

## DIRECTORS' REPORT & MANAGEMENT ANALYSIS

Your Directors present the Thirty Seventh Annual Report and audited accounts for the financial year ended 31st March 2009.

### FINANCIAL RESULTS

The summarised financial results are :

	2008-09	Rs. Million 2007-08
Net Sales & Services		
- Domestic	4,765.512	4,803.689
- Export	1,375.254	1,260.936
<b>Total</b>	<b>6,140.766</b>	<b>6,064.625</b>
Profit Before Interest and Depreciation	377.613	832.519
Less : Interest & Finance charges	395.505	287.003
: Depreciation	364.911	327.190
<b>Profit / (Loss) Before Tax</b>	<b>(382.803)</b>	<b>218.326</b>
Less : Provision for Current Taxation	—	50.000
Fringe Benefit Tax	6.600	7.500
Deferred Tax (Asset)	(67.000)	(30.000)
Add : Tax provision for earlier years no longer required written back	22.156	—
<b>Profit / (Loss) After Tax</b>	<b>(300.247)</b>	<b>190.826</b>
Add : Balance brought forward	184.635	256.986
<b>Amount available for appropriation</b>	<b>(115.612)</b>	<b>447.812</b>

### DIVIDEND

In view of the losses incurred, the directors regret that dividend cannot be recommended for the year 2008-09.

### APPROPRIATION

	2008-09	Rs. Million 2007-08
Dividend Re.Nil per share of Re.1.00 face value (Previous year Re.0.60 per share of Re.1/- face value)	—	54.000
Tax on Dividend @ 16.995%	—	9.177
General Reserve	—	200.000
Surplus / (Deficit) to be carried over	(115.612)	184.635
<b>Total</b>	<b>(115.612)</b>	<b>447.812</b>

### INDUSTRY STRUCTURE AND DEVELOPMENTS

In the beginning of the financial year 2008-09, the automotive industry envisaged robust growth. But due to the global economic melt down and resulting slow down in Indian economy, the vehicle production drastically started reducing from August'08 onwards. The recovery commenced only in March'09. Consequently for the full financial year 2008-09 the automotive industry had a marginal growth only.

The performance as per Society of Indian Automobile Manufacturers (SIAM) is :

Category	Vehicles Sold		Growth 2008-09 %
	2007-08	2008-09	
	In numbers		
Passenger Car	1,414,845	1,551,012	9.62
Utility Vehicle	251,567	228,840	-9.03
Multi Purpose Vehicle	101,871	107,767	5.79
Medium & Heavy Commercial Vehicle	296,675	200,406	-32.45
Light Commercial Vehicle	252,813	226,389	-10.45
Scooters / Scooterettee	1,075,591	1,171,663	8.93
Motor cycles	6,544,349	6,806,114	4.00
Mopeds	431,983	438,514	1.51
Three Wheelers	506,006	497,793	-1.62
<b>Total</b>	<b>10,875,700</b>	<b>11,228,498</b>	<b>3.24</b>

### OPERATIONS

For our company even though the domestic market sales for the OEM, Spare parts and Railways increased marginally in line with market growth, the economic down turn resulted in the sale of Fleet Management Products, Vehicle Accessories and Industrial Products to fall steeply. Consequently the domestic turnover decreased from Rs.4,804 million to Rs.4,766 million. The export turnover increased from Rs.1,261 million to Rs.1,375 million an increase of 9%. The total sales increased marginally to Rs.6,141 million from Rs.6,065 million.

Roughly 30% of production inputs are imported raw materials and components in US Dollar and Japanese Yen. The steep depreciation of Rupee from less than Rs.40 per dollar to more than Rs.50 per dollar and Re.0.36 per Yen to more than Re.0.51 per Yen resulted in very steep increase in the cost of imported raw materials and components. In addition due to the increase of cost of power due to more of power generation through generators, Profit before Interest and Depreciation reduced to Rs.378 million from Rs.833 million.

## DIRECTORS' REPORT & MANAGEMENT ANALYSIS (Contd..)

Due to steep depreciation of Rupee, loss of Rs.105 million was incurred in the actual repayment of Foreign Currency Loans and Buyers credit for imports. For the balance of Foreign Currency Loans consequent to the re-statement as per Accounting Standard 11, the loss is Rs.43 million. The Interest & Finance charges increased by Rs.109 million due to increased interest rates and marginal increase in average borrowings.

Therefore as against a profit of Rs.191 million for the previous financial year, the company has incurred a loss of Rs.300 million, after a long period of 32 years.

