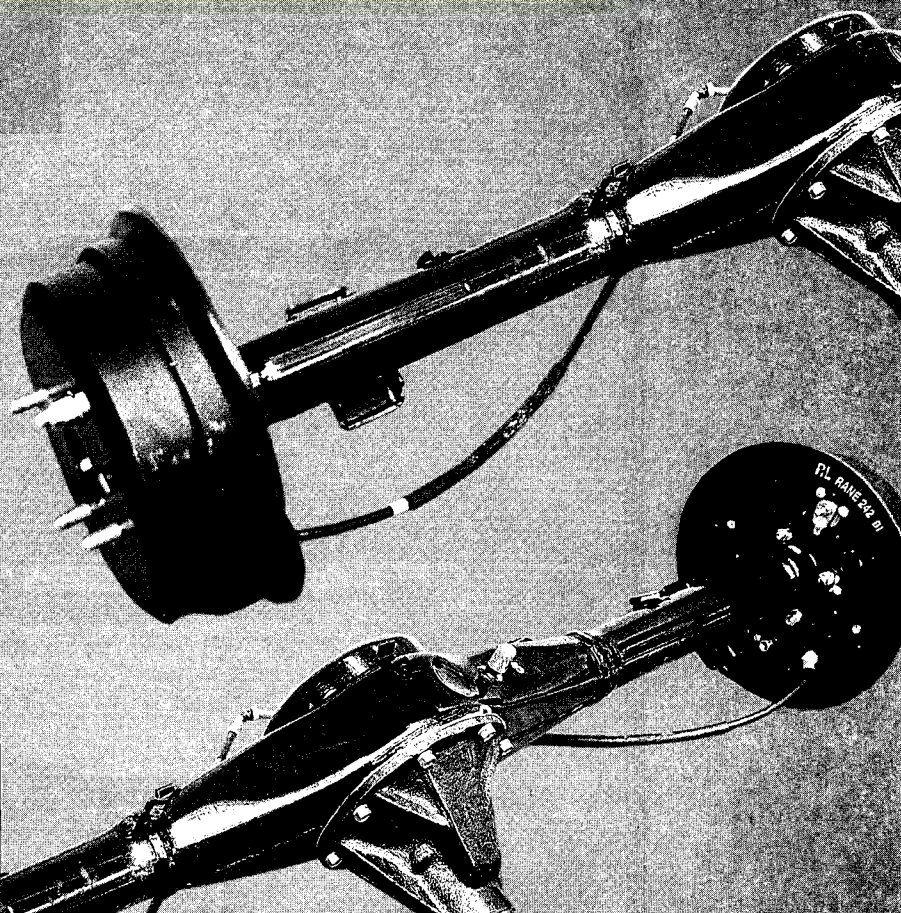


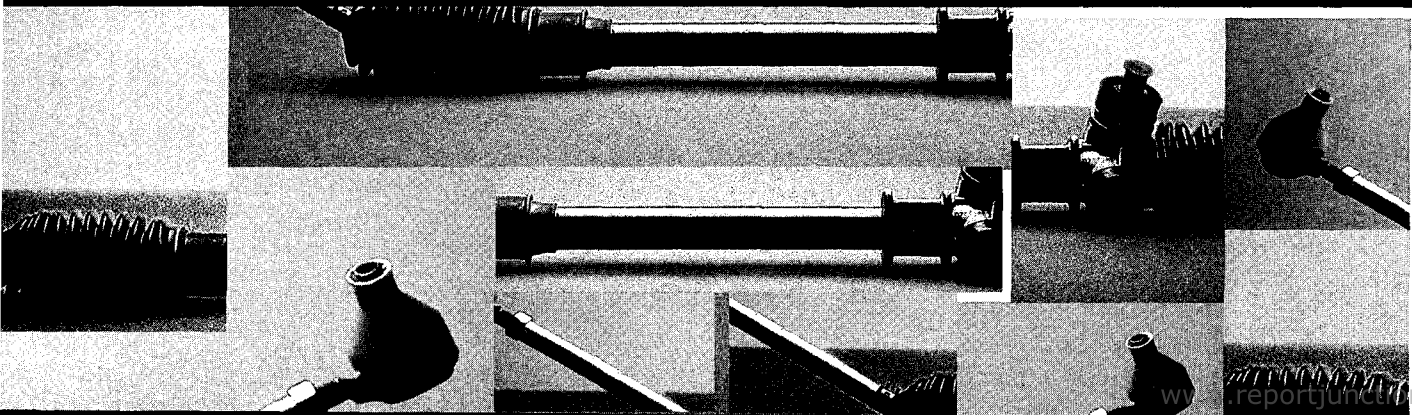
Sona

SONA KOYO STEERING SYSTEMS LTD.



