industry will continue to grow in the year 2012-13 due to thrust of Govt. on Agriculture and infrastructure. The growth drivers of Tractor Industry such as boost in rural economy, increased focus on agriculture and rural development, credit availability, shorter replacement cycle, several policy initiatives by the Government, etc., are aiding the growth trends. Tractor sales are expected to witness growth of 8 - 10% during the year 2012-13. The demand for I.P.Engnes is also expected to grow substantially due to shortage of power across the Country and installation of cellular towers by the Mobile telephone operators.

The Tractor Business Group of your Company has already initiated a host of measures towards performance

improvement in right earnest, by appointment of new Distributors and Dealers in potential areas/territories, up gradation of the tractor engines for compliance to new emission norms for all models of tractors, entering into MoUs with Banks/Financing Agencies for priority loan sanction for the purchase of HMT Tractors, dynamic business strategies, etc., which are expected to yield results in the current financial year.

The future plans of your Company envisages plant modernization and technology upgradation which will contribute to better productivity and give a thrust to the growth trends in the coming years. A Business Plan has been prepared in association with a reputed Consultancy Firm, which comprises of various strategic initiatives to sustain the operations and achieve growth and has been recommended by the Board for Reconstruction of Public Sector Enterprises (BRPSE) in the form of a Revival Plan and is being processed for approval by the Government of India.

SUBSIDIARY COMPANIES

- **HMT Machine Tools Limited**

The Subsidiary achieved Sales of ₹ 240.46 Crore and Production of ₹ 218.17 Crore with a Net loss of ₹ 46.14 Crore during the year 2011-12. The Subsidiary has implemented the revival plan proposals and plant upgradation. The Subsidiary is also pursuing with various agencies for extending the reliefs and concessions sanctioned by the BIFR under the Rehabilitation Scheme. Some of these Parties including the Consortium of Banks have preferred appeals against the reliefs and concessions sanctioned by the BIFR, which is being contested by the Subsidiary. The Merger of Praga Tools Ltd, Hyderabad, with the Subsidiary, which was part of the sanctioned Scheme of BIFR has since been completed.

- **HMT Watches Limited**

This Subsidiary could not show significant improvement in performance during the year under review. Major factors

affecting the performance of this Subsidiary were paucity of working capital, erosion of trade channel and high cost of borrowings. Despite these constraints, this Subsidiary could achieve a Sales level of ₹ 10.24 Crore and Production of ₹ 13.04 Crore during the year under review. The Net Loss for the year stood at ₹ 224.04 Crore as compared to ₹ 253.74 Crore incurred during the previous year. The Revival Plan in respect of this Subsidiary has been submitted to the Government based on the business plans prepared by a reputed Consultancy Firm. The Subsidiary was able to reduce its manpower by introduction of VRS, funded by Government of India (GoI) Loans. A total of 124 employees have been retired by the Subsidiary under VRS during the year 2011-12 involving an outgo of ₹ 26.29 Crore, thereby reducing its manpower strength to 1219 as on 31.3.2012.

- **HMT Chinar Watches Limited**

The performance of this Subsidiary could not be sustained at optimum levels due to the disturbed situation prevailing in the J&K Valley apart from working capital constraints for production. Majority of the employees have been separated on VRS leaving about 111 employees at Srinagar and Jammu Units of the Subsidiary. Under these circumstances, the Subsidiary's Sales was limited to ₹ 0.08 Crore during the year compared to ₹ 0.10 Crore in the previous year, with NIL Production for the year. In view of the virtual non operating levels, the Subsidiary incurred a Net loss of ₹ 44.04 Crore during the year.

- **HMT (International) Limited**

The export Subsidiary achieved a turnover of ₹ 32.40 Crore as against ₹ 27.89 Crore recorded in the previous year, i.e. 2010-11, registering a growth of 16%. The Order procurement during the year also showed a satisfactory increase at ₹ 37.98 Crore as against ₹ 27.45 Crore achieved in the previous year, registering a growth of 38%. With the increased Turnover levels, the Subsidiary was able to achieve the Profit Before Tax (PBT) of ₹ 1.74 Crore as against

₹ 0.31 Crore achieved in the previous year, thereby continuing the trend of achieving profits. The Subsidiary has maintained its consistent dividend payment record and has recommended a dividend of 20% for the year 2011-12 on its Paid-up equity share capital.

- **HMT Bearings Limited**

During the year under review, your Company was able to achieve a Sales of ₹ 16.12 Crore, registering growth of 40% as against the Previous Year's Sales of ₹ 11.48 Crore. In terms of Production also, the Company was able to achieve ₹ 14.64 Crore registering a growth of 30% as compared to the Previous Year's Production level of ₹ 11.24 Crore.

The Revival Plans of this Subsidiary has been prepared and submitted for consideration by the Government through the BRPSE. Meanwhile, the bankers to the Company holding security in the form of immovable properties have initiated action against the mortgaged property under the SARFAESI Act and the matter is now pending before DRT, Hyderabad, in appeal.

ASSOCIATE /JOINT VENTURE COMPANY

SUDMO-HMT Process Engineers (India) Limited

Business was not transacted by this Joint Venture Company during the year under review. For the financial year 2011-12, this Company showed a Profit after tax of ₹ 0.91 Lakhs on account of the interest income of ₹ 3.36 lakhs, out of the Fixed Deposits kept with the Banks. The Company is in the process of re-starting the operations of this Company.

Gujarat State Machine Tools Corporation Ltd

This Joint Venture Company between HMT and GIIC Ltd has discontinued its operations since long. It is therefore proposed to divest from this Associate Company jointly with the JV Partner. The process of disinvestment is under

consideration by the Company in consultation with the JV Partner.

CONSOLIDATED FINANCIAL STATEMENTS

As required under the Listing Agreement, Consolidated Financial Statements of the Company along with that of the Subsidiaries for the financial year 2011-12, conforming to the applicable Accounting Standards, are attached to this Report along with the Auditors' Report on the same.

In terms of the General Circular No. 2/2011 dated 8th February, 2011, issued by the Central Government in terms of Section 212(8) of the Companies Act, 1956, the Directors have consented not to attach copy of the Balance Sheet, Profit and Loss Account, Report of the Board of Directors and Auditors of the five (5) Subsidiary Companies viz., HMT Machine Tools Limited; HMT Watches Limited; HMT Chinara Watches Limited; HMT Bearings Limited and HMT (International) Limited to the Balance Sheet of the Company (Holding Company). However, these documents will be made available upon request by any member of the Company and Subsidiary Companies interested in obtaining the same. Further, in compliance with the conditions of the above referred Government circular, the financial information of each of these subsidiary Companies have been furnished as part of the Consolidated Balance Sheet of the Company. The annual accounts and other detailed information of each of the Subsidiary Companies will be available for inspection by any member at the Registered Office of the Company. A statement pursuant to Section 212(1) of the Companies Act, 1956, in respect of each of the Subsidiary Companies is attached to this report.

HUMAN CAPITAL

Information in accordance with the provisions of Section 217(2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees), Rules, 1975, as amended, is NIL for the year 2011-12.

The employee strength of the Company as on March 31, 2012, stood at 1699 Nos. as compared to 2088 Nos. at the

end of the previous year. There are 340 employees in the Officer Cadre and 1359 Non-Executive in Workmen cadre. The number of employees on the rolls of the Company as on March 31, 2012 in SC/ST, Ex-servicemen, Physically Handicapped and Women Employee Categories etc. is detailed below :

Scheduled Castes	397
Scheduled Tribes	57
Other Backward Classes	117
Ex-Servicemen	4
Persons with Disabilities	16
Women employees	48
Minorities	258

INDUSTRIAL RELEATIONS

The overall Industrial Relations situation in the Company during the year remained cordial.

IMPLEMENTATION OF OFFICIAL LANGUAGE

The efforts towards implementation of Official Language Act, Rules & Policy as per the directives of the Government in the Company is continuous. The Official Language Implementation Committee have been constituted in all the Units of the Company and the Subsidiaries, including the Corporate Office at Bangalore to monitor implementation of Official Language Act, Rules, Policy, etc. which meets at regular intervals in every quarter.

