

DIRECTORS' REPORT & MANAGEMENT ANALYSIS

Your Directors have pleasure in presenting the Thirty Fourth Annual Report and audited accounts for the financial year ended 31st March 2006.

FINANCIAL RESULTS

The summarised financial results are :

	Rs. in million	
	2005 - 06	2004 - 05
Net Sales & Services - Domestic	4217.013	3891.318
- Export	599.869	598.364
Total	<u>4816.882</u>	<u>4489.682</u>
Profit Before Interest and Depreciation	807.428	909.761
Less : Interest	121.868	68.325
Depreciation	256.600	218.902
Profit Before Tax	<u>428.960</u>	<u>622.534</u>
Less : Provision for		
Current Taxation	123.000	220.000
Fringe Benefit Tax	8.870	—
Deferred Tax (Asset)	(6.000)	(10.000)
Profit After Tax	<u>303.090</u>	<u>412.534</u>
Add : Tax provision for earlier years withdrawn	—	12.272
Extra-Ordinary Income (Net)	29.785	(2.660)
Balance brought forward	219.903	150.380
Amount available for appropriation	<u>552.778</u>	<u>572.526</u>

DIVIDEND

Your Directors recommend a dividend of 100% on the paid-up equity share capital of the Company for the year ended 31st March, 2006.

APPROPRIATION

	Rs. in million	
Dividend 100% (Previous year 100%)	90.000	90.000
Dividend tax 14.025% (Previous year 14.025%)	12.623	12.623
General Reserve	250.000	250.000
Surplus to be carried over	200.155	219.903
Total	<u>552.778</u>	<u>572.526</u>

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INDUSTRY STRUCTURE AND DEVELOPMENTS

During the financial year 2005-06, the Automotive Industry has shown a modest growth when compared to the previous year. The growth as per Society of Indian Automobile Manufacturers (SIAM) and Tractor Manufacturers Association is

Category	Vehicles Sold		Growth	
	2004-05 In numbers	2005-06	2005-06 %	2004-05
Passenger Car	980,849	1,052,287	7.28	19.37
Utility Vehicle	180,865	199,063	10.06	21.02
Multi purpose Vehicle	66,260	67,459	1.81	9.56
Medium & Heavy Commercial Vehicle	211,980	221,542	4.51	25.04
Light Commercial Vehicle	136,390	169,722	24.44	26.28
Scooters / Scooterettee	983,127	992,032	0.91	4.72
Motor cycles	5,241,876	6,201,619	18.31	20.28
Mopeds	351,169	375,922	7.05	5.47
Three Wheelers	374,657	437,072	16.66	16.38
Tractors	247,000	285,000	15.38	31.00
Total	8,774,173	10,001,718	13.99	17.32

OPERATIONS

During fiscal 2005-06, the company's domestic turnover has increased from Rs.3,891 million to Rs.4,217 million recording a marginal growth of 8.4% over the previous year. Though it looks low comparing with the overall growth of automotive industry, it has been achieved under fierce price competitive environment and change in product mix. In Export, the turnover hardly increased from Rs.598 million to Rs.600 million, due to loss of contract from a large customer.

In 2005-06, the margins were under pressure due to intense competitive prices offered to customers to retain market share, steep increase in cost of materials and other inputs. This has resulted in reduction in operating profit from Rs.910 million to Rs.807 million.

The increase in financial cost was due to hardening of interest rates and higher borrowing to meet increased Capex for new projects.

GREEN FIELD PROJECTS

A wholly owned subsidiary PT PRICOL SURYA was established for manufacturing company's two wheelers products in Karawang, near Jakarta, Indonesia, to cater to the requirements of two wheeler OEM's in Indonesia. The project is underway. The commercial production is expected to commence in December 2006.

Some of our OEM customers are setting up manufacturing plants in Pantnagar, Uttaranchal State, India. They requested the company to create manufacturing facilities, in order to satisfy their requirements. The company is in the process of setting up a Plant in Pantnagar, Uttaranchal State. It is expected to commence commercial operations before March 2007.