2002 - 2003

MARUTI 800

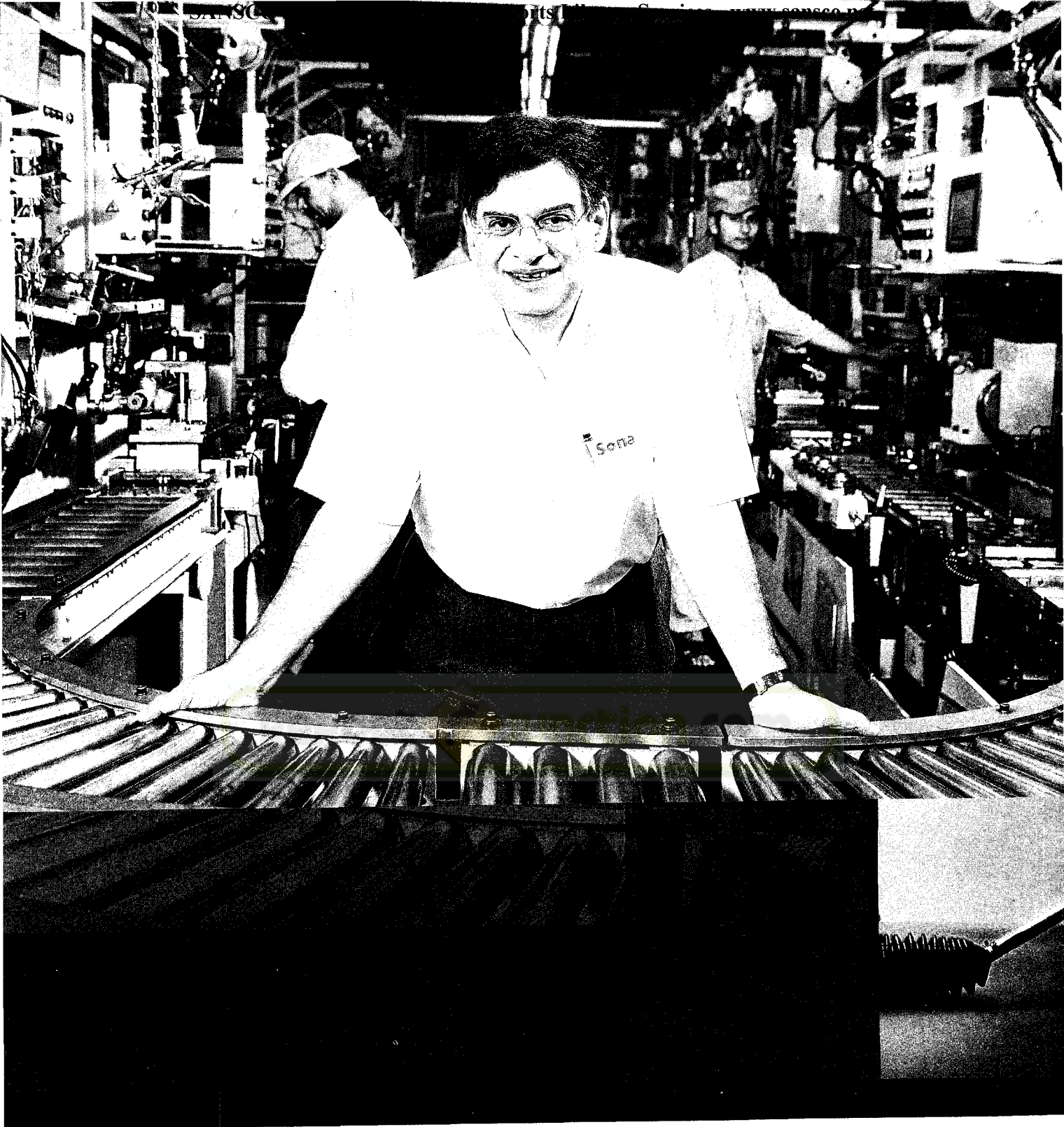


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Sona

02 | 03



**CHAIRMAN'S
LETTER****Dear Shareholders,**

In the year under review, 2002-2003, India's GDP growth slowed down to 4.4 per cent, compared to 5.6 per cent growth the year before. However, the industrial growth rate increased from 3.3 per cent in 2001-02 to 6.1 per cent in 2002-03. For the main customer segments of your Company namely car and utility vehicles, sales grew by 3.6 per cent and 10.4 per cent respectively.

In my letter to you last year, I had written, "We believe that the automobile market will remain flat over the next year, especially the passenger car and MUV segments. Therefore, our planning and budgeting for 2002-03 are based on a zero growth forecast". Thanks to the growth in the production of cars and MUVs, your Company's sales grew by 6.8 per cent — from Rs.2,048 million in 2001-02 to Rs.2,188 million in 2002-03. It should be noted that the growth in sales occurred despite offering price decreases to our customers.

So, as far as sales are concerned, your Company did somewhat better than targeted.

On the profit front, our performance was significantly better. Sona Koyo's cash profits increased by 24 per cent, from Rs.144 million in 2001-02 to Rs.179 million in 2002-03. Profits before tax grew by 45 per cent, from Rs.62 million to over Rs.90 million. Post-tax profits increased by 27 per cent, from Rs.48 million to Rs.61 million. And your Company's earnings per share rose from Rs.4.29 in 2001-02 to Rs.5.61 in 2002-03.

However, there have been some failures. For instance, last year I had written, "Your Company will soon begin producing electronic power steering systems." I was too optimistic. The lead-time taken regarding licensing agreements with our collaborators and validation of the product by our customers took longer than anticipated. Consequently, we could not begin to produce such systems in 2002-03.