In order to propagate the usage of Hindi as Official Language, "HINDI DIWAS/HINDI FORTNIGHT" was observed during the month of September, 2011. Various competitions in Hindi such as Hindi Story Writing, Hindi News Paper Reading, Hindi Quiz Writing, Hindi Conversation, Hindi Antyakshari, etc., were organized and participants were awarded prizes. A workshop was organised during the above period. The Hindi Magazines/Newspapers are being procured to propagate the usage of Hindi among employees. The concerned Officials of the Company regularly take part in the meetings of the Town Official Language Implementation Committee. The Company also sponsors some of the Hindi competitions under Bangalore Town Official Language Implementation Committee.

VIGILANCE ACTIVITIES

The Chief Vigilance Officer appointed by the Government of India heads the Corporate Vigilance Department of the Company. The Chief Vigilance Officer is assisted at Unit level by Assistant Vigilance Officers appointed specifically for this purpose. The Corporate Vigilance Department carries out vigilance functions in the Company as well as in the Subsidiaries. The vigilance functions in the manufacturing Units and Marketing Offices are looked after by Vigilance Officers, under the guidance of Chief Vigilance Officer.

The Unit Vigilance Officers submit monthly vigilance and inspection reports to CVO. The reports so received are scrutinized at CVO Office for further action. Unit Vigilance Officers also verify Annual Property Returns submitted by the Unit level Officers. Apart from regular inspections by Unit Vigilance Officers, CVO conducts CTE type surprise and regular inspections of high value purchase /contracts and systems. Violations of rules and procedures, if any, observed during the inspection of files by CVO/Unit VOs are pointed out and comments of the concerned officers obtained. Wherever required, appropriate action against the concerned officers are recommended, instructions issued to the effect that the violations of rules and procedures pointed out by the Vigilance Department do not recur.

In line with CVC's direction, emphasis was laid on preventive vigilance by striving towards strict adherence to all procedures and norms of transparency in tendering process. CVC's guidelines for 'Improving vigilance administration by leveraging technology and increasing transparency through effective use of website' are considered. Some of the systems put in place by the Company are:

1. Hosting of all open tenders and high value Limited Tenders on www.tenders.gov.in (website of GoI).

2. Publishing details regarding all purchase orders / contracts concluded during the month, above the threshold value (presently ₹ 5.00 lakhs).

3. Application form for vendor registration along with list of items required by different Units of the Company and Subsidiaries are made available on Company website so as to enable the interested vendors to download the application form and submit the same to the Unit of their choice. Efforts are being made for periodical uploading of status of every vendor application on website.

4. Wherever possible Company has adopted e-payment mode for remittance.

Quarterly vigilance workshops were organized at all manufacturing Units to enhance the level of vigilance awareness among the employees and other stakeholders. Vigilance Awareness Week 2011 was observed in all Units and Offices of the Company and Subsidiaries as per the guidelines of CVC.

CORPORATE GOVERNANCE

Pursuant to Clause 49 of the Listing Agreement with the Stock Exchanges, a Report on the Corporate Governance is annexed as part of this Report along with the Compliance Certificate from the Auditors. A Report on Management Discussion and Analysis is also appended to this Report separately. Further, a declaration by the Chairman & Managing Director for having obtained affirmation of compliance of the Code of Conduct by the Board Member (s) and Senior Management for the year ended March 31, 2012, is also appended.

The Audit Committee could not be reconstituted as per Cl. 49 of the Listing Agreement in the absence of Independent Directors to be appointed by the Government on the Board.

The Register of Members and Share Transfer Records both in respect of the shares held in physical and depository

form are maintained by Karvy Computershare Private Limited, the Registrars & Share Transfer Agents of the Company.

INFORMATION REGARDING CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE EARNINGS AND OUTGO

Particulars in respect of conservation of energy, technology absorption and foreign exchange earnings and outgo, as required under the Companies (Disclosures of Particulars) Rules, 1988, are annexed to this Report.

DIRECTORS RESPONSIBILITY STATEMENT

Pursuant to Sub-Section (2AA) of Section 217 of the Companies Act, 1956, the Board of Directors hereby state and confirm that:

- In the preparation of the Annual Accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures;
- 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/loss of the Company for that period;
- The Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
- The Directors have prepared the annual accounts on a going concern basis.

AUDITORS

M/s S.R.R.K.Sharma , Bangalore, were appointed as Statutory Auditors of the Company for the year 2011-12 by the Comptroller & Auditor General of India. Three firms of Chartered Accountants were also appointed as Branch Auditors for the other Units/Divisions of the Company. M/s Khurana & Co., Cost Accountants were appointed as Cost Auditors for the year 2011-12 in respect of "Tractors".

Replies to the observations by the Statutory Auditors in their Report are given by way of an addendum to this Report.

DIRECTORS

Vide Presidential Order No. 5(32)/2009-P.E.X dated 19th September 2011 issued by the Department of Heavy Industry, Shri S.G. Sridhar, Director (Operations) has been appointed as the Chairman & Managing Director of the Company for a period of five years from the date he assumes the charge of the post or till the date of his superannuation or until further orders, whichever is earliest. Shri Sridhar took charge of the Post on September 19, 2011.

Shri Harbhajan Singh, Director, retires by rotation at the ensuing Annual General Meeting and is eligible for re-appointment.

The Ministry of Heavy Industries and Public Enterprises, Department of Heavy Industry, New Delhi has appointed Dr. Vijay Shankar Madan, Additional Secretary and Financial Advisor as a Director on the Board of the Company with effect from 18.07.2012 Vice Shri Saurabh Chandra, Director.

Shri Antony Chacko was appointed as Director (Operations) in the vacancy caused by the elevation of Shri S.G. Sridhar as Chairman & Managing Director vide presidential order F.No. 5 (33)/ 2011P.E.X. dated 16.07.2012. He assumed charge of post on 23-08-2012.

Pursuant to Article 67(4) of the Article of Association of the Company and Section 255 read with Sections 257 and 262 of the Companies Act, 1956, as amended, Dr. Vijay Shankar Madan who was appointed as Directors of the Company, who retires by rotation at ensuing Annual General Meeting and is eligible for re-appointment.

The Directors wish to place on record the services rendered by Shri Saurabh Chandra, Director.

ACKNOWLEDGEMENTS

Your Directors are thankful to the various Departments and Ministries in the Government of India, particularly the Department of Heavy Industry, Ministry of Corporate Affairs, Comptroller and Auditor General of India, Principal Director-Commercial Audit, Statutory and Branch Auditors, various State Governments, Foreign Collaborators, the Subsidiary Companies, Suppliers, Reserve Bank of India, the Consortium of Banks lead by UCO Bank and the valued Customers of the Company both in India and abroad for their continued co-operation and patronage.

Your Directors would also like to take this opportunity to express their appreciation for the contributions made by the Company's employees and look forward to their continued services in pursuit of building a world class Indian Company.

For and on behalf of the Board of Directors



(S. G. Sridhar)

Chairman & Managing Director

ADDENDUM TO DIRECTORS' REPORT FOR THE YEAR 2011-12 IN RESPECT OF OBSERVATIONS MADE BY STATUTORY AUDITORS ON THE ACCOUNTS OF HMT LIMITED FOR THE YEAR ENDED 31ST MARCH 2012.

Ref.	Statutory Auditors' Observations	Company's Reply
D.1	<p>The Company has made long term investments aggregating to ₹. 1.66 Crores in subsidiary company, viz., HMT Chinar Watches Limited, whose net worth has eroded and this company is suffering continuous losses. Market value of the assets of this company, results and expected cash flows from these investments is not ascertained. In view of the above deficiencies, in our opinion, there is a total decline in the value of this investment, which is other than temporary. No provision for above diminution is made. This is in contravention of the requirement of AS-13 prescribed under Companies (Accounting Standards) Rules, 2006, resulting in the understatement of loss for the year & cumulative loss and overstatement of investments to that extent.</p>	<p>Since Government of India is making arrangement to address the issues of HMT Chinar Watches Limited, the carrying cost of the long-term investment in HMT Chinar Watches Limited does not call for making any provision for diminution in their value.</p>
D.2	<p>The company has also given loans and advances to the subsidiary stated in clause above and the aggregate dues from them as at 31st March 2012 amount to ₹. 76.65 Crores. In view of our observations made above, these dues should have been considered as doubtful of recovery requiring provision for the same. Consequently loss for the year & cumulative loss is understated and loans and advances are overstated to that extent.</p>	<p>The dues from Subsidiary is fully realizable. The total dues from the Subsidiary stood at ₹ 76.65 Crores as on 31.03.2012.</p>
D.3	<p>Certain balances under Trade payables, other current liabilities, Trade receivables, loans and advances are subject to confirmation and reconciliation. These balances include certain old balances requiring review and reconciliation. Consequential loss for the year & cumulative loss is understated and loans and advances are overstated to that extent.</p>	<p>The confirmation & Reconciliation of balances from Sundry Debtors, Other Liabilities, Loans & Advances and Sundry Creditors are obtained in all major cases. Disclosure has been made to this effect in the Notes to Accounts.</p>