OUTLOOK

The Indian automobile industry, according to the Industry sources, will grow at CAGR of 9.5% for the next few years. To tap this opportunity, Indian automobile companies have announced expansion plans. Efforts are on to seize the prevailing opportunities by offering our products with international standards at competitive prices to achieve reasonable growth in domestic markets.

The company is also focusing more on garnering overseas business. Opening of marketing and sales offices in Europe and USA are in the process.

DIRECTORS' REPORT & MANAGEMENT ANALYSIS (Contd..)

OPPORTUNITIES, CHALLENGES, RISKS & CONCERNS

The market for automotive industry is growing year after year and India is also emerging into a manufacturing hub for automobiles.

Hardening of interest rates, continuous increase in oil prices, materials and other inputs, fluctuating foreign currency, frequent change in models and design, low volumes, pricing pressure, fierce competition etc are challenges thrown to the auto component industry.

Any economic slow down leading to reduced growth in the vehicle industry, inflationary pressure and spiraling of input cost due to external factors may influence the profitability of the company. Your company is in the process of strengthening the risk management frame work to constantly monitor risk and implement timely action to mitigate any adverse impact.

INTERNAL CONTROL SYSTEMS AND THEIR ADEQUACY

The company has adequate internal control systems to monitor internal business process, financial reporting and compliance with applicable laws. The company periodically reviews the adequacy and effectiveness of the control systems. The Audit Committee at their meetings regularly reviews the significant observations of the compliance and other monitoring reports. The heads of various monitoring / operating cells and statutory auditors are invited to attend the Audit Committee meetings.

FINANCE

Your Company continues to hold highest rating of A1+ for Commercial Paper from ICRA and high rating of FAA from CRISIL for fixed deposits. The total deposits from public outstanding as on 31st March, 2006 amounted to Rs.57.107 million. 40 deposits amounting to Rs.0.926 million matured but had not been claimed by the depositors as on that date. Out of these, 11 Deposits amounting to Rs.0.417 million have since been repaid.

DIRECTORS

Mr. Suresh Jagannathan, Mr. D. Sarath Chandran and Mr. L. Lakshman, Directors retire by rotation at the ensuing Annual General Meeting and are eligible for reappointment.

DEVELOPMENTS IN HUMAN RESOURCES / INDUSTRIAL RELATIONS

The company continues to give emphasis on training and development of personnel to upgrade their skill and motivate them. Industrial Relations at all the works of the company remained cordial through out the year.

CORPORATE SOCIAL OBJECTIVES

The Company continues to focus on its commitment to improve Safety, Health and Environment at all levels.

The company and employees actively involve in various rural development programmes like rain water harvesting, afforestation, solid waste management, sewage / waste water treatment, health & hygiene, for the economic development of the rural people.

CONSERVATION OF ENERGY

The Company continues to put its endeavor 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.603.084 million (Rs.602.229 million in 2004-05). The revenue expenditure in foreign currency was Rs.985.077 million (Rs.882.914 million in 2004-05) and the capital expenditure was Rs.50.251 million (Rs.78.299 million in 2004-05).

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STATUTORY STATEMENTS

As required by section 212 of the Companies Act, 1956, a statements showing the Company's interest in the subsidiaries along with audited accounts is enclosed to the Balance Sheet of the Company except PT Pricol Surya, Indonesia whose first year of accounts has not been audited as on this date.

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

The Directors confirm:

- a) that the applicable accounting standards have been followed along with proper explanation wherever required in the preparation of Annual Accounts.
- b) that the Company has adopted prudent accounting policies.
- c) that proper care has been taken for maintenance of accounting records in accordance with the provisions of the Act and
- d) that the Annual Accounts of the Company have been prepared on a going concern basis.

AUDITORS

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

CORPORATE GOVERNANCE

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 Directors 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 also wish to place on record their appreciation of the contribution made by the management team and the employees at all levels.

Coimbatore
27th May 2006

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