The company's domestic sales for 2009-10 is expected to grow marginally, only 2 to 3%. Even though for the full financial year ending March'09 the company's exports grew by 9%, slow down started in the second half of the financial year. The steep recession continuing in the countries where we export, the overall exports for the year will be lower for the year 2009-10. Therefore overall sales outlook for the year 2009-10 will remain same as the previous year.

The only worry is Rupee continuing to be weak which will increase our imported raw material & component cost. The company is taking steps to reduce costs.

### SUBSIDIARY COMPANIES

#### PT Pricol Surya, Indonesia

A wholly owned subsidiary in Indonesia manufacturing instruments for two wheelers, commenced operation from April 2007. During the first financial year April'07 to March'08, sale was Rs.86.160 million and loss was Rs.18.726 million.

In subsequent financial year April'08 onwards, PT Pricol Surya had break even sales from June'08 and had profits month on month till October'08. Due to global financial melt down, Two wheeler production drastically reduced in Indonesia and other ASEAN countries. Therefore sales drastically reduced well below break even from November'08. Consequently even though for full financial year April'08 to March'09, the sales increased to Rs.121.841 million, the increased fixed cost put in place for higher production and sales planned, could not be met and loss increased to Rs.38.373 million.

The indications are recovery will take place in Indonesia from October'09, Suzuki Motor Cycles have indicated higher production schedules from November'09. For the new customer Yamaha Motor Cycles supplies are expected to start from December'09. Consequently for

the last quarter January'10 to March'10, the sales is expected to be above break even levels. Losses are expected to be lower for the financial year 2009-10.

#### English Tools and Castings Limited

A wholly owned subsidiary, manufacturing pressure die casting components primarily catering to commercial vehicle sector (80%) and industrial sector (20%) had a turnover of Rs.247 million and nominal profit of Rs.4.520 million in the previous financial year 2007-08.

Heavy reduction in off-take from commercial vehicles sector & industrial sector due to economic down turn in 2008-09 resulted in the turnover drastically reducing to Rs.150 million for the financial year 2008-09 and loss of Rs.32.882 million.

English Tools and Castings Limited has already started expanding its customer base. In the second quarter of ongoing financial year supplies will be commenced for TVS Motors 3 wheelers and from October'09 onwards for TVS Motors 2 wheelers as well as for Greaves Transmission components and Sonalika Multi purpose vehicle. The company is expected to break even from the third quarter of the financial year 2009-10 onwards. Company expects break even for the year 2009-10, barring any unforeseen circumstances.

#### Integral Investments Limited

A wholly owned subsidiary, an investment company, during the fiscal 2008-09 had invested Rs.0.387 million in equity shares & mutual funds and received a dividend of Rs.0.110 million. The Profit After Tax was Rs.0.092 million.

### OUTLOOK

With the year closing on a mixed note for the Automobile Industry, the recent recovery in sales numbers can be attributed to customers deferring their buying in 2008. The recent cuts in interest rates are as yet to filter down to vehicle loans and loosening of bank credit to the automobile segment.

It is expected that, once credit to the sector resumes significantly, demand for passenger vehicles and motor cycles will grow. The component industry is expected to have a modest growth.

### OPPORTUNITIES, CHALLENGES, RISKS & CONCERNS

Indian economy has been, more or less, able to withstand tremors of global financial melt down. Even though the rate of GDP growth has slowed down

## DIRECTORS' REPORT & MANAGEMENT ANALYSIS (Contd..)

considerably it is expected to be around 6%. Work force of auto industry of India is relatively well trained. All these factors indicate that there could be a decent future for Indian auto industry in days to come. As per its estimates, Indian auto industry could become a major center for small car manufacturing in future.

The Indian automobile ancillary sector is transforming itself from a low volume, highly fragmented one into a competitive industry and backed by competitive strengths, technology and transition up the value chain.

The auto component industry has been exposed to many risks of varying intensity. The global slow down, has worsened economic sentiment across continents, affecting exports. Coupled with steep increase in interest rate, volatility in the prices of raw materials & other inputs, currency fluctuations, OEM's demand for price reduction, stiff competition by the entry of Multinationals and their home country partnership and Just In Time supplies are the major risks and challenges faced by the companies. It is forcing companies to plan operations effectively and produce quality components at lower costs.

In spite of all these risks, overall prospects for the Indian auto component industry appears positive, considering government stimulus packages and the Indian economy recovering faster.

The impact of risks will be reduced through continuous monitoring, timely action and control measures by the company.