Ref.	Statutory Auditors' Observations	Company's Reply
D.4	<p>During the years 2002-03 and 2003-04, the company had sold certain lands vested with HMT Machine Tools Limited, a subsidiary company for a consideration of ₹. 36.57 Crores and the profit on sale of such land amounting to ₹. 36.55 Crores were accounted by the company. The company had an understanding with the subsidiary to adjust the consideration by transferring land of equivalent value. However the company is yet to identify equivalent land for the said value for transfer to HMT Machine Tools Limited. This fact has not been disclosed in the financial statements.</p>	<p>Based on MoU entered into between HMT Limited (Holding Company) & HMT Machine Tools Ltd (Subsidiary Company), HMT Limited had sold certain lands during 2002-03 & 2003-04, vested with HMT Machine Tools Ltd, and the profit on sale of such land were accounted by the Company. As per the MoU, the Company has to identify & transfer equivalent land for the said value. The Company has to identify the lands for transfer to HMT Machine Tools Ltd.</p> <p>This fact will be disclosed in the Financial Statements of the Company during the current financial year 2012-13.</p>

For and on behalf of the Board of Directors



(S.G.Sridhar)
Chairman & Managing Director

MANAGEMENT DISCUSSION & ANALYSIS

A) Industry Structure and Development

General Economic Environment:

The global economic environment, which has been tenuous at best throughout the year, turned sharply adverse during the middle of the year. However, for the Indian economy, the outlook for growth and price stability at this juncture looks more promising. There are signs that the weakness in economic activity has bottomed out and a gradual upswing is imminent.

The Indian economy is estimated to have grown by 6.5 per cent in the year 2011-12, after having grown at the rate of 8.4 per cent in each of the two preceding years. The economic growth for the year has been at 2.8 per cent in agriculture & allied activities, 3.4 per cent in industry and 8.9 per cent in services as compared to a growth of 7.0 percent, 7.2 per cent and 9.3 per cent respectively reported during 2010-11.

Growth in factory output, as measured by the Index of Industrial Production (IIP), was 5.3 per cent in April last year. The manufacturing sector, which constitutes over 75 per cent of the index, grew by 0.1 per cent, as against 5.7 per cent in April 2011. The capital goods output declined by 16.3 per cent as against a growth of 6.6 per cent in the same month last year. In all, 12 of the 22 industry groups in the manufacturing sector have shown positive growth during April as compared to the same month a year ago. The output of basic goods went up by only 2.3 per cent in April, as against 7.1 per cent in the same month last year. However, intermediate goods witnessed a contraction of 1.4 per cent as against a 3.9 per cent growth in April last year.

Growth Outlook

GDP growth for 2011-12 suggests 7.6 per cent on the basis of the macro-economic situation prevailing. However, facing

the domestic economy was inflationary pressures, which resulted in high interest rates and global uncertainty, the outlook for Agriculture in 2012-13 is encouraging.

Increased global uncertainties, lower availability of credit and higher input costs are seen to be the significant factors affecting the overall business sentiment. Survey results on future expectation index indicate slow growth while inflation is expected to show gradual moderation.

Industry Structure and Developments & Tractor Industry in India

Tractor industry (Inland) registered growth of 11 % during 2011-12 over the year 2010-11. This growth evidently was due to support from the Government of India (GOI) towards rural development and Farm mechanization; scarcity of farm labour especially during the sowing season; increase in credit flow to agriculture; increase in non-agri application of tractors in infrastructure projects; growth in power segments (<20HP and >50HP) besides healthy export sales.

The top three companies are enjoying approx. 73 % of the total market share of Tractor industry. A comparative study of the segment-wise growth of the Tractor Industry over that of the previous year, is given below:

- Ø Below 20 HP tractors which has 1.2% share of total market showed growth of 49%
- Ø 20 HP to 30 HP tractors which has 12.5% share of total market showed growth of 8%
- Ø 31 HP to 40 HP tractors which has 41.3% share of total market grew by 11%
- Ø 41 HP to 50 HP tractors which has 28% share of total market grew by 9%
- Ø Above 51 HP tractors which has 17% share of total market grew by 113% which is the highest growth segment

The tractor Industry will continue to grow in the current financial year 2012-13 due to thrust of the Govt. on Agriculture and infrastructure. However, there will be fatigue in growth due to economic slow down and cyclic nature of growth in Tractor industry. Tractor sales are expected to witness growth of 8 - 10% during 2012-13. Demand for I.P.Engines will go up due to shortage of power and installation of cellular towers.

General economic environment along with Tractor Industry in India

Slow down in economy due to international economical conditions and impact of inflation. GDP growth is expected to be 7 – 7.5% during 2012-13. The tractor Industry is expected to witness moderate 8 – 10% growth which will be lower than that of the previous year. Tractors in higher HP segment will record good growth due to the demand from Infrastructure projects.

B) Opportunities

- Good growth of Inland Tractor Industry i.e 8% to 10% in 2011-12.
- Demand of higher HP tractors due to infrastructure projects.
- Demand of PTO driven implements like Rotavator increasing.
- Growth in exports especially to African & Asian countries.
- Demand for I.P engines for GenSet, mobile communication towers and power generation.

C) As Industry growth rate during 2011-12 truncated to 11% compared to 24% in previous year, the Company also followed the growth momentum and showed a de-growth in performance during the year under review. During the year, your Company achieved a Production level of ₹ 182.98 Cr (4453 Nos. of Tractors) as against ₹ 187.24 Cr (4812 Nos. of Tractors) recorded, in the previous year.

D) Financial Performance

The turnover for the year 2011-12 stood at ₹ 161.12 Cr. and the Company incurred a Net loss of ₹ 82.20 Cr.

The total borrowing position of the Company as on 31.3.2012 stood at ₹ 531.33 Cr. which includes ₹ 417.62 Cr. of Government of India Loan.

E) Internal Control Systems and Their Adequacy

The Company has in place adequate systems of Internal Control commensurate with its size and nature of its operations. The salient features of internal control systems are:

- Clear delegation of power with authority limits for incurring capital and revenue expenditure.
- Well laid down corporate policies for accounting, reporting and Corporate Governance.
- Safeguarding assets against unauthorized use or losses or disposition, and ensuring that the transactions are authorised, recorded and reported correctly.
- Process for formulating and reviewing annual and long-term business plans have been laid down.
- Detailed Annual budget giving further break up of monthly targets under various heads.
- Continuous review of the performance by the Core Committee with reference to the budgets on an ongoing basis.
- Compliance with laws and regulations.

The Internal Audit Department of the Company along with external firms appointed for carrying out internal audits of Units/Divisions reviews, evaluates and appraises the various systems, procedures/policies laid down by the Company and suggests meaningful and useful improvements.

Internal Audit Department coordinates with the Units/ Divisions of the Company for ensuring coverage of all areas of operations in order to bring about transparency within the whole spectrum of the Company.

The Audit Committee reviews the Audit Report submitted by the Internal Auditors. Suggestions for improvement are considered and the Audit Committee follows up on the implementation of corrective actions. At present the Audit Committee is awaiting to be reconstituted after appointment of Independent Directors on the Board by the Government.

The Committee also meets the Company's Statutory Auditors to ascertain, inter-alia, their views on the adequacy of internal control system in the Company and keeps the Board of Directors informed of its major observations from time to time. Meetings of the Audit Committee could not held during the year pending reconstitution.

F) HUMAN RESOURCES

As on 31.03.2012, the Company including its Subsidiaries had a total workforce of 6441 employees, which comprised of various categories of employees at the manufacturing plants and other Offices in Technical and other Professional areas as detailed below:

Company	SUBSIDIARY WISE QUALIFICATION DETAILS As on 31.3.2012							
	IP as on 31-03-12	Engg. Gradu ates	Diploma Holders	Professionals		ITI/ NAC	General Graduates	Others
HMT Limited	1699	56	150	4	9	1013	161	306
HMT MTL	3278	290	584	23	31	1379	249	722
HMT WL	1219	27	114	4	-	101	153	820
HMT CWL	111	-	1	-	-	26	11	73
HMT BLH	74	7	13	1	-	27	6	20
HMT (I) L	60	17	3	1	1	-	35	3
Total	6441	397	865	33	41	2546	615	1944

The Company has taken suitable measures to reduce the Manpower Costs by implementing several austerity measures.

