

DIRECTORS' REPORT & MANAGEMENT ANALYSIS

Your Directors have pleasure in presenting the Thirty Eighth Annual Report and audited accounts for the financial year ended 31st March 2010.

FINANCIAL RESULTS

The summarised financial results are :

	2009-10	Rs. Million 2008-09
Net Sales & Services		
- Domestic	6,338.064	4,765.512
- Export	1,085.860	1,375.254
Total	7,423.924	6,140.766
Profit Before Interest and Depreciation	942.809	377.613
Less : Interest & Finance charges	316.452	395.505
: Depreciation	351.783	364.911
Profit / (Loss) Before Tax	274.574	(382.803)
Less : Provision for Current Taxation	46.771	—
Fringe Benefit Tax	—	6.600
Deferred Tax (Asset)	(27.000)	(67.000)
Add : Tax provision for earlier years no longer required written back	—	22.156
Profit / (Loss) After Tax	254.803	(300.247)
Add : Balance brought forward	(115.612)	184.635
Amount available for appropriation	139.191	(115.612)

DIVIDEND

Your Directors recommend a dividend of 40% on the paid-up equity share capital of the Company for the year ended 31st March 2010.

APPROPRIATION

	2009-10	Rs. Million 2008-09
Dividend Re.0.40 per share of Re.1.00 face value (Previous year - Nil)	36.000	—
Tax on Dividend @ 16.61%	5.979	—
General Reserve	26.000	—
Surplus / (Deficit) to be carried over	71.212	(115.612)
Total	139.191	(115.612)

INDUSTRY STRUCTURE AND DEVELOPMENTS

Riding on the back of economic growth, easy availability of finance, fiscal stimulus measures and launch of new models, the domestic auto industry recorded a growth of 26% in 2009-10.

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

Category	Vehicles Sold		Growth 2009-10 %
	2008-09	2009-10	
	In numbers		
Passenger Car	1,552,010	1,968,497	26.84
Utility Vehicle	228,655	275,556	20.51
Multi Purpose Vehicle Medium & Heavy	107,767	151,869	40.92
Commercial Vehicle	200,314	265,481	32.53
Light Commercial Vehicle	226,505	310,921	37.27
Scooters / Scooterettee	1,173,823	1,492,632	27.16
Motor cycles	6,802,971	8,444,243	24.13
Mopeds	438,514	571,489	30.32
Three Wheelers	497,793	613,650	23.27
Total	11,228,352	14,094,338	25.52

Barring unforeseen circumstances, the vehicle industry is expected to grow 10% to 15% during next financial year.

OPERATIONS

During 2009-10, increase of sales to domestic vehicle manufacturers and sales of fleet management products, sintered components & railway products increased our company's domestic sales from Rs.4,766 million to Rs.6,338 million, a growth of 33%.

Due to the continuation of recession in the countries where we export, our export turnover decreased from Rs.1,375 million to Rs.1,086 million. Overall, the total sales increased to Rs.7,424 million from Rs.6,141 million, a growth of 21%.

In 2009-10, due to effective cost control measures carried out by the company, the profit before interest and depreciation has increased from Rs.378 million to Rs.943 million, and Profit After Tax has gone up from a loss of Rs.300 million to a profit of Rs.255 million.

Due to the Indian Rupee having strengthened substantially against Euro and to certain extent against US Dollar, the export realisation will be affected. The financial crisis in Europe, our Company's largest export market is also a worrisome factor.

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The long drawn labour strike in the year 2007 resulted in cancellation of product development for the new models to be released in this financial year. Therefore, the phasing of old models for which our Company was supplying products and introduction of new models where our Company will not be supplying similar products, there will hardly be any growth in the domestic market.

Therefore, the company's overall sales for 2010-11 is expected to go up only marginally by 3%.

But, the Company will continue its efforts to further reduce the operational costs to improve the profits.

During February 2010, for administrative and operational convenience, the manufacturing operations of Plant IV, Coimbatore were moved to other plants in Coimbatore.

SUBSIDIARY COMPANIES

PT Pricol Surya, Indonesia

The wholly owned subsidiary manufacturing instruments for two wheelers, commenced operations from April 2007. The major customer Suzuki Motorcycles lost substantial market share in ASEAN countries. Sale to Yamaha Motor Cycles planned to start in December 2009 was delayed due to postponement of model release by Yamaha.

Consequently for the financial year 2009-10, sales reduced to Rs.95 million (Rs.122 million in 2008-09). In spite of decreased sales, the profit after tax was Rs.16 million (against a loss of Rs.38 million) mainly due to forex fluctuation gain of Rs.51 million.

In the financial year 2010-11, sale to both Yamaha Motor Cycles and Astra Honda Motor will commence. Sales to Yamaha Motor Cycles is expected to commence from July 2010 and to Astra Honda Motor from February 2011. This would help the Company to make operational profits from the last quarter of the financial year 2010-11.