Although, the failure to introduce electronic power steering systems did not materially affect the top-line, your Company learnt a major lesson from this slippage — namely, the need to improving our planning and forecasting processes. We are now planning more realistically; we have introduced stringent mid-year reviews; and we are no longer forecasting sale of products, however small, that are not fully validated by our customers. The point to note is that Sona Koyo has leveraged this shortcoming to put much more robust planning processes in place.

Last year, I wrote of Total Quality Management (TQM) methodologies that were being used to improve operational efficiencies. These are achieving results. On the whole, TQM has certainly helped your Company to achieve much higher growth in profits compared to sales — that too in a year where competitive pressures resulted in lower unit prices. At a more micro level, TQM is helping corporate planning, product development, business process re-engineering and the financial aspects of your Company's performance. Our use of Total Productive Maintenance (TPM) is also yielding results. Productivity has improved on the shop floor thanks to the continued use of techniques perfected by the world famous Toyota Production System. In fact, your Company was conferred "Supplier of the Year – Silver Award" from Toyota Kirloskar India.

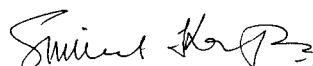
Towards the end of 2002-03, we made progress on the export front. Despite an appreciating rupee and strong competition from China, we have secured international orders worth \$1 million, which will be supplied in 2003-04. Our export group is actively following up on additional business, and we hope to double exports every year for the next three years — albeit from a low base.