Rationalization of surplus manpower and implementation of Voluntary Retirement Scheme (VRS) are in progress in some of the Subsidiary Companies. The VRS is in operation in Subsidiaries viz., HMT Watches Ltd and HMT Chinara Watches Ltd and the same is being extended from time to time based on availability of funds from Government, in order to encourage maximum number of employees to separate from the Company. The number of employees separated under the VR Scheme in the Subsidiary Companies viz., HMT Machine Tools Ltd, HMT Watches Ltd., HMT Chinara Watches Ltd and HMT Bearings Ltd., during the last four years is given below:

Sl. No.	Company	No. of employees opted VRS				
		2008-09	2009-10	2010-11	2011-12	Total
1.	HMT Machine Tools Ltd	101	-	-	-	101
2.	HMT Watches Ltd.	-	-	462	124	586
3.	HMT Chinara Watches Ltd.	241	80	19	-	340
4.	HMT Bearings Ltd	-	-	104	-	104
	Total	342	80	585	124	1131

Surplus manpower in certain areas has been deployed under re-deployment scheme by providing training and re-training to the employees and posting them in thrust areas to meet the goals of the organization. Currently various measures are being taken to address the twin issues of attracting and retaining talent in the context of the dynamic market scenario where the financial expectations of job holders have undergone a radical change in the recent years. The Company is trying its best to retain the skilled and professionally qualified personnel to arrest further attrition.

INDUSTRIAL RELATIONS

The Industrial Relations situations in the Company during the year remained cordial.

CORPORATE GOVERNANCE

In compliance with Clause 49 of the Listing Agreement with the Stock Exchanges and as per the applicable provisions of the Companies Act, 1956 as amended from time to time, your Directors submit their report on the matters mentioned in the said Clause and practice followed by the Company.

The Company has been following good Corporate Governance practices like striking reasonable balance in the composition of the Board of Directors, setting up of Audit Committee and other Committees, adequate disclosure of information and business to be deliberated by the Board, etc.

II BOARD OF DIRECTORS

As on March 31, 2012, the Board of Directors comprised of

Chairman & Managing Director and two part-time Official Directors. Currently the position of 3 part-time Non Official (Independent) Directors are vacant.

The day-to-day management of the Company is conducted by the Chairman & Managing Director and under the supervision and control of the Board of Directors.

During the year 2011-12, six (6) Board Meetings were held on May 16, July 25, August 12, October 04, November 18 in the calendar year 2011 and on January 24 in the calendar year 2012.

The composition of Directors and their attendance at the Board Meetings and at other Meetings during the year are:

III COMMITTEES OF THE BOARD

A. AUDIT COMMITTEE

The Audit Committee of the Board had been re-constituted from time to time with the induction of Independent Directors appointed on the Board by the Government. The Audit

Name	Category	Attendance particulars		Number of other Directorships and Committee Member/ Chairmanships held		
		Board Meetings	Annual Meetings	Directorship Chairmanship	Committee	
					Membership	Chairmanship
S.G. Sridhar	C & MD	6	Yes	7	-	-
Harbhajan Singh	NENI	6	-	7	-	-
Saurabh Chandra	NENI	5	-	5	9	-

C: Chairman & Managing Director, ENI: Executive & Non Independent, NENI: Non Executive & Non Independent, NEI : Non Executive & Independent, NA: Not Applicable

Committee was last reconstituted on January 24, 2009 with Shri S.K. Tuteja, Part-time Non Official (Independent) Director as Chairman, Shri S. Behuria, Part-time Official Director, Shri K. Kipgen, Part-time Non Official (Independent) Director and Shri S.G. Sridhar, Director (Operations) as Members and Director (Finance) as permanent invitee and

Company Secretary as Convener. Further, in view of cessation of Shri S.K.Tuteja as Part-time Non Official (Independent) Director w.e.f.11.2.2010 the committee does not reflect the full compliment of members as envisaged in the Listing Agreement (Clause 49).

However, in view of the cessation of the Independent Directors and non induction of new incumbents to these positions, the Audit Committee could not be duly reconstituted as per the requirement of the Listing Agreement (Clause 49). Further action for reconstitution will be taken after appointment of Independent Directors on the Board by the Government.

B. REMUNERATION TO DIRECTORS

The details of remuneration of whole time Directors are given below:

Name of Director	Salary (₹)	Other Benefits (₹)	Total (₹)
S.G. Sridhar, CMD	759802	151858	911660

No sitting fee is payable to any of the Directors except Part-time Non-Official (Independent) Directors. An amount of ₹ 2000/- per meeting for the Board and ₹ 1000/- for each (Committee Meetings) is being paid as sitting fee to the Part time Non-Official (Independent) Director for attending the Board and Committee Meetings.

- The salary of the whole time Directors does not include performance-linked incentive except amount payable as per the productivity linked incentive scheme of the Company.

C. SHARE TRANSFER SUB -COMMITTEE

The Share Transfer Committee comprises of the Chairman and Managing Director as a single member to look after transfer/transmission of shares issued by the Company, issue of duplicate certificates and certificates after split/consolidation/renewal apart from confirmation of dematerialization of shares on transfer to a depository four meetings were held during the year 2011-12.

Name of the Compliance Officer:

Shri U. Jagadish Nayak,
General Manager & Company Secretary

D. THE SHAREHOLDERS/INVESTORS GRIEVANCE COMMITTEE

During the year ended March 31, 2012 there was only one complaint received from Shareholder which has been resolved during the year itself.

Number of pending Share Transfers - **NIL**

IV GENERAL BODY MEETINGS

The last three Annual General Meetings were held as under:

Financial year	Date	Time	Venue
2008-2009	30.09.2009	10.30 a.m	Registered Office at No 59, Bellary Road, Bangalore-560 032.
2009-2010	29.09.2010	10.30 a.m	
2010-2011	30.09.2011	10.30 a.m	

V DISCLOSURES

- There were no transactions of material nature with its Promoters, the Directors or the Management, their Subsidiaries or Relatives etc., which may have potential conflict with the interest of the Company at large.
- There were no instances of non-compliance by the Company, penalties, strictures imposed on the Company by the Stock Exchange or SEBI or any statutory authority or any matter related to capital markets during the last three years.
- There is no formal Whistle Blower Policy in the Company.
- Reconciliation of Share Capital Audit

A qualified practicing Company Secretary carried out a share capital audit to reconcile the total admitted equity share capital with the National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL) and the total issued and listed equity share capital. The audit report confirms that the total issued/paid-up capital is in agreement with the total number of shares in physical form and total number of dematerialized shares held with NSDL and CDSL.

VI SUBSIDIARY COMPANIES

The Minutes of the Board meetings along with a report on significant developments of the unlisted Subsidiary Companies are periodically placed before the Board of Directors of the Company.

VII MEANS OF COMMUNICATION

The Company has published its Quarterly Results as per the listing requirements in leading newspapers viz., Financial Express/Business Standard (English) and Vijaya Karnataka on August 13, 2011, November 19, 2011, January 25, 2012 and May 15, 2012. The above results are also displayed at the Company's website www.hmtindia.com. Pursuant to the directions of Securities & Exchange Board of India (SEBI), the Company has been submitting documents viz., Shareholding Pattern, Financial Results, Annual Report etc. in the Electronic Data Information Filing and Retrieval (EDIFAR) system, on the website of SEBI.

CEO AND CFO CERTIFICATION

In terms of Clause 49 of the Listing Agreement with the Stock Exchanges, the Certification by the CEO (Chairman & Managing Director) on the Financial Statements and Internal controls relating to financial reporting for the financial year 2011-12 has been obtained and was placed before the Board.