English Tools and Castings Limited

The wholly owned subsidiary manufactures aluminium pressure die casting components, primarily catering to commercial vehicle sector (80%) and industrial sector (20%).

In the latter half of the financial year 2009-10, new customers like TVS Motors for three wheeler components and Greaves Cotton for transmission components were added. But the power crisis in Tamilnadu hampered the production and also increased the cost of power

substantially due to running of gensets. Due to the above, the company was able to achieve only a turnover of Rs.127 million and incurred a loss of Rs.35 million.

The outlook for the Company is brighter for the financial year 2010-11 since at present, the Company is having order book of Rs.25 million per month, due to the increased requirements indicated by the customers now.

To help the subsidiary company augment their financial needs, so as to enable growth and come back to profitability, Pricol Limited invested Rs.69.500 million towards equity shares of English Tools & Castings Limited.

Integral Investments Limited

The wholly owned subsidiary during the financial year 2009-10 received a dividend of Rs.0.420 million. Due to adverse stock market condition, it ended with a loss of Rs.0.285 million.

OUTLOOK

The vehicle industry expects the growth in automobile sector to continue, fuelled by rising disposable incomes. Global automakers are expected to continue their investment into India, growing auto manufacturing first and later auto engineering and R & D Services.

The outlook for the auto ancillary industry appears healthy. The demand from the export markets however remains weak because of the conditions prevailing in the target markets.

OPPORTUNITIES, CHALLENGES, RISKS & CONCERNS

The entry of global OEMs making India as their manufacturing base, has given a big boost to the industry. Export of automobiles has also emerged as a key component of growth. India continues to be an attractive destination for automobile production.

Unlike in Europe, the transition to the new emission norms has not been smooth. Oil companies have asked for a deferment in supply of BS III fuel and for those companies whose emission and durability of products would be affected due to the use of lower grade of fuel, it is really a very taxing time. Prices are on the upswing in the case of rubber, steel and fuel.

The auto component industry has been exposed to many risks of varying intensity. The hardening of interest rate, tightening money supply, excise duty hike, volatility in the price of raw materials & other inputs, currency fluctuations, OEM's demand for price reduction, stiff

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competition by the entry of Multinationals and their home country partnership, upgradation in emission norms and Just In Time supplies are the major risks and challenges faced by the Companies. It is forcing Companies to plan operations effectively and produce quality components at lower costs.

The Company through continuous monitoring, timely action and control measures works towards controlling the above risks.

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 to access the internal controls at all the processes and functions. 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, 2010 is NIL. 3 deposits amounting to Rs.0.065 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.

The Company undertook several steps to restructure its borrowings to keep a control over the cost of borrowings. As the Company turned around and made profits, ICRA upgraded the credit rating to 'LBBB-' (Previous year - 'LBB') for Working Capital fund based facilities & Term Loan facilities and 'A3' (Previous year - 'A4') for working capital non fund based facilities like Letters of Credit and Buyers Credit for imports.

DIRECTORS

It is with deep regret the Board informs that Mr. L.G. Varadarajulu, Promoter Director and long time Chairman of the Board till 2004, passed away on the 19th of May 2010.

Mr. L.G. Varadarajulu played a leading role not only in establishment of our Company, but also involved himself extensively in the formative years to guide Mr. Vijay Mohan to grow the Company.

The Board places on record it's deep appreciation of the immense contribution made by Late Mr. L.G. Varadarajulu and prays for his soul to rest in peace.

Mr. R. Vidhya Shankar and Mr. M. Lakshminarayan Directors retire by rotation at the ensuing Annual General Meeting and are eligible for reappointment.

Mr. G. Soundararajan was inducted into the Board on 31st July 2009 to fill up the vacancy due to the resignation of Dr. Kalyani Gandhi from the Board of Directors. Mr. G. Soundararajan will hold office upto the ensuing Annual General Meeting 2010. He is eligible for appointment.

Mr. C.N. Srivatsan has resigned from the Board effective 1st July 2009, due to his personal commitments. The Board places on record it's warm appreciation of the valuable contribution made by Mr. C.N. Srivatsan during his association with the company.

Mr. K. Murali Mohan was inducted into the Board on 31st July 2009 to fill up the vacancy due to the resignation of Mr. C.N. Srivatsan. Mr. K. Murali Mohan will hold office upto the 39th Annual General Meeting 2011.

Denso Corporation nominated Mr. Mitsuhiro Masegi in place of Mr. Mitsuharu Kato. Mr. Mitsuhiro Masegi has joined the Board of Directors on 30th October 2009 as

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an additional director under section 260 of the Companies Act, 1956. He vacates office on the date of the forthcoming 38th Annual General Meeting and is eligible for appointment. The Board places on record its warm appreciation of the valuable contribution made by Mr. Mitsuharu Kato during his association with the company.

