

## DIRECTORS' REPORT & MANAGEMENT ANALYSIS

Your Directors have pleasure in presenting the Thirty Third Annual Report on the business and operations of the Company together with the audited accounts for the financial year ended 31st March, 2005.

### FINANCIAL RESULTS

The summarised financial results are :

(Rs. in million)

	2004-2005	2003-2004
Net Sales & Services - Domestic	3891.318	3295.051
- Export	598.364	409.236
<b>Total</b>	<b>4489.682</b>	<b>3704.287</b>
Profit Before Interest and Depreciation	909.761	797.525
Less : Interest	68.325	80.023
Depreciation	218.902	205.468
Profit Before Tax	622.534	512.034
Less : Provision for Current Taxation	220.000	183.000
Add : Provision for Deferred Tax Asset	10.000	7.000
<b>Profit After Tax</b>	<b>412.534</b>	<b>336.034</b>
Add : Balance brought forward	150.380	151.282
Tax Provision for earlier years withdrawn	12.272	—
Debenture Redemption Reserve no longer required	—	13.333
Capital Reserve no longer required	—	1.000
Less : Extra-Ordinary items		
Provision for Diminution in value of Investments	2.660	25.350
Provision for overdue advances	—	230.000
<b>Amount available for appropriation</b>	<b>572.526</b>	<b>246.299</b>

### DIVIDEND

Your Directors recommend a dividend of 100% on the paid-up equity share capital of the Company for the year ended 31st March, 2005.

### APPROPRIATION

		(Rs. in million)
Dividend 100% (Previous year 90%)	90.000	54.000
Dividend tax 14.025% (Previous year 12.8125%)	12.623	6.919
General Reserve	250.000	35.000
Surplus to be carried over	219.903	150.380
<b>Total</b>	<b>572.526</b>	<b>246.299</b>

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

### INDUSTRY STRUCTURE AND DEVELOPMENTS

Eventhough the GDP growth has declined from 8.5% to 6.9%, the industrial growth in India has increased from 6.6% in 2003 to 7.8% in 2004. During the year 2004-05, all segments of automotive industry in India had a reasonable growth. The growth as per SIAM is

Category	Vehicles Sold		Growth 2004-05 %
	2003-04 In numbers	2004-05	
Passenger Car	821,473	<b>980,595</b>	19.37
Utility Vehicle	149,437	<b>180,848</b>	21.02
Multi purpose Vehicle	60,477	<b>66,260</b>	9.56
Medium & Heavy Commercial Vehicle	169,583	<b>212,052</b>	25.04
Light Commercial Vehicle	107,963	<b>136,335</b>	26.28
Scoters / Scooterettes	939,982	<b>984,332</b>	4.72
Motor cycles	4,357,732	<b>5,241,542</b>	20.28
Mopeds	331,587	<b>349,710</b>	5.47
Three Wheelers	352,222	<b>374,688</b>	6.38
<b>Total</b>	<b>7,290,456</b>	<b>8,526,362</b>	<b>16.95</b>

After a long period, the Tractor Segment has also made a significant growth of around 31% during the fiscal 2004-05.

In fiscal 2004-05, the Company's domestic turnover, in line with the general performance of the automobile industry, grew from Rs.3,295 million to Rs.3,891 million registering a growth of 18% over the previous year.

The export sales and service income has increased substantially from Rs.409 million to Rs.598 million registering a growth of 46%. 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 year.

The Profit before Interest and Depreciation for the year 2004-05 has increased by 14% over the previous year. Due to continuous pressure by OEMs for reduction of prices, the company could not pass on the significant rise in prices of steel, plastic materials and other inputs to the customers.

The company's focused efforts on improving internal efficiencies, rationalization of product mix and various cost saving measures has enabled the company to offset the impact of increase in input cost to a certain extent.

### OUTLOOK

Current indications are India's GDP will grow around 7 to 7.5% during fiscal 2005-06. The automotive industry is expected to grow around 15%. Your company being primarily an auto component industry is also expected to make a good progress during the current year. Further, the company's foray into the accessories market will also contribute to the growth.