VIII GENERAL SHAREHOLDERS INFORMATION (Tentative)

- | | |
|--|---|
| i) Annual General Meeting | September 28, 2012
10.30 A.M at
No.59, Bellary Road
Bangalore - 560 032 |
| ii) Financial Calendar | |
| Year ending | March 31 |
| AGM in | September |
| iii) Book Closure | September 21, 2012 to
September 28, 2012
(both days inclusive) |
| iv) Listing of Shares and other Securities | 1. Bombay Stock
Exchange Limited,
Mumbai

2. National Stock
Exchanges of
India Ltd., Mumbai |
| (Annual Listing Fees for the year 2011-12 have been paid to the above Stock Exchanges) | |
| v) Stock Code No. | |
| Bombay Stock
Exchange Ltd., Mumbai | 500191 |
| National Stock Exchange
of India Limited,
Mumbai | HMT
ISIN No. INE 262A01018 IN |

Registrars & Share Transfer Agents	M/s. Karvy Computershare Private Limited. 46, Avenue 4, Street No.1, Banjara Hills, Hyderabad - 500 034.
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vi) Share Transfer System

The Share Transfer Committee of the Board meets at regular intervals, so that shares lodged for transfer are registered and dispatched back well within time limit prescribed in this respect under the listing agreements.

vii) Non-Mandatory Requirements

Being a Government Company, the appointment and fixation of terms and conditions of appointment of all Directors are made by the Government of India. As the Company's

financial results are displayed on the Website of the Company and published in the Newspapers, they are not separately circulated to all the shareholders. The Company is making endeavors to move towards a regime of unqualified financial statements. However, Company declares that no personnel have been denied the access to Audit Committee.

viii) The details of high/low market price of the shares at the Bombay Stock Exchange Ltd., Mumbai and at National Stock Exchange of India Ltd., Mumbai are as under:

Month	Quotation at Bombay Stock Exchange Ltd., Mumbai		Quotation at National Stock Exchange of India Ltd., Mumbai	
	HIGH	LOW	HIGH	LOW
April 2011	68.50	59.35	68.70	59.20
May	65.70	56.50	65.70	56.25
June	65.70	57.20	65.65	57.00
July	62.30	56.60	62.55	56.60
August	57.90	41.00	57.60	41.05
September	48.50	40.05	47.70	40.00
October	44.30	36.50	44.45	36.20
November	44.250	31.35	44.40	31.35
December	34.90	26.85	35.00	26.80
January 2012	49.70	29.65	48.40	29.50
February	53.50	40.60	53.70	40.10
March	50.35	36.20	50.50	38.05

ix) Distribution of Shareholding:

The shareholding distribution of Equity shares as of 31.03.2012 is given below:

Shareholding of nominal value of ₹	Share Holders		Share Amount Nominal Value (in ₹)	% to Total
	Number of Share Holders	% to Total No. of Share Holders		
Upto - 5,000	22765	90.19	30593440	0.40
5,001 - 10,000	1408	5.58	11672960	0.15
10,001 - 20,000	584	2.31	9019820	0.12
20,001 - 30,000	183	0.73	4731930	0.06
30,001 - 40,000	89	0.35	3193210	0.04
40,001 - 50,000	61	0.24	2895790	0.04
50,001 - 1,00,000	96	0.38	6957370	0.09
1,00,001 & Above	54	0.21	7534436880	99.09
TOTAL	25240	100.00	7603501400	100.00

x) Shareholding Pattern: as on 31.03.2012

Shareholders	No. of Shares	%
Indian Promoters		
(President of India and his nominees)	75,18,53,740	98.88
Financial Institutions/Mutual Funds/Banks	2,85,065	0.03
Other Body Corporates	16,41,478	0.22
Individuals	64,28,587	0.85
Non Resident Indians	73,216	0.01
Clearing Members ⁰	68,044	0.01
Foreign Institutional Investors	5,265	—
Total	76,03,50,140	100.00

(xi) Dematerialisation of Shares :

The Company's Shares are compulsorily traded in the electronic mode from June 26, 2000. As on 31st March 2012, 99.98 % of the Company's Shares representing 76,02,15,719 equity shares were held in dematerialised form and the balance 0.02 % representing 1,34,421 shares were in the physical form.

xii) Plant Locations

The Company's plants are located at Pinjore in Haryana, Hyderabad in Andhra Pradesh and Aurangabad in Maharashtra, the addresses of which are given below:

xiii) Address for correspondence:

The Company's Registered Office is situated at:

HMT Bhavan, No.59, Bellary Road,
Bangalore - 560 032,
Karnataka, India.

Pinjore - 134101
Dist. Panchkula, Haryana

Narasapur Road,
HMT Township P.O., Hyderabad - 500 854

H-2, MIDC, Chikalthana I.A,
Post Box No. 720, Aurangabad - 431 210

ANNEXURE TO THE DIRECTORS' REPORT

Section 217 (1) (e) of the Companies (Disclosure of Particulars in the Report of the Board of Directors) Rules, 1988

1. Conservation of Energy

Energy conservation Measures and Savings :

Energy efficient lighting system installed by replacing existing tube fittings in Tractors Plant. It will result in annual saving of 2,04,000 KWH of electricity i.e approximately ₹ 9.5 lakhs for the year 2011-12

- By installing translucent sheets in Main Stores approximately 200 nos. Tube lights kept switched off during 'D' shift resulting in annual saving of approx. 26880 KWH i. e ₹ 1.24 lakhs.
- By improving power factor, rebate on electricity bills amounting to ₹ 14.60 Lakhs has been availed from State Electricity Board.
- Portable Compressors are being run when less air is required.

2. Technology absorption

Product Technology

Tractor has following main aggregates & Technology enhancement /absorption is as under :

Engines

1. To achieve new emission norms (TREM IIIA) of reduced NOx , HC , CO & PM , the combustion improvement in engine Technology developed by design of new Piston with new bowl geometry adopted in existing HMT 4 Cylinder engine under back-up plan, to achieve new applicable emission norms with the inline fuel injection pumps using Turbocharger & Intercooler accessories.
2. The Integral weight crank shaft technology developed for new HMT series engines adopted & implemented on existing 3 & 4 cylinder engine crankshafts.
3. Direct mounting of fuel Injection Pump on Timing Gear of engine designed for new HMT series engines implemented on existing 2- Cylinder 25 HP engine.
4. In new sheet metal Bonnet, the sensing of all engine parameters like engine oil pressure, water temperature, engine rpm are converted from mechanical sensing to

electrical signal sensing successfully implemented in HMT 50 HP & HMT 65 HP Tractor models.

5. Technology of Exhaust Gas Recirculation is successfully developed & implemented to achieve new emission norms for below 50 HP Tractors by in-house R&D efforts.

Transmission:

1. Cerametallic dual clutch developed & successfully implemented on HMT 50 HP Tractor.
2. Oil immersed brakes developed for Direct axle (DX model) Tractor and successfully implemented on 50 Hp Tractor model 5022 DX.

Hydraulics:

Front Mounted hydraulic pump on engine the development work completed for HMT 60 HP engine.

Chassis:

The new improved arrangement of fuel tank mounting on chassis, the new mounting arrangement of battery box with shock-proof tray on front pan developed & implemented successfully.

3. Segment wise / product wise performance

HP Segment	2011-12
21-30	335
31-40	2256
41-50	436
Above 50	612
Total	3639

4. Performance for the year 2011-12 and Plan for 2012-13

Some of the notable achievements for the year are:

- Exponential growth in production from 127 nos in Dec. 2011 to 502 in Jan 2012, 622 in Feb. and 703 in March 2012.

- 30 No. 50 HP tractor model 5022 with oil immersed brakes marketed in Feb/March.
- Started productions for 65 HP TC Engine, compliant to TREM III A norms.
- Engine up-gradation for HMT 35 HP Engine completed.
- New style bonnet supply started on 50 HP and 65 HP tractors with electronic instrument panel, dry air filter and front mounted battery to improve market acceptability.
- 8 new distributors appointed i.e. M.P.-3, U.P.-1 Karnataka-1, Bihar -1, A.P.-1 and Maharashtra-1. Total no. of distributors increased to 14 no.
- 26 new dealers appointed and 16 non performing dealers terminated making total as 249 no. of tractor dealers, engine dealers-7 and 38 spare parts dealers.
- Cash Billing – 58 % in 2011-12 compared to 34.27 % in 2010-11.