Mr. Vijay Mohan has been reappointed as Chairman & Managing Director for a period of 3 years with effect from 1st April 2010 to 31st March 2013, subject to the shareholders approval at the ensuing 38th Annual General Meeting 2010.

AUDITORS

The Board proposed M/s. Haribhakti & Co, Chartered Accountants as Statutory Auditors of the company in place of retiring auditors M/s. Suri & Co. M/s. Haribhakti & Co to hold office from the conclusion of this Annual General Meeting until the conclusion of the next Annual General Meeting.

The Board of Directors places on record their warm appreciation of the valuable contribution made by M/s. Suri & Co., Chartered Accountants during their association with the company.

DEVELOPMENTS IN HUMAN RESOURCES / INDUSTRIAL RELATIONS

The company went through a stressful industrial relations situation. External advisors are working with the management to rebuild relationship with the workforce. These efforts are yielding positive results.

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. An Eco-friendly gasifier crematorium constructed near Plant-I at Perianaickenpalayam is maintained under Pricol Rural Development Programme (PRDP).

CONSERVATION OF ENERGY

Though your Company is not a power intensive industry, the Company continues its efforts to reduce energy usage by adopting various methods of energy saving and conservation.

FOREIGN EXCHANGE EARNINGS AND OUTGO

During the year the Company's foreign exchange earnings were Rs.1049.436 million (Rs.1286.326 million in 2008-09). The revenue expenditure in foreign currency was Rs.1805.301 million (Rs.1679.837 million in 2008-09) and the capital expenditure was Rs.25.114 million (Rs.40.619 million in 2008-09).

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.47/09/2010-CL-III dated 25th March 2010 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 2010.

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.

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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

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 2010, 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 2010, 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 Directors' Report and Auditors' Certificate regarding compliance of the Corporate Governance is 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, other statutes and other incidental factors.

ACKNOWLEDGEMENTS

The Board 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 wish to place on record their appreciation to the employees for their continued co-operation and commitment.

Coimbatore
28th May 2010

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 including:

- Designing and development of new products.
- Value Engineering and cost effective alternates development.
- Build domain expertise.
- Quality enhancement and feature improvements in existing products.
- Identify appropriate new technology areas continuously.

(ii) Benefits derived from R & D

- New Products development and tapping new markets.
- Meeting cost effectiveness in new products.
- Increasing localisation of inputs to save valuable foreign exchange.
- Registration of patents & designs.

(iii) Future plan of action

- Work closely with customers to understand the requirements in terms of features and reliability for a complete product solution.
- Nurture and Promote indigenous technology.
- Enhance the existing IPR base to higher levels.
- Focus on new technology products.
- Reduce time to market the product.
- Achieve price competitiveness with desired profit margin through target pricing.

Expenditure on R & D :	2009-10
	(Rs. Million)
Capital	69.630
Recurring	156.245
Total	225.875
R & D expenditure as a percentage of sales	3.04%

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 Cluster 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.

ANNEXURES TO DIRECTORS' REPORT (Contd..)

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 its own In House Manufacturing Shop has been fully absorbed. The same will be fully implemented in the years 2010-11 and 2011-12.

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 2010.

Name & (Age)	Designation / Nature of Duties	Remuneration Rs. Million		Qualification & Experience (Years)	Date of Commencement of Employment	Last Employment
		Gross	Net			
Vijay Mohan (62)	Chairman & Managing Director General Management of affairs of the Company	2.824	1.621	Bachelor of Engineering (Mechanical) & Master of Management Science (37)	3rd April 1973	—
K. Udhaya Kumar (60)	President & Chief Operating Officer Head Manufacturing Operations	2.776	1.636	Bachelor of Engineering (Mechanical) (34)	12th February 1976	PSG Industrial Institute & Foundries, Coimbatore

- Note :
1. Mr. Vijay Mohan was appointed as Chairman & Managing Director for a period of 5 years (1st April 2005 to 31st March 2010). He is reappointed for a period of 3 years (1st April 2010 to 31st March 2013) subject to the approval of shareholders at the ensuing Annual General Meeting.
 2. Mr. Vijay Mohan is related to Mr. D. Sarath Chandran, Director, Mrs. Vanitha Mohan, Executive Director and Mr. Vikram Mohan, Director. Mr. Vijay Mohan owns more than 2% of the equity shares of the company as on 31st March 2010.
 3. Mr. K. Udhaya Kumar was appointed as President & Chief Operating Officer for a period of 5 years (1st June 2008 to 31st May 2013). He is not related to any other Director of the Company. He does not own more than 2% of the equity shares of the company as on 31st March 2010.
 4. Gross remuneration comprises salary, commission, allowances, monetary value of perquisites and the Company's contribution to provident fund, gratuity and superannuation fund.
 5. Net remuneration is exclusive of contributions to provident fund, gratuity fund, superannuation fund and tax deducted.