

DIRECTORS' REPORT & MANAGEMENT ANALYSIS

Your Directors have pleasure in presenting the Thirty Ninth Annual Report and audited accounts for the financial year ended 31st March 2011.

FINANCIAL RESULTS

The summarised financial results are :

	2010-11	₹ Million 2009-10
Net Sales & Services		
- Domestic	7,082.727	6,338.064
- Export	1,058.215	1,085.860
Total	8,140.942	7,423.924
Profit Before Interest and Depreciation	825.879	942.809
Less : Interest & Finance Charges	273.116	316.452
: Depreciation & Amortisation	337.040	351.783
Profit Before Tax	215.723	274.574
Less : Provision for Taxation		
Current Tax	43.490	46.771
Deferred Tax	63.810	(27.000)
MAT Credit	(43.490)	—
Taxation relating to earlier years	(79.235)	—
Profit After Tax	231.148	254.803
Add : Balance brought forward	71.212	(115.612)
Amount available for appropriation	302.360	139.191

DIVIDEND

Your Directors recommend a dividend of 60% (₹ 0.60 per share of ₹ 1 face value) on the paid-up equity share capital of the Company for the year ended 31st March, 2011.

APPROPRIATION

	2010-11	₹ Million 2009-10
Dividend ₹ 0.60 per share of ₹ 1.00 face value. (Previous year - ₹ 0.40 per share of ₹ 1.00 face value)	54.000	36.000
Tax on Dividend	8.760	5.979
General Reserve	125.000	26.000
Surplus to be carried over	114.600	71.212
Total	302.360	139.191

INDUSTRY STRUCTURE AND DEVELOPMENTS

Backed by the continued strong economic growth, the domestic auto industry registered a growth of 26.64 % in 2010-11 due to new model launches with moderate price band between the models coupled with easier financing opportunities.

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

Category	Vehicles Sold		Growth 2010-11 %
	2009-10 In numbers	2010-11	
Passenger Car	1,970,046	2,430,105	23.35
Utility Vehicle	275,563	328,001	19.03
Multi Purpose Vehicle	151,869	215,794	42.09
Medium & Heavy			
Commercial Vehicle	265,369	352,060	32.67
Light Commercial Vehicle	312,361	400,645	28.26
Scooters / Scooterettee	1,492,659	2,126,109	42.44
Motor Cycles	8,444,100	10,500,073	24.35
Mopeds	571,489	703,713	23.14
Three Wheelers	613,606	795,989	29.72
Total	14,097,062	17,852,489	26.64

Due to the higher inflation, increase in global oil prices and hardening of interest rates, the vehicle industry can expect a lower growth only, for the ensuing financial year.

OPERATIONS

As informed in last year's report, the prolonged labour strike in 2007 continues to affect the prospects of our Company. The loss in market share and more importantly, the cancellation on us of development of products meant for the new vehicles launched in 2010-11 resulted in only a modest growth of 11.75% in the domestic market.

Europe and USA, the major markets where we export, have come out of recession, but have not fully recovered. The growth in exports to these markets was only nominal. The exports to Iran had to be reduced due to payment problems from there. Therefore, the volumes of exports remained static. In addition, the strengthening of Indian Rupee against Euro and US Dollar has resulted in the exports sales marginally decreasing in Rupee Terms.

Thus, the overall sales of our company grew only by 9.66% as against the Industry growth of 26.64%.

The substantial increase in the cost of raw materials and electronic components, led to the Profit Before Interest and Depreciation reducing from ₹ 943 million in the previous financial year to ₹ 826 million in this financial year. Consequently, the Profit After Tax also reduced from ₹ 255 million to ₹ 231 million.

Due to the continuous effort of management team, our company is able to get a moderate increase in the Share of Business in the domestic market for the year 2011-12. Hopefully this will lead to our company increasing the market share in the domestic market in the ensuing years.

DIRECTORS' REPORT & MANAGEMENT ANALYSIS (Contd.,)

The Company's overall sales for 2011-12 is expected to grow by 15%, barring unforeseen circumstances.

Our Company will continue its efforts to control the operational costs and improve the bottom line.

SUBSIDIARY COMPANIES

PT Pricol Surya, Indonesia

PT Pricol Surya's sales for the year 2010-11 is ₹ 317 million (₹ 95 million for 2009 - 10) and a Loss of ₹ 11 million (Profit Before Tax of ₹ 26 million for 2009-10). The operating loss for the year 2010-11 is primarily due to heavy increase in material cost and substantial decrease in forex gains.

Effective January 2011, Honda Motor Cycles in Indonesia and Thailand has become a new customer. In the ensuing financial year April 2011 onwards Honda Motor Cycles will become the key customer, purchasing more than a million Speedometers. Suzuki Motor Cycles is also regaining a part of its lost market share and enhancement of orders have been indicated.

The outlook for the year 2011-12 is bright due to the substantial increase in sales, leading to turn around of the company and a profit of 5% is expected for the financial year 2011-12.

English Tools and Castings Limited

The wholly owned subsidiary manufactures aluminium pressure die casting components, primarily catering to Automobile sector (90%) and Industrial sector (10%).