PLAN FOR 2012-13:

- Remodeling 50 HP and 65 HP Tractors with new sheet metal styling to create market pull.
- Boosting sales through already appointed 14 distributors and further appointment of distributors during 2012-13.
- Dealers' network expansion through appointment of new dealers.
- Efforts for exclusive financial tie up with Public Sector banks to be continued during the year 2012-13.
- Developing HMT Silent Diesel Generating Set with rating of 25 KVA
- Development of new Tractor engine 55 HP to 75 HP
- Launching of Rotavators

Research, Development & Innovation:

Your company has a strong foundation in its engineering capabilities to bring about new models required for the industry segment. In its effort towards this end, it has released various variants of the product range that meets the market demand. Product and process innovations have resulted in bringing specific features ready products as per market expectations. Investments in R&D for the year are detailed below;

(₹ in Lakhs)

Description	2011 -12
Capital	120
Recurring	188
Total	308
Total R& D Expenditure as % of Turnover	1.91

CERTIFICATE ON CORPORATE GOVERNANCE

To

The Members of HMT Limited,

We have examined the compliance of conditions of Corporate Governance by HMT Limited ("the Company"), for the year ended on 31st March 2012, as stipulated in clause 49 of the Listing Agreement of the said Company with the stock exchanges.

The compliance of conditions of Corporate Governance is the responsibility of the management. Our examination 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.

The full complement of Independent Directors as required under clause 49 of the Listing Agreement have not been fulfilled and the Audit Committee was not re-constituted as per the requirement of the listing agreement.

Subject to the above, 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 in all material respects with the conditions of Corporate Governance as stipulated in the above mentioned Listing Agreement.

We state that no investor grievance is pending for a period exceeding one month against the Company as per the records maintained by the Shareholders / Investors Grievance Committee.

We further 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.

For M/s S R R K Sharma Associates
CHARTERED ACCOUNTANTS
(ICAI Regn.No.003790S)

Place: Bangalore
Date : 31-07-2012

CA S R R K Sharma
Partner (M.No. 018088)

DECLARATION BY THE CHAIRMAN & MANAGING DIRECTOR

WITH THE COMPANY'S CODE OF CONDUCT

This is to certify that:

The Company has adopted a Code of Conduct for its employees including the Chairman & Managing Director and Senior Management. A Code of Conduct for the Board Members and Senior Management and for the Part-time Directors has been approved by the Board.

The said Code of Conduct has been uploaded on the website of the Company and has also been circulated to the Board Members and the Senior Management Personnel of the Company; and,

All Board Members, both Full time and Part-time and the Senior Management have affirmed compliance of the said Code of Conduct, for the year ended March 31, 2012.



Chairman & Managing Director

Place: Bangalore
Date: July 30, 2012

AUDITOR'S REPORT

To
The Members of
HMT Limited,
Bangalore

We have audited the attached Balance Sheet of **HMT Limited** as at **31st March 2012**, Statement of Profit and Loss Account and the Cash Flow Statement of the Company for the year ended on that date, annexed thereto in which are incorporated the accounts of Corporate Head office audited by us and the accounts of Tractor Division, Food Processing Machinery Division and Common Services Division audited by Branch Auditors, appointed under section 619(2) of the Companies Act, 1956. 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.

We conducted our audit in accordance with the auditing standards generally accepted in India. These standards require to 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 the management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The audit reports on the accounts of the units of the Company audited by the branch auditors appointed under section 619(2) of the Companies Act, 1956 have been considered by us in preparing our report and necessary

adjustments in the accounts of the units have been made to the extent required on the basis of the information made available to us.

- A.** As required by the Companies (Auditor's Report) Order, 2003 as amended by Companies (Auditor's Report) Amendment Order, 2004, issued by the Central Government of India, in terms of Section 227(4A) of the Companies Act, 1956, and on the basis of such checks of books and records of the Company, as we considered appropriate and according to the information and explanations given to us, and relying on the audit reports of the branch auditors in respect of units audited by them, we enclose in the annexure a statement on the matters specified in Paragraphs 4 and 5 of the said Order.
- B.** Further to our comments in the Annexure referred to above, we report that:
1. We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purpose of the audit.
 2. 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.
 3. The Balance Sheet, Statement of Profit and Loss and Cash Flow Statement dealt with by this report are in agreement with the books of account.
 4. In our opinion, the Balance Sheet, Statement of Profit and Loss and Cash Flow Statement referred to in this report comply with the Accounting Standards referred to Sec.211 (3C) of the Companies Act, 1956 to the extent applicable.

5. Being a Government Company provision of clause (g) of sub section (1) of Sec 274 of the Companies Act, 1956, is not applicable as per notification No.GSR 829(E) Dated October 21, 2003, issued by the Department of Company Affairs, Government of India.
- C. Without qualifying our opinion, we invite attention to the following points**
1. The company has not re-constituted the Audit Committee as required under Section 292 A of The companies Act, 1956, since appointment of independent directors by the Govt of India is pending, as explained to us.
 2. The Authorised Share Capital was enhanced from 1000 Crores to ₹ 1450 Crores vide resolution passed at 55th Annual General Meeting of the members of the company held on September 27, 2008, but the company has not notified the Registrar of Companies by filing Form-5 prescribed under the Companies General Rules and Forms.
- D. Opinion:**
1. The Company has made long term investments aggregating to ₹ 1.66 Crores in subsidiary company, namely, HMT Chinar Watches Limited whose net worth has eroded and this company is suffering continuous losses. Market value of the assets of this company, results and expected cash flows from these investments is not ascertained. In view of the above deficiencies, in our opinion, there is a total decline in the value of this investment, which is other than temporary. No provision for above diminution is made. This is in contravention of the requirement of AS 13 prescribed under Companies (Accounting Standards) Rules, 2006, resulting in the understatement of loss for the year & cumulative loss and overstatement of investments to that extent.
 2. The company has also given loans and advances to the subsidiary stated in clause above and the aggregate dues from them as at 31st March, 2012 amount to ₹ 76.65 Crores. In view of our observations made above, these dues should have been considered as doubtful of recovery requiring provision for the same. Consequently loss for the year & cumulative loss is understated and loans and advances are overstated to that extent.
 3. Certain balances under Trade payables, other current liabilities, Trade receivables, loans and advances are subject to confirmation and reconciliation. These balances include certain old balances requiring review and reconciliation. Consequential impact of the same on the loss for the year/ accumulated loss is not ascertainable.
 4. During the years 2002-03 and 2003-04, the company had sold certain lands vested with HMT Machine Tools Limited, a subsidiary company for a consideration of ₹ 36.57 Crores and the profit on sale of such land amounting to ₹ 36.55 Crores were accounted by the company. The company had an understanding with the subsidiary to adjust the consideration by transferring land of equivalent value. However the company is yet to identify equivalent land for the said value for transfer to HMT Machine Tools Limited. This fact has not been disclosed in the financial statements.

E. We further report that, observations made by us in paragraphs D. (1) & (2) above been considered, loss for the year would have been ₹ 160.51 Crores (as against reported figure of ₹ 82.20 Crores); the adverse balance in statement of Profit & loss (Cumulative) would have been ₹ 880.38 Crores (as against reported figure of ₹ 802.07 Crores), Investments would have been ₹ 763.90 Crores (as against reported figure of ₹ 765.56 Crores), Loans and Advances would have been ₹ 497.64 Crores (as against reported figure of ₹ 574.29 Crores).

F. In our opinion and to the best of our information and according to the explanations given to us, the said accounts read together with accounting policies and

notes thereon, give the information required by the Act, in the manner so required, **subject to our comments in paragraph D and E above and clause 11 and 19 of Annexure to paragraph (A) above**, give a true and fair view in conformity with the accounting principles generally accepted in India:

- a. In the case of the Balance Sheet, of the State of Affairs of the Company as at 31st March 2012;
- b. In the case of the Statement of Profit and Loss, of the LOSS for the year ended on that date; and
- c. In the case of Cash Flow Statement, of cash flows for the year ended on that date.

