

DIRECTORS' REPORT & MANAGEMENT ANALYSIS

Your Directors have pleasure in presenting the Thirty Sixth Annual Report and audited accounts for the financial year ended 31st March 2008.

FINANCIAL RESULTS

The summarised financial results are :

	Rs. Million	
	2007 - 08	2006 - 07
Net Sales & Services - Domestic	4,803.689	4,809.476
- Export	1,260.936	1,024.355
Total	6,064.625	5,833.831
Profit Before Interest and Depreciation	832.519	984.532
Less : Interest & Finance Charges	287.003	180.481
Depreciation	327.190	295.924
Profit Before Tax	218.326	508.127
Less : Provision for		
Current Taxation	50.000	160.000
Fringe Benefit Tax	7.500	6.000
Deferred Tax (Asset)	(30.000)	(20.000)
Profit After Tax	190.826	362.127
Add : Balance brought forward	256.986	200.155
Amount available for appropriation	447.812	562.282

DIVIDEND

Your Directors recommend a dividend of 60% on the paid-up equity share capital of the Company for the year ended 31st March, 2008.

APPROPRIATION

	Rs. Million	
Dividend 60% (Previous year 100%)	54.000	90.000
Tax on Dividend @ 16.995%	9.177	15.296
General Reserve	200.000	200.000
Surplus to be carried over	184.635	256.986
Total	447.812	562.282



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INDUSTRY STRUCTURE AND DEVELOPMENTS

During fiscal 2007-08, the Automotive Industry slowed down moderately when compared to the previous year due to bank finance for purchase being made available only at higher interest rates. The performance as per Society of Indian Automobile Manufacturers (SIAM) is

Category	Vehicles Sold		Growth	
	2006-07	2007-08	2007-08	2006-07
	In numbers		%	
Passenger Car	1,269,305	1,413,395	11.35	20.63
Utility Vehicle	224,705	249,863	11.20	12.92
Multi Purpose Vehicle	84,421	101,781	20.56	25.14
Medium & Heavy Commercial Vehicle	294,166	293,094	-0.36	32.78
Light Commercial Vehicle	223,136	252,722	13.26	31.19
Scooters / Scooterettee	976,014	1,075,591	10.20	-1.71
Motor cycles	7,122,549	6,560,873	-7.89	14.94
Mopeds	393,415	431,983	9.80	4.65
Three Wheelers	547,806	505,938	-7.64	25.41
Total	11,135,517	10,885,240	-2.25	14.65

OPERATIONS

An illegal strike by a majority of the workers at Coimbatore plants for more than 100 days from early March 2007 to mid June 2007 has reduced our market share with domestic vehicle manufacturers. This along with recession in the vehicle industry, has affected the planned business growth with domestic vehicle manufacturers and profits of the company.

The reduction in the sales to domestic vehicle manufacturers has been offset by the increase in sales of accessories, industrial, fleet management and railway products, thereby maintaining the domestic turnover at Rs.4,804 million against Rs.4,809 million of previous year.

The export turnover has increased from Rs.1,024 million to Rs.1,261 million registering a growth of 23%. The export of automobile products are poised for tremendous growth in future and the company will continue its endeavour to maximize its export turnover in the coming years.

Even though there is a marginal increase in total sales to Rs.6,065 million from Rs.5,834 million for the previous year, due to the increase in raw material cost and other inputs coupled with steep increase in interest charges on increased borrowings, the Profit After Tax has decreased considerably by 47% from Rs.362 million to Rs.191 million.

GREEN FIELD PROJECTS

The second plant in Pantnagar, Uttarakhand State, even though ready for operations from October 2007, commenced commercial operations only from April 2008 since the OEMs wanted to enjoy concessional tax benefits for the full fiscal year.

Due to sanctions on Iran imposed by the Government of USA and some of the European countries, the proposal to set up a Joint Venture Company in Iran with our present marketing partner is deferred until the situation improves. At the same time, to protect the present business, it was decided that the Company would assist the present marketing partner to establish a small final assembly unit in Iran.

SUBSIDIARY COMPANIES

PT Pricol Surya, a wholly owned subsidiary at Indonesia, commenced commercial production in April 2007. During 2007-08, first year of operation, the company achieved a turnover of Rs.86.160 million and incurred a loss of Rs.18.726 million.