We have also started an R&D initiative in Sona Koyo. In 2002-03, your Company set up an R&D division, where the engineers developed a new, lighter weight collapsible steering column. We have applied for four Indian patents on this product, which has already been approved by ARAI and validated by our customers. Going forward, a task of this R&D division is to concentrate on electronic applications for our products. We are also focusing on technical collaborations with universities and other R&D Institutes to support our product development efforts.

To summarise, therefore, 2002-03 has been a much better year than 2001-02. But what is more important than financial performance is the fact that your Company has been putting in place systems that can facilitate further growth in the future — in productivity, shop floor efficiencies, exports, overall planning processes and R&D.

Going forward, I am optimistic about the domestic market in the medium term, where your Company is a dominant player in its product segments. However, I foresee exports as a major driver of Sona Koyo in the future. Automobile manufacturers in the developed world are facing tremendous cost pressures due to overcapacity and slower growth. This is inevitably forcing them and their Tier 1 suppliers to seek competitive products from a country like India. As we become world class in manufacturing and in design capabilities, your Company should be able to leverage this huge opportunity.

Everything suggests that 2003-04 will be an even better year for your Company. I'm sure that the dedication of our employees and your support will make that a reality.



Dr. Surinder Kapur
Chairman & Managing Director

Sona

SONA KOYO STEERING SYSTEMS LTD.

BOARD OF DIRECTORS

Dr. Surinder Kapur
Chairman & Managing Director

Mr. Kiyoshi Takeda
Nominee of Koyo Seiko Co., Ltd.

Mr. A. K. Jain
Nominee of Maruti Udyog Ltd.

Mr. Jug Mohan Kapur
Mr. B. L. Passi
Mr. Lalit Suri
Mr. Chander Uday Singh
Mr. Ravi Bhoothalingam
Mr. P. K. Chadha

COMPANY SECRETARY

Mr. Sudhir Chopra

COLLABORATORS

Koyo Seiko Co., Ltd, Japan
Mando Machinery Corporation, Korea

AUDITORS

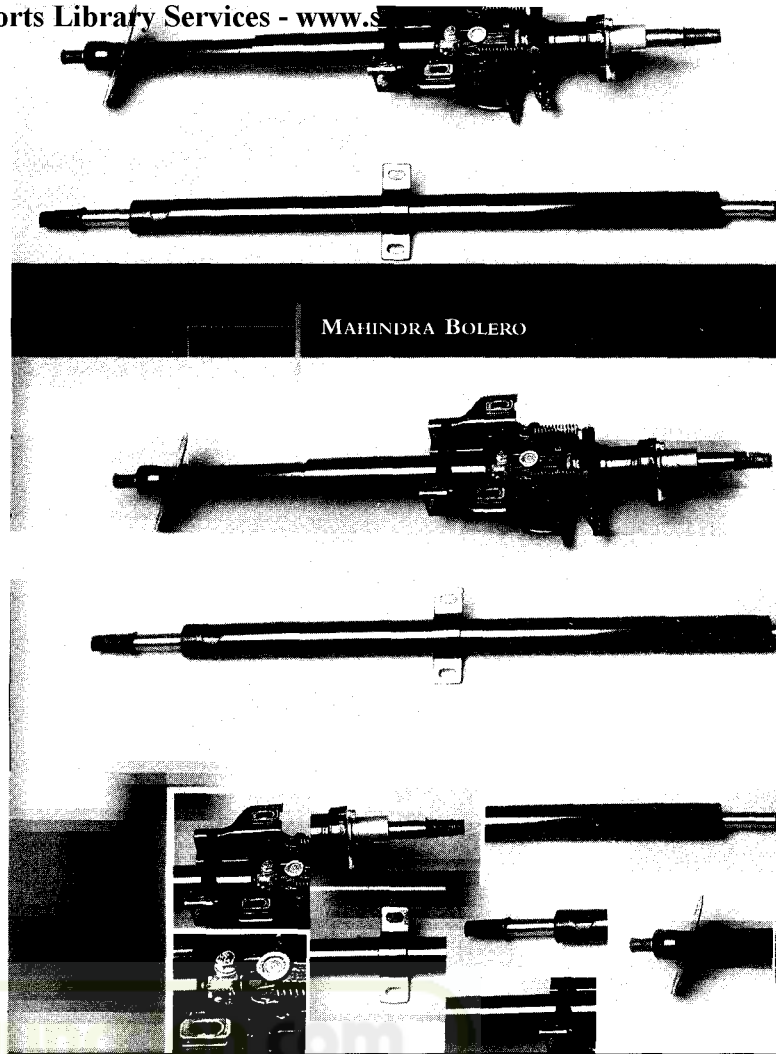
M/s S P Puri & Co.
Chartered Accountants
4/18 Asaf Ali Road
New Delhi 110 002