### INTERNAL CONTROL SYSTEMS AND THEIR ADEQUACY

The company has proper and adequate systems of internal control to ensure protection of assets, proper financial & operating functions and compliance with the policies, procedures, applicable Acts and Rules. The company's internal controls are supplemented by sound internal audit practices. The Audit Committee at their meetings regularly review the financial, operating, internal audit & compliance reports to improve performance. The heads of various monitoring / operating cells are present for the Audit Committee meetings to answer queries raised by the Audit Committee.

### RISK MANAGEMENT

Risk is an integral part of the business process.

To enhance the risk management process, the company has mapped the risks. A system has been formulated based on Balanced Score Card with various appropriate measures and accountabilities to identify, assess,

prioritise and mitigate the risks. Reports generated from the system are monitored regularly to ensure that appropriate corrective actions are taken.

### FINANCE

During the year the company has not accepted / renewed any fixed deposit from public. The total deposits from public outstanding as on 31st March, 2009 is Rs.0.193 million including matured unclaimed deposits. 11 deposits amounting to Rs.0.193 million matured but had not been claimed by the depositors as on that date. Out of these 2 deposits amounting Rs.0.050 million have since been repaid. Reminders have been sent to unclaimed deposit holders for suitable instructions.

Due to loss incurred by the company, ICRA downgraded the credit rating to 'LBB' (Previous year - 'LA') for Working Capital fund based facilities & Term Loan facilities and 'A4' (Previous year - 'A1') for Working Capital non fund based facilities.

### DIRECTORS

Mr. D. Sarath Chandran, Mr. Mitsuharu Kato and Mr. V. Ramakrishnan, Directors retire by rotation at the ensuing Annual General Meeting and are eligible for reappointment.

Mr. Vikram Mohan has joined the Board of Directors on 29th May, 2009 as an additional director under section 260 of the Companies Act, 1956. He vacates office on the date of the forthcoming 37th Annual General Meeting and is eligible for appointment.

Dr. Kalyani Gandhi has resigned effective 28th January, 2009 due to health reasons.

Mr. L. Lakshman has resigned effective 18th April, 2009 due to increasing demand on his time and other commitments.

The Board of Directors places on record their warm appreciation of the valuable contribution made by Dr. Kalyani Gandhi and Mr. L. Lakshman during their association with the company.

### AUDITORS

The Auditors of the Company, M/s. Suri & Co., retire at the ensuing Annual General Meeting and are eligible for reappointment.

### DEVELOPMENTS IN HUMAN RESOURCES / INDUSTRIAL RELATIONS

The Company strives to maintain healthy and harmonious relationships with all its employees. Efforts

## DIRECTORS' REPORT & MANAGEMENT ANALYSIS (Contd..)

are ongoing to build and renew the relationship with the workforce.

### CORPORATE SOCIAL OBJECTIVES

Corporate Social Responsibility continues to assume an important role in the activities of the Company. Afforestation, Water Management, Waste water recycling, Literacy and Health continue to be the chosen areas of work by the Company and its employees.

### CONSERVATION OF ENERGY

The company continues to put its effort to adopt various energy saving measures for conservation of energy even though it is not a power intensive industry.

### FOREIGN EXCHANGE EARNINGS AND OUTGO

During the year the Company's foreign exchange earnings were Rs.1,286.326 million (Rs.1,203.974 million in 2007-08). The revenue expenditure in foreign currency was Rs.1,679.837 million (Rs.1,678.436 million in 2007-08) and the capital expenditure was Rs.40.619 million (Rs.148.099 million in 2007-08).

### STATUTORY STATEMENTS

As required by section 212 of the Companies Act, 1956, a statement showing the Company's interest in the subsidiaries is enclosed to the Balance Sheet of the Company.

The company has obtained the approval of the Ministry of Corporate Affairs, New Delhi vide letter no:47 / 11 / 2009 – CL - III dated 5th February 2009 in terms of Section 212(8) of the Companies Act, 1956 exempting the company from attaching the balance sheet and profit and loss account of the subsidiaries, (1) Integral Investments Limited (2) English Tools and Castings Limited and (3) PT Pricol Surya, Indonesia, along with the report of Board of Directors and that of the auditors' thereon, with the company's accounts for the year ended 31st March 2009.

The audited accounts of the subsidiary companies, (1) Integral Investments Limited (2) English Tools and Castings Limited and (3) PT Pricol Surya, Indonesia are not attached to the Balance Sheet of Pricol Limited.

