

DIRECTORS' REPORT & MANAGEMENT ANALYSIS

Your Directors have pleasure in presenting the Thirty Second Annual Report on the business and operations of the Company together with the audited accounts for the financial year ended 31st March, 2004.

FINANCIAL RESULTS

The summarised financial results are :

	Rs. in million	
	2003-2004	2002-2003
Net Sales & Services - Domestic	3348.32	2682.96
- Export	409.23	348.38
Total	3757.55	3031.34
Profit Before Interest and Depreciation	797.52	550.94
Less : Interest	80.02	105.13
Depreciation	205.47	188.82
Profit Before Tax	512.03	256.99
Less : Provision for Current Taxation	183.00	82.00
Provision for Deferred Tax Liability (Asset)	(7.00)	23.00
Profit After Tax	336.03	151.99

Terra Agro Technologies Limited (Terra)'s financial collaboration with Investment Firm from UK did not materialise as stated in the previous year's report. As the entire assets of Terra have been charged in favour of Pricol and its subsidiary for their dues, both Pricol and Terra simultaneously tried to locate a strategic investor / buyer for divestment of Terra but could not finalise by end of March, 2004. As a prudent accounting practice, it has been decided to make a contingency provision in the books of accounts for Rs.230 million paid to banks towards Corporate Guarantee obligations remaining as overdue advances and Rs.25.35 million towards diminution in the value of investments on preference shares and bonds in Terra. However efforts are continuing and most probably the divestment could take place during the course of the current year.

DIVIDEND

Your Directors recommend a dividend of _____% on the paid-up equity share capital of the Company for the year ended 31st March, 2004.

APPROPRIATIONS

	(Rs. in million)	
Profit After Tax	336.03	151.99
Add : Balance brought forward	151.28	205.56
Debenture Redemption Reserve no longer required	13.33	---
Capital Reserve no longer required	1.00	---
	501.64	357.55
Less : Diminution in value of Investments	25.35	69.65
Irrecoverable advances written off	---	67.47
Contingency provision for overdue advances	230.00	---
Amount available for appropriation	246.29	220.43



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Appropriation		
Dividend _____ % (Previous year 60%)		36.00
Dividend tax 12.8125% (Previous year 12.8125%)		4.61
General Reserve		15.20
Debenture Redemption Reserve	—	13.33
Surplus to be carried over		151.29
Total	246.29	220.43

INDUSTRY STRUCTURE AND DEVELOPMENTS

The year 2003-04 has indeed an eventful year for all segments of the automobile industry in India. Competitiveness with quality as a theme has been the watchword for the Indian Industry ever since the Indian economy was opened up to the world in the early 1990s. Last year, the Indian economy witnessed a growth rate of around 8 %. In fact, 2003-04 fiscal saw the Tractor industry recording its first year of positive growth of 10.5% with sales of about 1.9 lakh units as compared to about 1.7 lakh units in the previous year, after a gap of four years. The performance of the automotive industry is closely linked to the industrial growth. The commercial vehicle segment, which is seen to be an indicator of economic growth grew substantially in 2003-04. The growth of various segments of the automotive industry during 2003-04 fiscal can be seen from the details given below :

Category	Vehicles Sold		Growth 2003-04 %
	2002-03	2003-04	
	In numbers		
Passenger Car	611,754	821,534	34.29
Utility Vehicle	114,797	148,048	28.97
Multi purpose Vehicle	52,652	60,486	14.88
Medium & Heavy Commercial Vehicle	121,349	169,526	39.70
Light Commercial Vehicle	82,588	108,046	32.43
Scooters / Scooterettee	858,214	938,186	9.32
Motor cycles	3,771,218	4,357,746	15.55
Mopeds	362,376	333,750	-7.90
Three Wheelers	274,895	336,840	22.53
Total	6,249,843	7,274,162	16.39

Source : SIAM

The Company's turnover in line with the general performance of the automobile industry increased from Rs.3031 million to Rs.3758 millions registering a growth of 24% over the previous year.

During the year the export sales has increased substantially from Rs.348 million to Rs.409 million registering a growth of 17.5%. 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 company has been investing substantial amount in capital assets year after year towards design, tooling capabilities, modernisation and upgradation of technology to cope with technological changes and variants in products due to introduction of range of new model vehicles in the market. The company is also looking to accessories market to improve the bottom line. Last year the company has launched several new products more particularly Vehicle convenience and security systems for four wheelers & two wheelers and Road Speed Limiter which were well received in the market. Further launching of Centralised lubrication system and Vehicle monitoring systems developed by the company are in pipeline.

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OUTLOOK

With the continuance of the low interest attractive finance schemes, expected good monsoon and based on the positive economic indicators, we expect the automotive industry is likely to see a further growth in 2004-05 around 15%. The company being an automotive component industry is expected to register a significant growth during the current fiscal.