BANKERS

State Bank of India
Standard Chartered Bank
State Bank of Hyderabad
Centurion Bank Ltd.
BNP Paribas
The Hongkong and Shanghai Banking Corp. Ltd.

REGISTRAR AND SHARE TRANSFER AGENT

MCS Limited
Sri Venkatesh Bhawan
212-A Shahpurjat
Behind Panchsheel Club
New Delhi 110 049



REGISTERED OFFICE

UGF-6, Indraprakash
21, Barakhamba Road
New Delhi 110 001

CORPORATE OFFICE

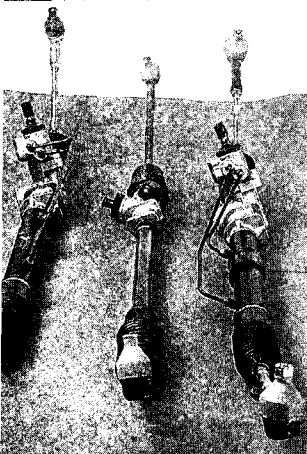
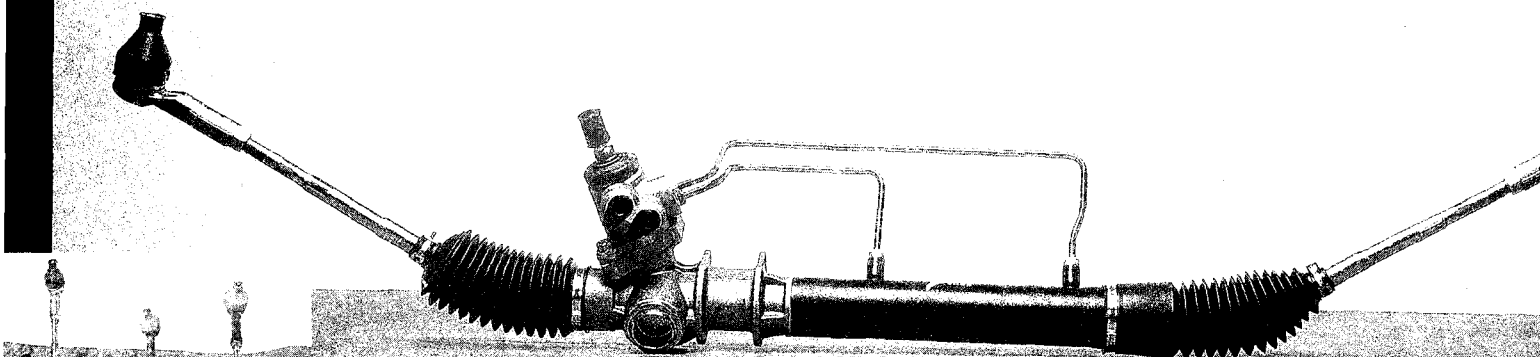
8th Floor, DLF Square, Jacaranda Marg
M Block, DLF City Phase II
Gurgaon 122 002 (Haryana)