As directed by the Central Government, the accounts of the subsidiaries are consolidated with the accounts of the company in accordance with Accounting Standard 21 (AS 21) prescribed under section 211(3C) of the Companies Act, 1956 and Listing Agreement prescribed

by Securities Exchange Board of India. The consolidated accounts duly audited by the statutory auditors form part of the annual report.

The annual accounts, reports and other documents of the subsidiary companies will be made available to the members and investors upon receipt of a request from them.

The annual accounts of the subsidiary companies will be available at the registered office of the company and at the respective subsidiary companies concerned. Any member or investor can inspect the same during the business hours of any working day.

The statement showing the particulars of technology absorption pursuant to section 217(1)(e) of the Companies Act, 1956, read with Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988, is given in the annexure forming part of this report.

As required by the provisions of section 217(2A) of the Companies Act, 1956, read with Companies (Particulars of Employees) Rules, 1975, the names and other particulars of employees are set out in the annexure forming part of this report.

### DIRECTORS RESPONSIBILITY STATEMENT

In accordance with the provisions of Section 217(2AA) of the Companies Act, 1956, the Directors hereby confirm that:

- a) in the preparation of annual accounts for the financial year ended 31st March 2009, the applicable accounting standards have been followed;
- b) they had selected such accounting policies and applied them consistently and made judgements and estimates that were 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 loss of the company for the year under review;
- c) they had 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 and
- d) they had prepared the annual accounts for the financial year ended 31st March 2009, on a going concern basis.

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## DIRECTORS' REPORT & MANAGEMENT ANALYSIS (Contd..)

### CORPORATE GOVERNANCE

Your company reaffirms its commitment to the good corporate governance practices. Pursuant to Clause 49 of the Listing Agreement with the Stock Exchanges, Corporate Governance Report is annexed to Directors' Report and Auditors' Certificate regarding compliance of the Corporate Governance is made a part of this Annual Report.

### CAUTIONARY STATEMENT

Management Discussion and Analysis forming part of this Report is in compliance with Corporate Governance Standards incorporated in the listing agreement with Stock Exchanges and such statements may be "forward-looking" within the meaning of applicable securities laws and regulations. Actual results could differ materially from those expressed or implied. Important factors that could make a difference to the Company's

operations include economic conditions affecting demand / supply and price conditions in the domestic and overseas markets in which the Company operates, changes in the Government regulations, tax laws and other statutes and other incidental factors.

### ACKNOWLEDGEMENTS

The Board wish to place on record their appreciation to Denso Corporation, Japan, Customers, Distributors, Dealers, Suppliers, Shareholders, Bankers and Other Collaborators for their continued support and co-operation during the year under review. The Directors wish to place on record their appreciation to the employees at all levels for their continued co-operation and commitment.

Coimbatore  
29th May 2009

For and on behalf of the Board  
**Vijay Mohan**  
Chairman & Managing Director

## ANNEXURES TO DIRECTORS' REPORT

Statement pursuant to Section 217(1)(e) of the Companies Act, 1956, read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988.

### TECHNOLOGY ABSORPTION

#### I. Research and Development (R & D)

##### (i) Specific areas of R & D

The Company has two R & D centres, which are approved by the Department of Scientific and Industrial Research (DSIR), Ministry of Science and Technology, Government of India, New Delhi. Our R & D is engaged in several areas including:

- Designing and development of new products
- Value Engineering & cost effective alternates development
- Adopt new technology process and products
- Quality, design and feature improvements in existing products
- Identify appropriate new technology areas continuously
- Build domain expertise.

##### (ii) Benefits derived from R & D

- Meeting customer targets on time, cost & quality of new products
- Cost effectiveness in new products
- New technology process introduction
- Development of new features for the existing products
- Efforts on new products with latest technology
- Registration of patents & designs

##### (iii) Future plan of action

- Adopt more Value engineering ideas into products to make them more cost effective in order to meet the target costs.
- Work closely with customers to understand the requirements in terms of features and reliability and be a solution provider.
- Co-ordinate with Educational Institutions & Government Organisations to develop and absorb indigenous technology.
- Improve the existing IPR base to higher levels.
- Focus on export products.

<b>Expenditure on R &amp; D :</b>	<b>2008-09</b>
	(Rs. Million)
Capital	<b>33.526</b>
Recurring	<b>194.205</b>
Total	<b>227.731</b>
R & D expenditure as a percentage of sales	<b>3.71%</b>

#### II. Technology Absorption, Adaptation and Innovation

##### Imported Technology

The technology imported during the year 2006-07 from Magneti Marelli Sistemi Elettronici S.P.A., Italy for manufacture of Instrument Cluster for Renault - Mahindra's Logan Model Car has been fully absorbed. Supplies have commenced from April 2007. Pricol is supplying to Domestic Market requirement and South Africa Market for Logan Model.