### OPPORTUNITIES, CHALLENGES, RISKS & CONCERNS

The continuing healthy growth of sale of automotive vehicles in the Domestic Market, Vehicle Manufacturer's ambitious export programmes and outsourcing of the Global Players in the Automotive Industry will provide ample opportunities for the growth of the Indian Auto Component Industry.

Hardening oil prices, strengthening of steel & other input cost, disintegration of global barriers, competitive pricing pressure, frequent changes in models and design, low volumes, ever-changing technologies are challenges thrown open to the industry.

Having a strong engineering force with innovative skills specialized in design, new product development, Value Engineering, capable of adopting new technologies, the company is confident of making the challenges into opportunities.

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

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Any economic slow down and recession in the automotive industry can adversely influence the demand supply dynamics and profitability. By continuously monitoring the market trend, other external factors and adjusting itself to the situation, the company will minimize the 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 internal control systems. The Audit Committee at their meetings regularly reviews the significant observations of the compliance and audit reports. The head of various monitoring cells, statutory auditors and internal auditors are invited to attend the Audit Committee meetings.

### **FINANCE**

Your Company continues to hold high rating of FAA from CRISIL for fixed deposits. The total amount of deposits with the Company as on 31st March, 2005 was Rs.129.048 million, which includes 53 deposits of Rs.1.174 million unclaimed as on 31st March, 2005. 20 Deposits amounting to Rs.0.542 million have since been renewed/discharged. Reminders have been sent to unclaimed deposit holders for suitable instructions.

The company has substituted low cost funds for high cost earlier borrowings thereby achieving lower interest cost. Your Company continues to hold highest rating of A1+ for Commercial Paper from ICRA.

### **DELISTING OF SHARES**

During the year, as approved by the shareholders in the 32nd Annual General Meeting, the company has voluntarily delisted its equity shares from Coimbatore Stock Exchange and Madras Stock Exchange.

### **DIRECTORS**

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

Mr. K.N.V. Ramani will be retiring as Director on the ensuing Annual General Meeting on having crossed the age of 70, in line with the retirement policy for Directors of the company. The directors would like to place on record a special appreciation to Mr. K.N.V. Ramani who has made a valuable contribution to the growth and development of the Company as a Director since 1990.

Mr. R. Vidhya Shankar has joined the Board of Directors on 21st May 2005 as an additional director under section 260 of the Companies Act, 1956. He vacates office on the date of the forthcoming 33rd Annual General Meeting and is eligible for appointment.

### **DEVELOPMENTS IN HUMAN RESOURCES / INDUSTRIAL RELATIONS.**

Human Resource is the Company's very valuable asset and performance of the Company is largely dependent on the creativity, motivation and efforts of the individuals in the organisation. The company gives more emphasis on training and development of personnel with major thrust on motivation and skill upgradation. The company provides systematic training to all its employees to cope up with latest development in technology in the industry. The Human Relationship has always been cordial.

### **CORPORATE SOCIAL OBJECTIVES**

The Company reaffirms its commitment to adopt best Management Practices for improving Occupational Safety, Health, and Environment at all levels.

As a responsible Corporate Citizen, the company actively involves in various rural development programmes in and around Coimbatore for the economic development of the rural people.

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

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During the year the company has contributed Rs.10 million to KARAM (Kovai Aid for Rehabilitation and Motivation) towards Tsunami Relief Fund for the rehabilitation of the affected people.

### **CONSERVATION OF ENERGY**

Though our Company is not a power intensive industry, the Company is committed for adoption of various energy saving methods for conservation of energy.

### **FOREIGN EXCHANGE EARNINGS AND OUTGO**

During the year the Company's foreign exchange earnings were Rs.602.23 million (Rs.413.46 million in 2003-04). The expenditure in foreign currency on account of revenue was Rs.882.91 million (Rs.602.33 million in 2003-04) and the capital expenditure was Rs.78.30 million (Rs.76.94 million in 2003-04).

### **STATUTORY STATEMENTS**

As required by section 212 of the Companies Act, 1956, a statement showing the Company's interest in the subsidiary 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**

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

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

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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 gratefully acknowledge the continued support and co-operation received from DENSO Corporation, Japan, customers, distributors, dealers, suppliers, shareholders, bankers and other collaborators. The directors wish to place on record their appreciation to the management team and the entire work force for their co-operation and commitment.

Coimbatore  
21st May 2005

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