LIAISON OFFICE

2nd Floor Piramal Mansion
235, D. N. Road, Fort
Mumbai 400 001

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- 38/6 NH-8
Delhi-Jaipur Road
Gurgaon 122 002 (Haryana)
- P.O. Box 14
Chennai-Bangalore Highway
Sriperumbudur
Distt Chinglepet
Tamil Nadu 602 105

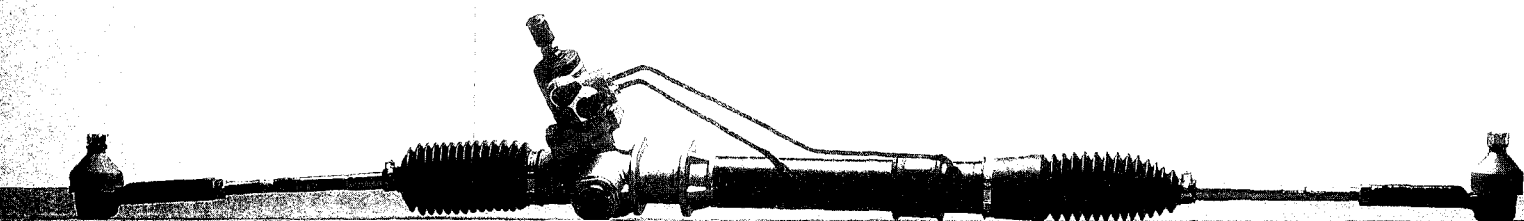


TOYOTA QUALIS

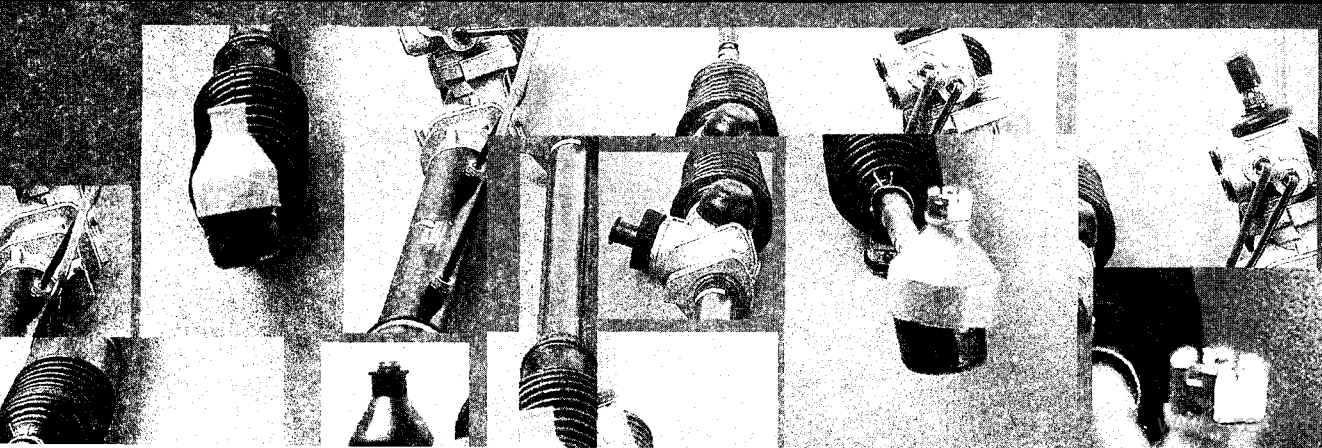
MARUTI ESTEEM

MAHINDRA SCORPIO

Report Junction.com



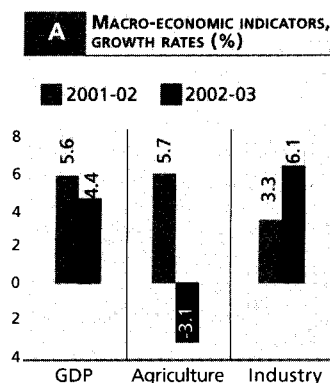
POWER STEERING



MANAGEMENT DISCUSSION & ANALYSIS

After a two-years downturn, 2002-03 witnessed a revival in the industrial and manufacturing sectors. Compared to 3.3 per cent growth in 2001-02, the quick estimates of the Central Statistical Organisation (CSO) have estimated industrial growth to be 6.1 per cent in 2002-03. Unfortunately, this recovery in the industrial and manufacturing sectors did not translate to faster GDP growth. Because of severe drought conditions in 2002-03, growth in agricultural output fell by 3.1 per cent. Thus, despite 6.1 per cent growth in industry and over 7 per cent growth in services, the CSO has estimated GDP growth for

