

DIRECTORS' REPORT & MANAGEMENT ANALYSIS

Your Directors have pleasure in presenting the Thirty Fifth Annual Report and audited accounts for the financial year ended 31st March 2007.

FINANCIAL RESULTS

The summarised financial results are :

	Rs. Million	
	2006 - 07	2005 - 06
Net Sales & Services - Domestic	4809.476	4217.013
- Export	1024.355	599.869
Total	<u>5833.831</u>	<u>4816.882</u>
Profit Before Interest and Depreciation	984.532	807.428
Less : Interest	180.481	121.868
Depreciation	295.924	256.600
Profit Before Tax	<u>508.127</u>	<u>428.960</u>
Less : Provision for		
Current Taxation	160.000	123.000
Fringe Benefit Tax	6.000	8.870
Deferred Tax (Asset)	(20.000)	(6.000)
Profit After Tax	<u>362.127</u>	<u>303.090</u>
Add : Extra-Ordinary Income (Net)	—	29.785
Balance brought forward	200.155	219.903
Amount available for appropriation	<u>562.282</u>	<u>552.778</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, 2007.

APPROPRIATION

	Rs. Million	
Dividend 100% (Previous year 100%)	90.000	90.000
Dividend tax 16.995% (Previous year 14.025%)	15.296	12.623
General Reserve	200.000	250.000
Surplus to be carried over	256.986	200.155
Total	<u>562.282</u>	<u>552.778</u>

DIRECTORS' REPORT & MANAGEMENT ANALYSIS (Contd..)

INDUSTRY STRUCTURE AND DEVELOPMENTS

During fiscal 2006-07, the Automotive Industry grew slightly better when compared to the previous year. The Growth as per Society of Indian Automobile Manufacturers (SIAM) is

Category	Vehicles Sold		Growth	
	2005-06	2006-07	2006-07	2005-06
	In numbers		%	
Passenger Car	1,052,198	1,269,153	20.62	7.28
Utility Vehicle	198,991	224,602	12.87	10.06
Multi Purpose Vehicle	67,459	84,421	25.14	1.81
Medium & Heavy Commercial Vehicle	221,550	294,438	32.90	4.51
Light Commercial Vehicle	170,091	223,210	31.23	24.44
Scooters / Scooterettee	992,985	976,358	(1.67)	0.91
Motor cycles	6,196,653	7,106,892	14.69	18.31
Mopeds	375,922	393,436	4.66	7.05
Three Wheelers	436,801	547,805	25.41	16.66
Total	9,712,650	11,120,315	14.49	13.95

OPERATIONS

In fiscal 2006-07, the company's domestic turnover, in line with the general performance of the automobile industry, grew from Rs.4,217 million to Rs.4,809 million recording a growth of 14% over the previous year. The export turnover has increased tremendously from Rs.600 million to Rs.1,024 million registering a growth of 71%. The trend in the export of automobile products are encouraging and the company will continue to pursue its efforts to increase its export turnover during the current period.

During 2006-07, the profit before interest and depreciation has increased by 22%. The financial cost has increased due to hardening of interest rates and higher borrowings to meet increased Capex for new projects. Hence Profit After Tax before considering extra ordinary income has gone up by 19% only.

GREEN FIELD PROJECTS

As informed in previous year's report, the company has set up a Plant in Pantnagar, Uttarakhand State. Commercial operations has commenced from April 2007, to meet the requirements of Bajaj Auto. The company is in the process of setting up another Plant in Pantnagar, to cater the needs of other OEM customers. It is expected to commence commercial operations from August 2007.

During the year, the company had opened representative Offices in USA and Germany and is also in the process of opening an office in Italy, to cater the needs of USA and Europe market.

At the moment, we are exporting nearly USD One Million worth of fully finished Instrument Clusters and Speed Sensors every month to Iran. The duty for import into Iran is 25% for fully finished products. To grow the business, it would be better to set up an Assembly Unit in Iran with the major critical components to be supplied by us from India. As the import duty for components is only 10%, our products for the Iran Unit will be more competitive. Therefore during 2007-08, your company has decided to set up a Joint Venture Company in Iran with Nava Khodro Plastic Company, our present Marketing Partner. Pricol and Nava Khodro will hold 50% each in the share capital of the new Joint Venture Company. The commercial production is expected to commence in the quarter Jan-Mar'08.