During the year 2010-11 due to increased offtake from the customers, the turnover of the company has increased substantially to ₹ 264 million from ₹ 127 million in 2009-10. Even though there is a substantial improvement in sales in 2010-11, due to steep increase in the raw material price, power and fuel cost, it is yet to break even.

The outlook for the Company is promising for financial year 2011-12 as the order book position is very good, especially from key customers like TVS Motors, Greaves Cotton. Some new customers also have been added. The projected turnover will exceed ₹ 400 million. In addition, the manufacturing processes improvements have resulted in better yield. The company will break even and generate a modest profit of ₹ 5 million plus. The worrying factor is the erratic power supply.

Integral Investments Limited

The wholly owned subsidiary during the financial year 2010-11 received a dividend of ₹ 0.634 million and earned a profit of ₹ 0.336 million.

Pricol Pune Limited

The Company has incorporated a Wholly Owned Subsidiary Company "Pricol Pune Limited" at Pune, India on 18th May 2011.

Over the next few years the market share of European and US Vehicle Makers in India will continue to increase. To make an entry and grow the instruments business, especially with the trend of instruments more and more moving towards electronics, the Company needs association with their suppliers in their home country and also have access to the latest technology of displays and designs of instruments as well as access to global sourcing of components at competitive prices.

By transferring a portion of instruments business, assets and liabilities related to Personal Passenger Vehicles (Scooter, Motor Cycle, Car & MPV) instrument cluster business of Plant V of the Company located at Survey No.1065 & 1066, Pirangut (Village), Mulshi (Taluk), Pune – 412 108 by way of slump sale to Pricol Pune Limited, the Wholly Owned Subsidiary and forming a Joint Venture with major supplier as mentioned above would be the ideal route to acquire the latest technology and access to European / US vehicle makers.

This association of the JV with the European / US Vehicle Makers, will pave the way for the parent company, Pricol Limited to get entry for other products such as sensors, oil pumps etc. and grow our company business. In addition as explained above, the tangible benefits will be purchase of electronic components at competitive prices for the balance instrument business of Pricol Limited.

The said slump sale is subject to the prior approval of shareholders through postal ballot. To get the approval of shareholders, postal ballot forms will be despatched separately.

OUTLOOK

The overseas economic downturn provided the impetus for a massive structural change in the Indian Auto Industry. The global automakers will continue to shift their production facilities from high cost regions. India continues to be an attractive destination for production of automobiles both for domestic as well as exports market. Even though there is volatility in the oil prices, the

DIRECTORS' REPORT & MANAGEMENT ANALYSIS (Contd.,)

industry is expected to record reasonable growth over the next few years.

OPPORTUNITIES, CHALLENGES, RISKS & CONCERNS

The Indian automakers are contemplating entry in the international markets by introducing their innovative products that would meet consumer preference. Automakers have started to reduce the number of platforms with a greater diversity of models produced from each platform in order to remain cost competitive.

To remain competitive, automakers are focusing more on fuel-efficient, environment-friendly, low-cost vehicles, especially small cars, with advanced technology, that meet the requirements of consumers in both mature and emerging markets. The auto component suppliers are expected to quickly adapt to the new technologies by investing in research and development, involving additional capital investments.

Higher dependence on a handful of global automakers makes auto component suppliers vulnerable on several fronts, primarily pricing pressure. The robustness in demand will lead to raw material and component prices remaining firm. The erratic power supply which not only increases the Company's power cost for captive generation but also affects the timely supply from vendors is a matter of concern. This coupled with increase in interest rates, puts pressure on profit margins.

The Company will attempt to soften the impact of risks through continuous monitoring, timely action and control measures.

To reduce risk it will be better for the Company to broaden the product portfolio which at the moment consists mainly of Instruments, Sensors and Engine parts like Oil Pumps, Tensioners etc., primarily for vehicle use.

A strategy committee comprising of few Directors of the Board has been formed. The role of this Committee is to analyse the various opportunities for the Company to enlarge the product portfolio not only in the vehicle segment but also to diversify into other areas of business, keeping in mind the present mechatronics skills of the Company.

INTERNAL CONTROL SYSTEMS AND THEIR ADEQUACY

The Company's internal control system has been designed & implemented, taking into account of nature of business and size of operations, to provide for :

- | Accurate recording of transactions with internal checks and prompt reporting.
- | Adherence to applicable Accounting Standards and policies.
- | Compliance with applicable statutes, policies, listing requirements, management policies and procedures.
- | Effective use of resources and safeguarding of assets.

The Company, through its own Internal Audit Department, carries out periodic audits at all locations and all functions and brings out any deviation to internal control procedures. The observations arising out of audit are periodically reviewed and compliances ensured. The summary of the Internal Audit observations is submitted to the Audit Committee. 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 from 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, 2011 is NIL. Two deposits amounting to ₹ 0.050 million matured but had not been claimed by the depositors as on that date. Reminders have been sent to unclaimed deposit holders for suitable instructions.

ICRA has maintained the credit rating of 'LBBS-' for Working Capital fund based facilities & Term Loan facilities and 'A3' for working capital non fund based facilities like Letters of Credit and Buyers Credit for imports.