2002-03 at 4.4 per cent — lower by more than 1 percentage point compared to 2001-02. **CHART A** gives details.



Note: GDP, Agriculture and Industry growth rates are CSO estimates for March-April

segments witnessed modest growth in production and sales in 2002-03. However, in their bid to increase sales in difficult times, automobile companies followed aggressive pricing strategies during the year, which inevitably lead to reduced vendor margins.

Therefore, while the growth in the passenger cars and utility vehicles segments translated into greater volumes of sales for automotive component suppliers such as Sona, prices and sales realisations remained under pressure during the year.

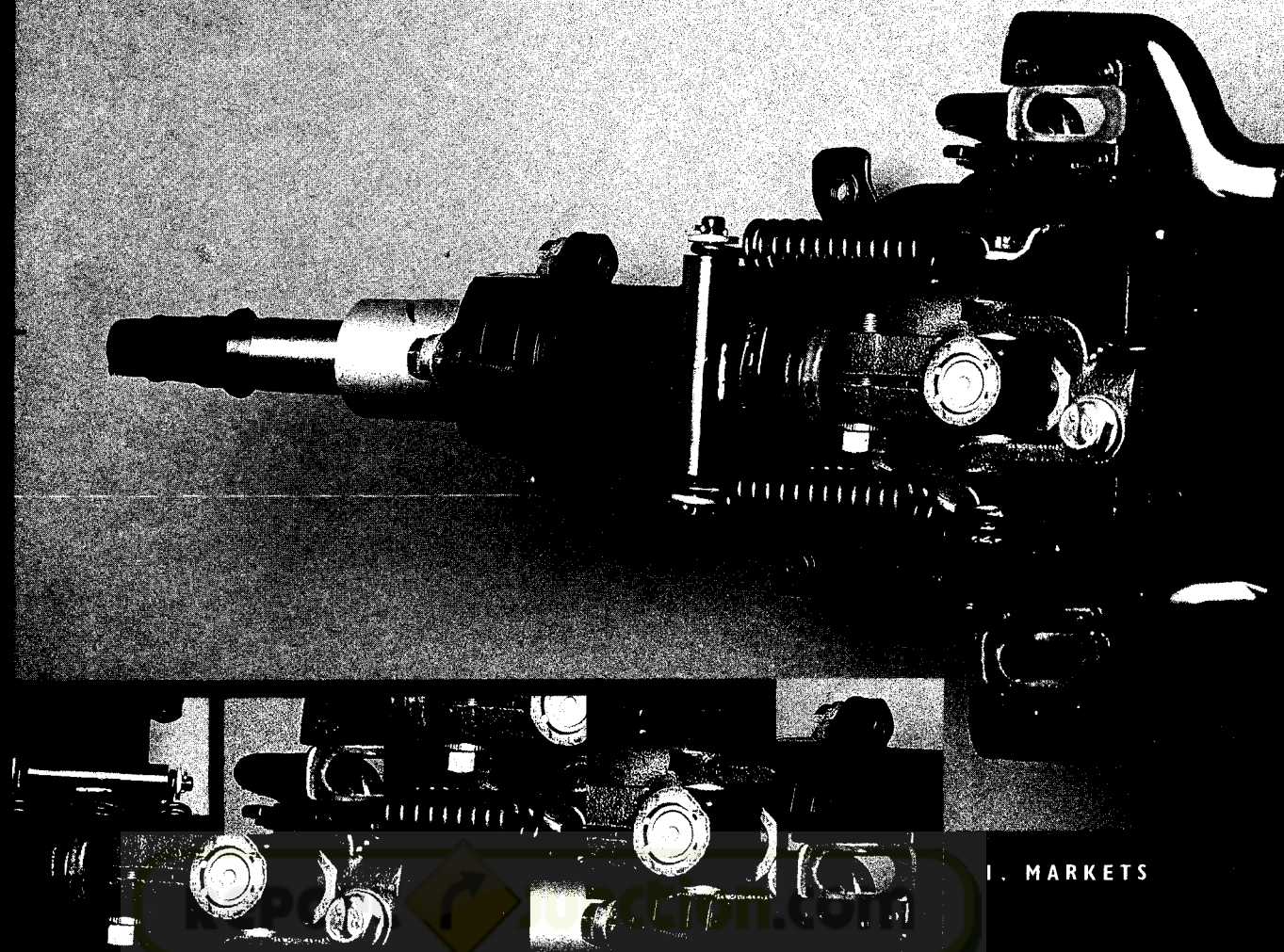
Even so, the Company was successful in posting a 7 per cent increase in sales — thus reversing the decline trend over the last two years. Moreover, our emphasis on operational efficiencies, cost management and reduction of financial charges resulted in faster growth of profits and return on shareholder's fund. The financial highlights for 2002-03 speak for themselves.