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English Tools and Castings Limited, a wholly owned subsidiary, during 2007-08 obtained approval from the Honourable High Court, Chennai and restructured its share capital by way of reduction of capital from Rs.276.989 million to Rs.79.337 million. Due to reduction in off-take from a major customer, the turnover increased only moderately to Rs.247 million against Rs.231 million previous year. The increase in input costs has resulted in Profit after Tax decreasing to Rs.4.520 million against Rs.5.613 million of previous year.

Integral Investments Limited, a wholly owned subsidiary, had invested Rs.10.273 million in equity shares & mutual funds and received a dividend of Rs.0.502 million during the year 2007-08. The Profit after Tax was Rs.0.837 million.

OUTLOOK

Indian automobile industry will witness only a nominal growth due to higher inflation, increase in fuel cost & interest rate, lack of consumer finance and slow down in global economic growth. The growth in component industry also is expected to be moderate only.

OPPORTUNITIES, CHALLENGES, RISKS & CONCERNS

Global OEMs driven by cost pressure continue outsourcing of automotive components to cost competitive manufacturers. India, being a manufacturer of low cost quality components, attracts Global OEMs, which provide ample opportunity for exports, the thrust area of Indian auto component manufacturers.

Global acquisitions, expansion and diversification by Indian auto industry, rising income levels, ban on overloading of trucks and rising infrastructure spending would drive the demand for automobiles in India. The demand for automobiles will boost the auto component industry.

Volatility in the prices of raw materials & other inputs, rise in interest rate, inflationary pressure, currency fluctuations and continuous demand by OEM's for price reduction, intense competition from counterparts will pose major risk and challenges to the companies to innovate and develop new technologies & processes to manufacture low cost quality components. In addition, the industry has to tackle shortening of existing product life cycle, rapid launch of new products, increasing number of variants all leading to low volume products, R & D facilities and brand building to exploit & encash business opportunities.

In order to mitigate the risk, your Company will endeavour to vigilantly monitor and implement timely action and control measures.

INTERNAL CONTROL SYSTEMS AND THEIR ADEQUACY

The company has proper and adequate systems of internal control to ensure proper financial & operating functions, safeguarding of assets and compliance with applicable Acts and Rules. The company's internal controls are supplemented by an extensive programme of internal audits. The Audit Committee at their meetings regularly reviews the financial, operating & compliance reports and suggest for improvements. The heads of various monitoring / operating cells are invited for the Audit Committee meetings to explain in detail, about their operations.

RISK MANAGEMENT

Risk Management is an integral part of the business process.

To enhance the risk management process, the company with the help of consultancy firm is better mapping the risks at the business processes and enterprise levels to evolve a better risk management framework. An improved process for formulating a defined risk management framework encompassing, inter alia, methodology for assessing / identifying risks on an ongoing basis, risk prioritization, risk mitigation and a comprehensive reporting system will be formulated.

FINANCE

Your Company holds credit rating of "FAA-Negative" (previous year "FAA-Stable") from CRISIL for fixed deposits. During the year the company has not accepted / renewed any fixed deposit from public. The total deposits from public outstanding as on 31st March 2008 is Rs.0.358 million including matured unclaimed deposits. 20 deposits amounting to Rs.0.358 million matured but had not been claimed by the depositors as on that date. Out of these 5 Deposits amounting to Rs.0.125 million have since been repaid. Reminders have been sent to unclaimed deposit holders for suitable instructions.

The Company undertook several steps to restructure its borrowings to keep a control over the cost of borrowings. Your Company holds credit rating of "A1" (previous year "A1+") for Commercial Paper, "LA" for Working Capital fund based facilities, "A1" for Working Capital non-fund based facilities and "LA" for Term Loans from ICRA.



DIRECTORS' REPORT & MANAGEMENT ANALYSIS (Contd..)

DIRECTORS

Mr. C.R. Swaminathan, Mr. C.N. Srivatsan and Mr. Suresh Jagannathan, Directors retire by rotation at the ensuing Annual General Meeting and are eligible for reappointment.

Mr. K. Udhaya Kumar has been appointed as an additional director with effect from 1st June 2008 under Section 260 of the Companies Act, 1956 and designated as President & Chief Operating Officer. He vacates office on the date of the forthcoming 36th Annual General Meeting and is eligible for appointment.

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 has constantly striven to maintain healthy and cordial relationship at all levels. The workforce on strike at Plants in Coimbatore returned to work in mid June 2007. However the relationship with said workforce is yet to return to normalcy. The management is taking all efforts to restore cordial relationship with the workforce.