Place : Bangalore
Date: 31-07-2012

For M/s. S R R K SHARMA ASSOCIATES
CHARTERED ACCOUNTANTS
(ICAI Regn. No. 003790S)

(CA. S R R K SHARMA)
Partner (M.No. 018088)

ANNEXURE REFERRED TO IN PARA 'A' OF OUR REPORT OF EVEN DATE

1. a). The Company has maintained proper records showing full particulars including quantitative details and situation of fixed assets.
b). The fixed assets have been physically verified by the management during the year in accordance with its phased programme designed to cover the assets of all locations/units by physical verification once in 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, fixed assets at certain locations were physically verified by the management during the year and no material discrepancies between the book records and the physical inventory have been noticed.
c). The Company has not disposed off any substantial part of its fixed assets. Hence going concern status is not affected.
2. a). The inventories other than those held by sub contractors, ancillary units and goods stored in Custom's warehouses have been physically verified during the year by the management. Confirmations in respect of stocks held sub-contractors, ancillary units and goods stored in custom's warehouses are not received in certain cases, where book values are adopted. Excepting above, in our opinion the frequency of verification is reasonable.
b). The procedures of physical verification of inventories followed by the management are reasonable and adequate in relation to the size of the Company and the nature of its business.
c). The Company is maintaining proper records for inventory and as informed to us, the discrepancies noticed on physical verification by the management, which reported to be not material, same have been properly dealt with in the books of account of the company.
3. The Company has neither granted nor taken any loans, Secured or Unsecured to/from companies, firms or other parties covered in the register maintained u/s 301 of the Act. Accordingly sub clauses (a) to (g) are not applicable.
4. In our opinion and according to the information and explanations given to us, there are adequate internal control systems commensurate with the size of the Company and the nature of its business with regard to purchase of Inventory and Fixed Assets and with regards to Sale of Goods and Services. Further, on the basis of our examination of the books and records of the Company carried out in accordance with the Auditing Standards generally accepted in India and according to the information and explanations given to us, we state that we have neither come across nor have been informed of any continuing failure to correct major weakness in the aforesaid internal control system.
5. (a) In our opinion and according to the information and explanations given to us, there are no transactions that need to be entered into the register maintained under Section 301 of the Companies Act, 1956 having regard to the view taken that the transactions with the government companies need not be entered in the register as no personal interest of the directors is involved.
(b) In our opinion and according to the information and explanations given to us, as there are no transactions that need to be entered in the register maintained under section 301 of the Companies Act, 1956, paragraph 4 (v) (b) of the Order is not applicable.
6. The Company has not accepted any deposits from the public during the year and hence the directives issued by the Reserve Bank of India and the provisions of Sec 58A, 58AA or any other relevant provisions of the Companies Act, 1956 and the rules framed there under are not applicable.
7. The Company has an Internal Audit System, the scope and coverage of which is commensurate with its size and nature of its business.

8. The Company has maintained cost records pursuant to the Rules made by the Central Government under section 209 (1) (d) of the Companies Act, 1956 in respect of its tractor division as reported by the auditors of the said division. The Branch Auditors have broadly reviewed such cost records and prima facie, they are of the opinion that the prescribed accounts and records have been made and maintained.
9. a) According to the information and explanations given to us, the Company is regular in depositing undisputed statutory dues including Provident Fund, Investor Education and Protection Fund, Employees State Insurance, Income Tax, Sales Tax, Wealth Tax, Custom Duty, Cess, Excise Duty, Service Tax and any other Statutory dues with the appropriate authorities.
- b) According to the information and explanation given to us no undisputed amounts payable in respect of statutory dues including provident fund, investor education and protection fund, employees state insurance, income tax, sales Tax, service tax, customs duty, wealth tax, excise duty, cess applicable were outstanding at the yearend for a period of more than six months from the date they became payable except, Rs 195.03 lakhs towards Sales Tax.
- c) According to the information & explanations given to us, and records of the company there are no dues payable in respect of Sales Tax, Income Tax, Excise Duty, Wealth Tax, Custom Duty, Service Tax and Cess which were disputed except the following:

Statute	Nature of dues	Total Amount (in lakhs)	Financial year which amt relates	Nature of Dispute	Forum where dispute is pending
Sales Tax Act	Sales Tax	159.70	1989-90, 1999-2000 to 2001-2002 & 2003-2004 to 2004-05	Applicability of levy	Jt. Comm. (Appeal) Aurangabad
Sales Tax Act	Non-submission of Form C & D	112.17	1990-91 to 1996-97	Non Submission of Form C	Various States before Dy. Commissioner (Appeals)
Central Excise Act 1944	Excise Duty	2.48	1990-91 to 1996-97	Applicability of levy	CESTAT, Bangalore
Central Excise Act 1944	Excise Duty	3.00	1988-89	-do-	Excise Appellate Tribunal
Haryana General Sales Tax Act	Sales Tax /vat	299.71	2001-02 to 2005-06	-do-	Punjab & Haryana High Court
	Total	577.06			

10. The company has accumulated losses more than 50% of its net worth as at the end of the financial year. The company has incurred cash losses in the current year and also in the immediately preceding financial year.

11. In our opinion and according to the information and explanations given to us the Company has defaulted in repayment of dues to the Bond Holders as detailed below:

₹ in crores

Particulars	Principal	Interest	Due since
10% Secured Bonds-A,B,C & E Series	31.80	29.14	June 2004 to August 2006
12% Secured Bonds-A,B & C Series	28.70	31.29	June 2004 to August 2006

12. The Company has not granted any advance or loan on the basis of security by way of pledge of shares, debentures and other securities.

13. The Company is not a Chit Fund/Nidhi/Mutual Benefit Fund/Society. Therefore the relative reporting requirements are not applicable.

14. The Company is not dealing or Trading in shares, Securities, Debentures or other investments. Therefore the relative reporting requirements are not applicable.

15. According to the information and explanation given to us, the Company has not given any guarantee for loans taken by others from banks or financial Institutions. Hence, the relative reporting requirements are not applicable.

16. According to the information and explanation given to us, the Company has not availed any term loans during the year.

17. According to the information and explanations given to us and on an overall examination of the Balance Sheet of the Company, the Company has not raised any funds on short term basis during the year.

18. During the year, the Company has not made any preferential allotment of shares. Hence, the relative reporting requirements are not applicable.

19. The Company has not created charge in respect of the following:

a. 10% Non Convertible Bonds - Rs.31.80 Crores

b. 12% Non Convertible Bonds - Rs.28.70 Crores

Even though the bonds were issued as secured bonds, trust deed in favour of bond holders has not been executed. Moreover the above Bonds are overdue for redemption since 1st June, 2004, being earliest date of redemption.

20. The Company has not raised money from the public issues during the year, hence the relative reporting requirements are not applicable.

21. In our opinion and according to the information and explanation given to us, during the period under audit, no cases of fraud on or by the Company were noticed or reported.

For M/s. S R R K SHARMA ASSOCIATES
CHARTERED ACCOUNTANTS
(ICAI Regn. No. 003790S)

(CA. S R R K SHARMA)
Partner (M.No. 018088)

Place: Bangalore
Date : 31-07-2012

COMMENTS OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA UNDER SECTION 619 (4) OF THE COMPANIES ACT, 1956 ON THE ACCOUNTS OF HMT LIMITED, BANGALORE FOR THE YEAR ENDED 31 MARCH 2012

The preparation of financial statements of HMT Limited, Bangalore for the year ended on 31 March 2012 in accordance with the financial reporting framework prescribed under the Companies Act, 1956 is the responsibility of the management of the company. The Statutory Auditor appointed by the Comptroller and Auditor General of India under Section 619(2) of the Companies Act, 1956 is responsible for expressing opinion on these financial statements under Section 227 of the Companies Act, 1956 based on the independent audit in accordance with the auditing and assurance standards prescribed by their professional body, the Institute of Chartered Accountants of India. This is stated to have been done by them vide their Audit Report dated 31 July 2012.

I, on the behalf of the Comptroller and Auditor General of India, have conducted a supplementary audit under Section 619(3)(b) of the Companies Act, 1956 of the financial statements of HMT Limited, Bangalore for the year ended on 31 March 2012. This supplementary audit has been carried out independently without access to the working papers of the statutory auditors and is limited primarily to inquiries of the statutory auditor and company personnel and a selective examination of some of the accounting records. On the basis of my audit, nothing significant has come to my knowledge, which would give rise to any comment upon or supplement to statutory auditor's report under Section 619(4) of the Companies Act, 1956.

**For and on the behalf of the
Comptroller and Auditor General of India**

**Y.N. Thakare
Principal Director of Commercial Audit
& Ex-Officio Member, Audit Board,
Hyderabad.**

**Place: Hyderabad
Dated: 4 September 2012.**

SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation of financial statements

The financial statements are prepared as of a going concern, under the historical cost convention, on accrual basis of accounting and in accordance with the provisions of the Companies Act, 1956 and comply with the mandatory Accounting Standards prescribed under Companies (Accounting Standards) Rules, 2006, to the extent applicable.