OPPORTUNITIES, CHALLENGES, RISK & CONCERN

The automobile industry has been growing by leaps and bounds. India is going to emerge as a manufacturing hub for the global players in the automotive industry which will give a thrust to the auto component manufacturing industry. Over the years, with the continuous up gradation of technology, Indian automotive component industry have been recognised by global automotive players as quality product suppliers and started sourcing from India.

Rising cost of inputs, removal of import tariff barrier, stiff competition from multinationals setting up of their own new facilities in India, frequent changes in the models & design, low volumes, ever-changing technology, converting the technology into quality products at competitive price and delivering the same fast is the challenge thrown open to the industry in general and in particular the influence of the home country participation to get business from the vehicle manufacturers of global presence in India.

The company has a very strong engineering force specialised in in-house design, new product development, value engineering and capable of adapting new technology. With this strength, the company is confident of not only meeting the challenges but also converting the challenges into opportunities.

INTERNAL CONTROL SYSTEMS AND THEIR ADEQUACY

The company maintains a system of internal control, including suitable monitoring procedures. The company regularly conducts a review to assess the financial and operating controls at various locations of the Company. The head of the 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, 2004 was Rs.213.453 million, which includes 59 deposits of Rs.1.028 million unclaimed as on 31st March, 2004. 22 Deposits amounting to Rs.0.425 million have since been renewed/discharged. Reminders have been sent to unclaimed deposit holders for suitable instructions.

No fresh long term loans were arranged during the year. The company has substituted low cost funds for high cost earlier borrowings thereby achieving a reduction in its average cost of borrowing. Overall the borrowing have been reduced by Rs.50 million by keeping a tight control on its working capital management. Your Company continues to hold highest rating of A1+ for Commercial Paper from ICRA.

DIRECTORS

Mr. L.G.Varadarajulu, Mr.L.Lakshman, Mr.E.K.Parthasarathy and Mr.Takeshige Tabuchi retire by rotation at the ensuing Annual General Meeting and are eligible for reappointment.

Mr. L.G. Varadarajulu, Chairman will be retiring at 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.L.G.Varadarajulu who has associated with the Company as promoter director since incorporation and led the company as its chairman since 1992. The Board of Directors would like to place on record their recognition and warm appreciation of Mr.L.G.Varadarajulu's leadership, during his association with the Company.

ICICI Bank withdrew its nominee director Mr.K.C.Bellarmino with effect from 27th October 2003. The Board of Directors places on record their warm appreciation of the valuable contribution made by Mr.K.C.Bellarmino during his association with the Company.

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Mr.T.K.Balaji has joined the Board of Directors on 22nd May 2004 as an additional director under Section 260 of the Companies Act, 1956. He vacates the office on the date of the forthcoming 32nd Annual General Meeting and is eligible for appointment.

Mr.V.Ramakrishnan has joined the Board of Directors on 22nd May 2004 as an additional director under Section 260 of the Companies Act, 1956. He vacates the office on the date of the forthcoming 32nd Annual General Meeting and is eligible for appointment.

DEVELOPMENTS IN HUMAN RESOURCES / INDUSTRIAL RELATIONS

The company's HR activities are focused on building talent for future. Several programmes and trainings were conducted to tap & improve the talents of the employees at all levels. During the year, the company continued to have cordial and harmonious relationship with its employees.

CORPORATE SOCIAL OBJECTIVES

Environment Management System (EMS) policy covering occupational Health, Safety and Environment was in practice amongst all employees in their daily work management.

As a responsible corporate citizen, the company in association with "PROJECT SIRUTHULI" has lead several focussed social development projects viz. Revamping of water management systems, rain water harvesting, deepening and de-silting of ponds, canals & water ways, providing gradient to enable flow, clearing the water ways & reinforcing the banks, removing encroachment on water bodies, afforestation, garbage management, sewage water management & treatment, beautification of water bodies around Coimbatore and encouraging community participation and social solidarity for preservation of green and clean environment in and around Coimbatore.

CONSERVATION OF ENERGY

Though our Company is not a power intensive industry, the Company continued their quest for energy conservation by adopting various energy saving and conservation methods.

FOREIGN EXCHANGE EARNINGS AND OUTGO

During the year the Company's foreign exchange earnings were Rs.409.24 million (Rs.348.38 million in 2002-03). The expenditure in foreign currency on account of revenue was Rs.598.01 million (Rs.383.80 million in 2002-03) and the capital expenditure was Rs.76.50 million (Rs.23.90 million in 2002-03).

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.

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- 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 place on record their appreciation to the management team and the entire work force for their co-operation and commitment. The board also wish to place on record their appreciation for the excellent support received from our partner, DENSO Corporation, Japan customers, dealers, suppliers, shareholders, bankers, financial institutions and other collaborators.

For and on behalf of the Board

Coimbatore
22nd May, 2004