SUBSIDIARY COMPANIES

PT PRICOL SURYA, a wholly owned subsidiary at Indonesia, which was established for manufacturing two wheeler products to cater the requirements of OEM's in ASEAN, commenced commercial production in April 2007.

DIRECTORS' REPORT & MANAGEMENT ANALYSIS (Contd..)

In 2006-07, English Tools and Castings Limited had become wholly owned subsidiary of the company subsequent to the purchase of remaining 30% shares from its promoters. English Tools and Castings Limited had applied to the Honourable High Court, Chennai for restructuring its share capital by way of reduction of capital, from Rs.276.989 million to Rs.79.337 million to reflect the true value of its assets. The operations have been turned around from a turnover of Rs.169.790 million and loss of Rs.5.424 million for the year ended March 2006, to a turnover of Rs.231.486 million and profit of Rs.5.613 million for the year ended March 2007.

OUTLOOK

The growth in automotive industry was quite robust, considering continued economic growth, good monsoon and continued need for transport. The entry of global OEMs, making India as their manufacturing base, has given a big boost to the industry. Rising exports of Indian-made vehicles has also emerged as a key component of growth. The growth expected in the automobile industry will give a fillip to the auto component sector. The Indian auto component industry is poised for good growth.

OPPORTUNITIES, CHALLENGES, RISKS & CONCERNS

Larger opportunities for exports will be the thrust area of the Industry. The continued outsourcing of automotive components from vehicle manufacturers in USA and Europe to low cost manufacturing countries like India gives abundant opportunities for cost competitive companies like us.

Relaxations provided by the Government to the automobile industry such as reduction of duty on raw materials, the setting up of National Automotive Testing and R & D Infrastructure Project (NATRIP) and finalization of Automotive Mission Plan (AMP) would provide a boost to the sector in an enormous way.

The major challenge that the auto industry is presently facing is with respect to its capabilities to innovate and upgrade in order to remain competitive in the international market. Further, the industry has to develop a supply base with emphasis on lower costs and economies of scale, develop technical and human capabilities, overcome infra-structural bottlenecks, stimulate domestic demand and exploit export and international business opportunities.

The Company is exposed to a variety of risks caused by steep rise in interest rate, price increase in input materials, currency fluctuations, change in models and design, low volumes, pricing pressure, stiff competition etc. In order to reduce the risk, the Company has diversified into manufacture of a wide range of products for the entire spectrum of auto industry. The fluctuations in exchange rates and the impact of increased interest rate will have an adverse effect on the profitability of the Company. The Company will attempt to soften the impact of risks through continuous monitoring, 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 periodically reviews the adequacy and effectiveness of the control systems. At Audit Committee Meetings, the members review 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. Your company engaged a consultant firm to map the risks at the business processes and enterprise levels and evolve a risk management framework. The 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 comprehensive reporting system is under formulation. The Board has authorized the audit committee to review the risk management process from time to time.

FINANCE

Your Company continues to hold high rating of FAA from CRISIL for fixed deposits. The total deposits from public outstanding as on 31st March, 2007 amounted to Rs.10.710 million, which includes 31 deposits amounting to Rs.0.709

DIRECTORS' REPORT & MANAGEMENT ANALYSIS (Contd..)

million matured but had not been claimed by the depositors as on that date. Out of these, 8 Deposits amounting to Rs.0.230 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 continues to hold highest rating of A1+ for Commercial Paper from ICRA.

DIRECTORS

Mr. Shinji Shirasaki, Mr. V. Ramakrishnan and Mr. R. Vidhya Shankar, Directors retire by rotation at the ensuing 35th Annual General Meeting and are eligible for reappointment.

Mrs. Vanitha Mohan has been re-appointed as Executive Director with remuneration for a period of 5 years with effect from 1st April 2007, subject to the shareholder's approval at the forthcoming 35th Annual General Meeting.

Dr. Kalyani Gandhi has joined the Board of Directors on 27th January 2007 as an additional director under section 260 of the Companies Act, 1956. She vacates office on the date of the forthcoming 35th Annual General Meeting and is eligible for appointment.