Fixed Assets

Fixed Assets are stated at cost of acquisition or construction, net of Cenvat credit, less accumulated depreciation to date. Cost includes direct costs and financing costs related to borrowing attributable to acquisition that are capitalized until the assets are ready for use.

Land received free of cost from the State Governments has been nominally valued and incidental expenditure incurred thereon has been capitalized.

Expenditure on development of land is included in the cost of land.

Assets taken on **Finance Lease** are capitalized at fair value / NPV / contracted price. Depreciation on the same is charged at the rate applicable to similar type of fixed assets as per Accounting Policy on "Depreciation". If the lease assets are returnable to the lessor on expiry of lease period, the same is depreciated over its useful life or lease period, whichever is shorter.

Lease payments made are apportioned between finance charges and reduction of outstanding liability in relation to assets taken on lease.

Lease payments made for assets taken on **Operating Lease** are recognized as expense over the lease period.

Expenditure incurred on **Reconditioning** of plant, machinery and equipment which increases the future benefits from the existing asset beyond its previously assessed standard of performance is included in the Gross Book Value which results in:

- (a) Modification of an item of plant to extend its useful life, including increase in its capacity;
- (b) Upgrading machine parts to achieve a substantial improvement in the quality of out-put; and
- (c) Adoption of new production processes enabling a substantial reduction in previously assessed operating costs.

The cost of an addition or extension to an existing asset which is of a capital nature and which becomes an integral part of the existing asset is added to its gross block value.

The expenditure on **Reconditioning** of plant, machinery & equipment which do not increase the future benefits from the existing asset beyond the previously assessed standard of the performance based on the technical assessment, is charged off to Revenue.

Items of Capital Assets with WDV of Rs.1 lakh and above, which have been retired from active use, are disclosed at lower of book value or net realizable value and shown separately in the Fixed Assets Schedule.

Depreciation

Depreciation on fixed assets is provided on straight-line method, at the rates prescribed in Schedule XIV to the Companies Act, 1956, pro-rata with reference to the date of addition or deletion. As and when assets gets fully

depreciated, ₹ 1/- is retained as book value of the asset. Assets costing less than ₹ 5000/- per asset which is written off to ₹ 1/- in the year of purchase.

Depreciation on fixed assets is calculated on a pro-rata basis from the date of such addition or as the case may be up to the date on which such asset is sold, discarded or destroyed.

Premium for leasehold land is amortized equally over the period of lease.

Investments

Investments are either classified as current or long-term. Current investments are carried at lower of cost and fair value. Long-term investments are carried at cost and provisions recorded to recognize any decline, other than temporary, in the carrying value of each investment. Gain or loss is recognized in the year of sale.

Inventories

Inventories are valued at the lower of cost and net realizable value. The cost of materials is ascertained by adopting Weighted Average Cost Method.

Revenue recognition

Sales are set up based on:

Physical delivery of goods to the customer / customer's carrier / common carrier, duly supported by invoice, excise duty paid challan, gate pass, delivery voucher and LR / GR, in case of ex-works contracts.

LR/GR obtained and endorsed in favour of customer (consignee 'self'), in case of FOR destination contracts.

Despatches to dealers/customers in respect of Machines & Tractors.

Sales include Excise Duty but are net of trade discount and exclude sales tax.

Foreign currency transactions

Transactions in foreign currency are recorded in Indian rupee by applying to the foreign currency amount the exchange rate existing at the time of the transaction.

The outstanding balances of monetary items relating to foreign currency transactions are stated in Indian rupee by adopting the rate of exchange prevailing at the date of Balance Sheet. Exchange differences consequent to reinstatement are credited / charged to revenue.

The gain or loss in the conversion and / or settlement of liabilities incurred for acquisition of fixed assets is either credited or charged to revenue during the period such gain or loss arise.

In the case of forward exchange contracts, the premium or discount arising at the inception of the contract is accounted for over the life of the contract. Exchange differences on such a contract are recognized in the statement of profit or loss in the reporting period in which the exchange rate changes.

Borrowing costs

Borrowing costs are charged to revenue except those which are incurred on acquisition or construction of a qualifying asset that necessarily takes substantial time to be ready and until intended use of the said asset, such costs are capitalized.

Employee Benefits

Provident Fund is provided for, under a defined benefit scheme. The contributions are made to the Trust administered by the company.

Leave encashment is provided for under a defined benefit scheme based on actuarial valuation.

Gratuity is provided for, under a defined benefit scheme, to cover the eligible employees, liability being determined on actuarial valuation. Annual contributions are made, to the extent required, to a trust constituted and administered by the Life Insurance Corporation of India under which the coverage is limited to Rs.50,000/- per eligible employee. The balance provision is being retained in the books to meet any additional liability accruing thereon for payment of Gratuity.

Settlement allowance is provided for, under a defined benefit scheme, to cover the eligible employees, liability being determined on actuarial valuation.

Pension is provided for under a defined contribution scheme, contributions are made to the Pension Fund administered by the Government.

Warranty

Warranty provision for contractual obligations in respect of machines/ tractors sold is set up based on the past experience and is provided in the year of sale.

Special Tools

Expenditure on manufactured and bought out special tools are amortized equally over a five year period or earlier, if scrapped. Individual items costing less than Rs.750/- are written off fully in the initial year of acquisition / manufacture.

Income Tax

Taxes are determined following the tax effect accounting method and a provision therefore is recognized. A deferred tax asset or deferred tax liability is recorded to recognize the tax effect on timing differences arising on reconciliation

of profit/loss as per financial statements and profit/loss as per taxation.

Earnings per share

Basic earnings per share is determined by considering the net profit after tax, inclusive of the post tax effect on extraordinary items, if any, and the number of shares outstanding on a weighted average basis.

Government Grants

Government Grants are accounted when there is a reasonable certainty of their realization. Grants related to revenue, unless received as compensation for expenses / losses, are recognized as revenue over the period to which these are related on the principle of matching costs to revenue. Grants related to depreciable fixed assets are adjusted against the gross cost of the relevant assets while those related to non-depreciable assets are credited to capital reserve.

Intangible Assets

Intangible assets are capitalized at cost if

- (a) it is probable that the future economic benefits that are attributable to the asset will flow to the company,
- (b) the Company will have control over the assets, and
- (c) the cost of these assets can be measured reliably.

Technical Know-how

Expenditure on Technical Know-how is recognized as an Intangible Asset and amortized on straight line method based on technical assessment for a period not exceeding ten years. The amortization commences when the asset is available for use.

Software

The cost of software internally generated / purchased for internal use which is not an integral part of the related hardware is recognized as an Intangible Asset and is amortized on straight line method based on technical assessment for a period not exceeding ten years.

Research and Development Expenditure

Research Phase:

Expenditure on research including the expenditure during the research phase of Research & Development Projects is charged to profit and loss account in the year of incurrence.

Development Phase:

Expenditure incurred on Development Costs, which relate to Design, Construction and Testing of a chosen alternative for new or improved material, devices, products, processes, systems or services are recognized as an intangible asset. Such Intangible assets are amortized based on technical assessment over a period not exceeding ten years using straight line method.

Impairment of Assets

As at the end of each Balance Sheet date, the carrying amount of assets is assessed as to whether there is any indication of impairment. If the estimated recoverable amount is found less than its carrying amount, the impairment loss is recognized and assets are written down to their recoverable amount.

Others

The amount of ₹ 50000/- per head received/receivable from LIC on account of gratuity claims in respect of employees separated under Voluntary Retirement Scheme during the year is accounted as Other Income.

In respect of employees who are separated other than under Voluntary Retirement Scheme, the Gratuity paid in excess of ₹ 50000/-, Earned Leave Encashment (ELE), Settlement Allowance (SA) is debited to the respective provision accounts. The provision at the yearend for ELE and SA is restated as per the actuarial valuation done at the year-end. In case of ELE and SA, any short or excess provision is charged as expenditure or treated as provision no longer required.

Gratuity, Earned Leave encashment, Settlement Allowance and Lump sum Compensation paid to employees under Voluntary Retirement Scheme shall be fully written off in the year of disbursement.

Expenses incurred in respect of Bonds issued for raising funds to meet payments made under the Voluntary Retirement Scheme are fully written off in the year of disbursement.