DIRECTORS

Mr. Suresh Jagannathan, Mr. C.R. Swaminathan, Mr. D. Sarath Chandran and Mr. K. Murali Mohan,

DIRECTORS' REPORT & MANAGEMENT ANALYSIS (Contd.,)

Directors retire by rotation at the ensuing Annual General Meeting and are eligible for reappointment.

Mr. M. Lakshminarayan has resigned from the Board effective 29th April 2011, due to his personal commitments. The Board places on record its warm appreciation of the valuable contribution made by Mr. M. Lakshminarayan during his association with the company.

AUDITORS

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

The Company has received a letter from them, stating that the appointment, if made, will be within the limit prescribed under Section 224(1B) of the Companies Act, 1956.

DEVELOPMENTS IN HUMAN RESOURCES / INDUSTRIAL RELATIONS

The external advisors working with the management to rebuild relationship with workforce resulted in improvement in relationship and trust. Similar measures will continue to improve further in the ensuing year.

CORPORATE SOCIAL OBJECTIVES

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

The year 2011 has been declared as the International Year of Forests by the United Nations. A project "Pasum Pulari" meaning the dawn of green has been launched by "Siruthuli" for planting 1 lakhs trees during the year. 25,000 saplings have been raised, nurtured and handed over from Pricol to "Siruthuli" for planting in the reserve sites belonging to the Corporation in various parts of Coimbatore.

CONSERVATION OF ENERGY

The Company continues to put its efforts 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 ₹ 1002.222 million (₹ 1049.436 million in

2009-10). The revenue expenditure in foreign currency was ₹ 1648.439 million (₹ 1805.301 million in 2009-10) and the capital expenditure was ₹ 63.544 million (₹ 25.114 million in 2009-10).

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: 47/38/2011 – CL - III dated 28th January 2011 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 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 2011.

Accordingly, the audited accounts 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. 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

DIRECTORS' REPORT & MANAGEMENT ANALYSIS (Contd.,)

(Disclosure of Particulars in the Report of Board of Directors) Rules, 1988, is given in the annexure forming part of this report.

The Company does not have employees drawing remuneration attracting the provisions of Section 217 (2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975 and Companies (Particulars of Employees) Amendment Rules, 2011.

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 2011, 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
- d) they had prepared the annual accounts for the financial year ended 31st March 2011, 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 is annexed to this Directors' Report.

The Chief Executive Officer (CEO) and Chief Financial Officer (CFO) have certified to the Board with regard to the financial statements and other matters as required under clause 49(V) of the Listing Agreement.

Auditors' Certificate regarding compliance of the Corporate Governance is made a part of this Annual Report. All the board members and senior managerial personnel have affirmed compliance with the code of conduct for the year 2010-11.

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, 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, Government authorities 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
30th May 2011

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 as mentioned below. In addition it is also engaged in indigenisation and horizontal deployment of offshore technologies either acquired or mutually developed with associates.

The Company has an effective patenting and defending cell to proliferate innovation and growth. The company has registered so far 33 Patents & 9 Design Applications.

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| <ul style="list-style-type: none"> Design and Development of new products. Design quality and feature improvements in existing products. Value Engineering & Cost effective alternates development. | <ul style="list-style-type: none"> Identify appropriate new technology areas continuously to meet ever changing product requirements. Deployment of new technologies in products and processes. Foster and build domain expertise in the area of display and sensing technologies. |
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(ii) Benefits derived from R & D

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| <ul style="list-style-type: none"> Meeting customer targets on quality, cost and time of new products. Ensures new products with latest technology. Cost effectiveness in new products through value addition. | <ul style="list-style-type: none"> Identifies new technology processes and its introduction. Registration of patents & designs. |
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(iii) Future plan of action

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| <ul style="list-style-type: none"> Adopt more Value Engineering ideas into products to be more cost effective through reduction of waste and meet the target costs. Collaborative approach on product design with customer and supplier. Enhance the existing IPR base to higher levels. | <ul style="list-style-type: none"> Collaborate with Educational Institutions & Government Organisations to foster and develop indigenous technologies. Venture into export products to enhance foreign exchange earnings. Reduce time to market the product. |
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Expenditure on R & D :

	2010-11 (₹ Million)
Capital	60.871
Recurring	226.614
Total	287.485
R & D expenditure as a percentage of sales	3.53%

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 Clusters 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.

The Technology imported during the year 2007-08 from Garant GmbH, Germany for the manufacture of New Design Stepper Motor has been fully absorbed. Assembly Line has been established. Mass production run is under progress.

The Technology imported during the year 2008-09 from Mashad Powder Metallurgy Company, Iran to enhance the knowledge of manufacturing powder metal and powder forged components and to implement the same at our own In-house manufacturing shop having sintered component manufacturing facility has been fully absorbed. The same will be fully implemented in the years 2011-12 and 2012-13.

The Technology imported during the year 2010-11 from IAV GmbH Germany, for the manufacture of VAN Type Oil Pump and Vacuum Pump is under the initial phase of absorption.