CORPORATE SOCIAL OBJECTIVES

The Company and its employees continue to involve themselves in Corporate Social Responsibility activities such as afforestation, water management, waste water recycling, solid waste management, literacy and health. The company continues to contribute financially to the social causes of health, education and environment.

CONSERVATION OF ENERGY

Though your company is not a power intensive industry, it continues energy conservation by adopting various energy saving methods.

FOREIGN EXCHANGE EARNINGS AND OUTGO

During the year the Company's foreign exchange earnings were Rs.1,274.896 million (Rs.1,037.008 million in 2006-07). The revenue expenditure in foreign currency was Rs.1,678.436 million (Rs.1,340.572 million in 2006-07) and the capital expenditure was Rs.148.099 million (Rs.148.486 million in 2006-07).

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 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 2008, 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 profit 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



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d) they had prepared the annual accounts for the financial year ended 31st March 2008, on a going concern basis.

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 and Auditors' Certificate regarding compliance of the same are 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 thank 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 management team and the employees for their continued co-operation and commitment.

Coimbatore
29th May 2008

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

ADDENDUM

The Company has obtained approval from the Ministry of Corporate Affairs, New Delhi vide letter No:47 / 157 / 2008 – CL - III dated 2nd June 2008 in terms of Section 212(8) of the Companies Act, 1956 exempting the company from attaching the Balance Sheet and Profit & Loss Account of the subsidiaries namely (1) English Tools and Castings Limited (2) Integral Investments 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 2008.

The audited accounts and report of Directors & Auditors of the subsidiary companies, (1) English Tools and Castings Limited (2) Integral Investments 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 by The Institute of Chartered Accountants of India and Listing Agreement prescribed by Securities Exchange Board of India. The consolidated accounts duly audited by the statutory auditors and the consolidated balance sheet information 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.

Coimbatore
3rd June 2008

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
- Adopt new technology process and products
- Quality and design Improvement in existing products
- Search for new technology areas continuously
- Build domain expertise.

(ii) Benefits derived from R & D

- Customer satisfaction
- Quality Improvement
- New products with latest technology
- Cost effectiveness in new products
- New technology process introduction
- Registration of patents

(iii) Future plan of action

- Work closely with customer to understand the requirements and provide solutions with new products
- Co-ordinate with educational institutions to tap the technology skills
- Provide a strong IPR base
- Thrust on export products

Expenditure on R & D :	(Rs. Million)
Capital	54.513
Recurring	<u>184.872</u>
	<u>239.385</u>
R & D expenditure as a percentage of sales	<u>3.95%</u>

II. Technology Absorption, Adaptation and Innovation

Imported Technology

The technology imported during the year 2002-03 from (a) DENSO Corporation, Japan, for manufacture of instrument cluster using Stepper Motor (b) NHK Spring Co.Ltd, Japan for manufacture of Chain Tensioner and (c) Directed Electronics Inc, USA for the manufacture of Vehicle Remote Entry and Security System have been fully absorbed. 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.

The Technology imported during the year 2007-08 from Garant GmbH, Germany for the manufacture of New Design Stepper Motor MS 800 is under absorption. Supplies are likely to commence from October 2008.

The Technology / Product Design developed and provided by Ananya Innovations Limited, Coimbatore during the year 2007-08 are under transfer and under absorption.



ANNEXURES TO DIRECTORS' REPORT (Contd..)

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, 2008.

Name & (Age)	Designation / Nature of Duties	Remuneration		Qualification & Experience (Years)	Date of Commencement of Employment	Last Employment
		Gross (Rs. Million)	Net			
Vijay Mohan (60)	Chairman & Managing Director General Management of affairs of the Company	6.420	2.576	Bachelor of Engineering & Master of Management Science (35)	3rd April 1973	—
Vanitha Mohan (55)	Executive Director General Management of affairs of the Company	2.521	2.103	Bachelor of Commerce & Post Graduate Diploma in Business Management (9)	1st June 1999	—

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. Vijay Mohan and Mrs. Vanitha Mohan individually own more than 2% of the equity shares of the Company as on 31st March 2008.

- The Chairman & Managing Director and the Executive Director are appointed for a period of five years at a time.
- Gross remuneration comprises salary, commission, allowances, monetary value of perquisites and the Company's contribution to provident fund, gratuity and superannuation fund.
- Net remuneration is exclusive of contributions to provident fund, gratuity fund, superannuation fund and tax deducted.