Mr. M. Lakshminarayan has joined the Board of Directors on 29th May 2007 as an additional director under section 260 of the Companies Act, 1956. He vacates office on the date of the forthcoming 35th Annual General Meeting and is eligible for appointment.

Mr. E.K. Parthasarathy has retired in line with the retirement policy for the directors of the company. Mr.E.K.Parthasarathy has been a Director of the company since 1982. The Board of Directors place on record their warm appreciation of the valuable contribution made by Mr. E.K. Parathasarathy during his association with the company.

Mr. T.K. Balaji has resigned his directorship due to other commitments. The Board of Directors place on record their warm appreciation of the valuable contribution made by Mr.T.K.Balaji during his association with the company.

DEVELOPMENTS IN HUMAN RESOURCES / INDUSTRIAL RELATIONS

Eventhough the company maintained healthy and cordial relationship at all levels for more than two decades, we regret to inform that majority of operators of Coimbatore plants went on an illegal strike with effect from March 3rd, 2007 and production was affected to some extent. The strike continued in April and May 2007. The management is taking adequate steps to resolve the issue at the earliest.

CORPORATE SOCIAL OBJECTIVES

The Company and its employees have taken it up as an objective to involve themselves in Corporate Social Responsibility activities such as water management, afforestation, waste water recycling, solid waste management, literacy and health. During the year, an Eco-Friendly Gasifier Crematorium was constructed at Perianaickenpalayam, Coimbatore in association with the local body.

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, the company continues its efforts to conserve and optimize energy by adopting various methods for energy saving and conservation.

FOREIGN EXCHANGE EARNINGS AND OUTGO

During the year the Company's foreign exchange earnings were Rs.1,037.008 million (Rs.603.084 million in 2005-06). In 2006-07, the revenue expenditure in foreign currency was Rs.1,342.219 million (Rs.985.847 million in 2005-06) and the capital expenditure was Rs.146.839 million (Rs.50.251 million in 2005-06).

DIRECTORS' REPORT & MANAGEMENT ANALYSIS (Contd..)

STATUTORY STATEMENTS

As required by section 212 of the Companies Act, 1956, a statement showing the Company's interest in the subsidiaries along with audited accounts 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

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

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 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 also wish to place on record their appreciation to the management team and the work force for their co-operation and commitment.

Coimbatore
29th May 2007

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 an R & D centre, which is approved by the Department of Science and Technology, Government of India. Our R & D is focussed mainly in :

- Designing and development of new products
- Search for new technology
- Value Engineering
- Improvement in existing products
- Build new technology process and products
- Build domain expertise.

(ii) Benefits derived from R & D

- Customer satisfaction
- Quality Improvement
- New products
- Cost reduction

(iii) Future plan of action

- Anticipate customer's requirements
- Design & Develop new products and accessories accordingly

Expenditure on R & D :	(Rs. Million)
Capital	38.452
Recurring	169.115
	207.567
R & D expenditure as a percentage of sales	3.56%

II. Technology Absorption, Adaptation and Innovation

Imported Technology

The technology imported during the year 2002-03 from (a) M/s. DENSO Corporation, Japan, for manufacture of instrument cluster using Stepper Motor, (b) M/s. NHK Spring Co. Ltd., Japan for manufacture of Chain Tensioner and (c) M/s. 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 M/s. 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 '07.

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, 2007.

Name & (Age)	Designation / Nature of Duties	Remuneration		Qualification & Experience (Years)	Date of Commencement of Employment	Last Employment
		Gross (Rs. Million)	Net (Rs. Million)			
Vijay Mohan (59)	Chairman & Managing Director General Management of affairs of the Company	10.560	7.144	Bachelor of Engineering & Master of Management Science (34)	03.04.1973	—

NOTE : 1. Mr. Vijay Mohan is related to Mr. D. Sarath Chandran, Director and Mrs. Vanitha Mohan, Executive Director. Mr. Vijay Mohan owns more than 2% of the equity shares of the Company as on 31st March 2007.

2. The Chairman & Managing Director is appointed for a period of five years at a time.

3. Gross remuneration comprises salary, commission, allowances, monetary value of perquisites and the Company's contribution to provident fund, gratuity and superannuation fund.

4. Net remuneration is exclusive of contributions to provident fund, gratuity fund, superannuation fund and tax deducted.