## ANNEXURES TO DIRECTORS' REPORT (Contd..)

The Technology imported during the year 2007-08 from Garant GmbH, Germany for the manufacture of New Design Stepper Motor MS 800 has been fully absorbed. Assembly Line has been established. The pilot lot production will commence in June 2009.

During the year 2008-09, the company has entered into a Technical Assistance Agreement with Mashad Powder Metallurgy Company, Iran to enhance its knowledge of manufacturing powder metal and powder forged components and to implement the same at its own In House Manufacturing Shop. The plan is to absorb the technology completely during 2009-10 and full implementation during 2010-11.

### Particulars of Employees pursuant to Section 217(2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975 and forming part of the Report of the Directors for the year ended 31st March, 2009.

Name & (Age)	Designation / Nature of Duties	Remuneration		Qualification & Experience (Years)	Date of Commencement of Employment	Last Employment
		Gross (Rs. Million)	Net			
Vijay Mohan (61)	Chairman & Managing Director General Management of affairs of the Company	2.824	1.570	Bachelor of Engineering (Mechanical) & Master of Management Science (36)	3rd April 1973	—
K. Udhaya Kumar (59)	President & Chief Operating Officer Head Manufacturing Operations	2.677	1.506	Bachelor of Engineering (Mechanical) (33)	12th February 1976	PSG Industrial Institute & Foundries, Coimbatore

- NOTE : 1. Mr. Vijay Mohan and Mrs. Vanitha Mohan are husband and wife. Mr. D. Sarath Chandran, Director is Mr. Vijay Mohan's brother. Mr. Vikram Mohan, Director is the eldest son of Mr. Vijay Mohan and Mrs. Vanitha Mohan. Mr. Vijay Mohan owns more than 2% of the equity shares of the company as on 31st March 2009.
2. Mr. K. Udhaya Kumar is not related to any other Director of the Company. He does not own more than 2% of the equity shares of the company as on 31st March 2009.
3. Mr. Vijay Mohan was appointed as Chairman & Managing Director for a period of 5 years (1st April, 2005 to 31st March, 2010). Mr. K. Udhaya Kumar was appointed as President & Chief Operating Officer for a period of 5 years (1st June, 2008 to 31st May, 2013).
4. Gross remuneration comprises salary, commission, allowances, monetary value of perquisites and the Company's contribution to provident fund, gratuity fund and superannuation fund.
5. Net remuneration is exclusive of Company's contribution to provident fund, gratuity fund, superannuation fund and tax deducted.

## STATEMENT IN PURSUANCE OF SECTION 212 OF THE COMPANIES ACT, 1956

1. Name of the Subsidiary Company	Integral Investments Limited	English Tools and Castings Limited	PT Pricol Surya, Indonesia
2. Financial year of the Subsidiary ended on	31st March 2009	31st March 2009	31st March 2009
3. Holding Company's interest in the Subsidiary	2,250,000 Equity Shares of Rs.10/- each (100%)	7,933,700 Equity Shares of Rs.10/- each (100%)	1,500 Equity Shares of USD 1,000 each (100%)
4. Net aggregate amount of the Profit / (Loss) of the Subsidiary not dealt within the Holding Company's Accounts			
a) For the current financial year of the Subsidiary Company	Rs.0.092 Mn	(Rs.32.882 Mn)	(Rs.38.373 Mn) (Indonesian Rupiah 8.784.238.643)
b) For the previous financial years of the Subsidiary Company	(Rs.4.558 Mn)	Rs.10.133 Mn	(Rs.35.811 Mn) (Indonesian Rupiah 8.138.830.403)
5. Net aggregate amount of the Profit / (Loss) of the Subsidiary dealt within the Holding Company's Accounts			
a) For the current financial year of the Subsidiary Company	Nil	Nil	Nil
b) For the previous financial years of the Subsidiary Company	Rs.1.294 Mn	Nil	Nil

As per our report of date attached  
For Suri & Co.,  
Chartered Accountants  
**C.S. Sathanarayanan**  
Partner  
Membership No.28328  
Coimbatore, 29th May 2009

For and on behalf of the Board

<b>Vijay Mohan</b> Chairman & Managing Director		<b>D. Sarath Chandran</b> Director
<b>Vanitha Mohan</b> Executive Director	<b>P. Ravi</b> General Manager Finance & Secretarial	<b>T.G. Thamizhanban</b> Company Secretary