- Total sales grew by 7 per cent, from Rs.2,048 million in 2001-02 to Rs.2,188 million in 2002-03.
- Profit before depreciation interest and tax (PBDIT) grew by 26 per cent from Rs.128 million in 2001-02 to Rs.162 million in 2002-03.
- Cash profit increased by 24 per cent, from Rs.144 million in 2001-02 to Rs.179 million in 2002-03.
- Financial charges (mainly interest outgo) reduced by 62 per cent, from Rs.44 million in 2001-02 to under Rs.17 million in 2002-03.
- Profits before tax (PBT) increased by 45 per cent, from Rs.62 million in 2001-02 to Rs.90 million in 2002-03.
- Profits after tax (PAT) grew by 27 per cent, from Rs.48 million in 2001-02 to Rs.61 million in 2002-03.

During the year under review, the Company has identified new strategic goals and initiatives, which should propel us into a higher growth path in the coming years. We are building design and development capabilities so that we can quickly transform ourselves from being a pure components manufacturer to an integrated Company that offers design, development and manufacturing solutions to our customers.

In the course of this chapter we shall outline these initiatives as well as developments that impacted the operational performance of Sona during 2002-03. As was the case last year, we shall begin with a discussion of the markets, move on to operations, and finally analyse the financials.

TELCO SAFARI



I. MARKETS

Domestic

Sona's product portfolio primarily consists of Steering Systems (steering gears and columns), axle components and Propeller Shafts. In volume terms, the Company is the market leader in the Indian steering systems category, with a market share in excess of 50 per cent. In value terms, Sona is the second largest player, with a share of around 30 per cent. The difference in the volumes and value share is due to the fact that, at present, relatively lower value manual steering systems still account for a large portion of our product mix, and the Company's current strategy is to increase its presence in the power steering segment.

As mentioned earlier, passenger cars and utility vehicles are the main customer segments of Sona. As **CHART B** shows, car sales grew by 3.6 per cent in 2002-03. While this was a welcome development after two years of flat sales, the growth was modest — especially compared to the growth witnessed in 1999-2000. Utility vehicles sales, too, rose by 10.4 per cent during 2002-03. The combined sales of cars and utility vehicles increased by 4.6 per cent in 2002-03, compared to less than 1 per cent growth in 2001-02.

B SALES OF PASSENGER CARS AND UTILITY VEHICLES (IN UNITS)

