

Contents

3 Chairman's Letter

5 Board of Directors

7 Management Discussion and Analysis

15 Corporate Governance

28 Additional Shareholder Information

34 Directors' Report

39 Auditors' Report

42 Financials

63 Auditors' Report (Consolidated)

64 Financials (Consolidated)

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Chairman's Letter

Dear Shareholders,

It has been an exciting year for Sona Koyo. This year we celebrated 20 years of our existence. In 1988 your Company started with 27 employees and achieved a turnover of Rs. 70 million. Today your Company employs over 1000 people and has a turnover of Rs. 8273 million. It has been an exciting journey of transformation into a strong TQM organization.

2007-08 has been a year of ups and downs for India and especially in the fourth quarter most companies felt the pressure. Used to a hectic and steady pace of growth India has seen some of the real issues a growing Economy faces, surface this year. We have seen our stock market fall by 4000 points and then grow by 1500 points in a matter of days. The rupee has appreciated by 17% putting Indian exporters under pressure. Interest rates have risen and certain sectors are beginning to experience a slowdown in growth. Steel and oil prices have risen to all time highs. Inflation is also over 7% today. However the Government has taken fairly swift corrective actions, the effect of which we will see in the coming year. GDP growth will remain at over 8% for the next couple of years.

The Indian Automotive Industry has come of age in the year 2007-08. The introduction of the "Nano" is a fine example of Indian innovation and this will change the landscape of the World Auto Industry. The acquisition of two of the most prestigious car brands namely "Jaguar" and "Land Rover" is something that should make every Indian proud. India is well on the path to becoming a global hub for cars.

During the year, the domestic market for passenger vehicles grew by over 12 percent. This was lower than last year but expected, as one cannot expect over 20% growth every year. Maruti Suzuki, our most important customer, grew by over 13% and introduced 3 very exciting cars into the market. Also with the small car at very competitive prices coming in this year we will see demand from a totally new income bracket. In commercial vehicles the 1 ton carrier, also spurred a new thinking in the transportation of goods in this country. Our estimate is that the demand will continue to grow at least for the next five years.

Your Company has strategically addressed these markets and we will be a leading player in the new segments and continue to be a leader in Steering Systems in the country. Sona Koyo, will continue to dominate the Electronic Power Steering market, where most of the demand will come from in the coming years, and we have a new subsidiary coming up in Bawal, Harayana exclusively for EPS. This plant is one of the 3 new subsidiaries that your Company has set up to address the growing needs of the Indian Auto Industry. The name of this subsidiary is "JTEKT Sona Automotive India Limited".

Another subsidiary "Sona Fuji Kiko Automotive Limited" will make us the country's largest manufacturer of Steering Columns and address a large export market. Besides this we have "Arjan Stampings Limited" which will make sheet metal components for Steering Systems and export to our partners, through a Strategic Business Unit set up by Sona Koyo last year to take care of the growing needs of our various partners for high quality components from a low cost country.

Our Company has entered into a strategic joint venture with American Axle, the largest axle manufacturer in the world, which will supply axles to Tata Ace in Uttarakhand. The name of this JV is "AAM Sona Axle Private Ltd.". Sona Koyo will supply the differential for this vehicle and is also setting up an independent unit in the state.

You will be happy to note that your Company's expansion plans are well on track. We are building a plant at Singur to support the Tata "NANO" requirement.

During 2007-08, Sona Koyo invested Rs. 1.33 billion to expand its capacities and has had another impressive year in sales, which increased by 17% to Rs. 8273 million in 2007-08.

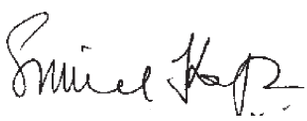
Operating profit (OPBDIT) rose by 4 percent to Rs. 665 million.

Last year in my letter to you I highlighted my concerns about the rupee. An unprecedented appreciation of the Yen against the rupee plus a very sharp increase in steel prices in the last quarter resulted in a hit at PAT, which fell from Rs. 277 million to Rs. 252 million. I would like to state that Sona Koyo has been very cautious and reduced its dollar exposures in terms of export contracts. Despite this we have shown a 16% increase in export sales, due to a conscious drive to increase euro contracts.

While there is a lot of talk of a slowdown, at Sona Koyo we believe that this is only temporary and we are going ahead with our capacity creation.

Like every year I will also share some of my concerns. Rising steel prices, a strengthening rupee, rising interest rates and a looming threat of unfair competition are all realities that Indian Industry must face. We need to see this as an opportunity to become a stronger enterprise that is globally competitive. We need to ensure that this strength is not just internal but also transferred to our supply chain. Sona Koyo needs to transform suppliers and help them introduce TQM and TPM to their organizations.

Let me take this opportunity to thank our partners and customers for their continued support, and to all our employees for their dedication and their hard work. Also please allow me to express my heartfelt thanks to you, the shareholders, for the continued faith in your Company.



Dr Surinder Kapur
Chairman & Managing Director

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Board of Directors



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BOARD OF DIRECTORS

Dr. Surinder Kapur
Chairman & Managing Director

Mr. Sunjay Kapur
Vice Chairman

Mr. K.M. Deshmukh
Dy. Managing Director

Mr. Waichiro Ijiri
Nominee of JTEKT Corporation, Japan

Mr. Noriyuki Fujita
Nominee of Maruti Suzuki India Limited

Mr. Jug Mohan Kapur

Mr. B.L. Passi

Mr. Ramesh Suri

Mr. Ravi Bhoothalingam

Mr. P.K. Chadha

Lt. Gen. (Retd.) Shamsher Singh Mehta

COMPANY SECRETARY

Mr. Sudhir Chopra

EXECUTIVE MANAGEMENT

Dr. Surinder Kapur

Mr. K.M. Deshmukh

Mr. P.V. Prabhu Parriker

Mr. Sudhir Chopra

OPERATING MANAGEMENT

Mr. K.M. Deshmukh

Mr. P.V. Prabhu Parriker

Mr. Y. Kajitani

Mr. Sudhir Chopra

Mr. Atanu Maity

Mr. Rakesh K. Gaind

Mr. S.C. Gupta

Mr. A.D. Rao

Mr. Sameer Kumar Jindal

Mr. R.M. Lal

Mr. P.P. Gajpal

TECHNICAL PARTNERS

JTEKT Corporation, Japan

Mando Corporation, Korea

Fuji Autotech AB, Sweden

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

Citibank N.A.

UCO Bank

ICICI Bank Ltd.

HSBC Ltd.

Corporation Bank

REGISTRAR AND TRANSFER AGENT

Karvy Computershare Pvt. Ltd.
105-108, Arunachal Building
19, Barakhamba Road
New Delhi - 110 001

REGISTERED OFFICE

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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)

WORKS

1. 38/6 NH-8
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   Gurgaon - 122 002 (Haryana)

2. P.O. Box 14
   Chennai-Bangalore Highway
   Sriperumbudur,
   Distt. Chinglepet - 602 105 (Tamil Nadu)

3. Plot no. 32, Industrial Area
   Phase II, Dharuhera
   Distt. Rewari, Haryana

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Management Discussion and Analysis

Management Discussion and Analysis

In 2007-08 Sona Koyo Steering Systems Ltd. (referred to also as "SKSSL" or "Sona Koyo" or "the Company") out performed the growth of the auto component industry. Your Company witnessed a growth of 18% vis-a-vis the industry's 8.1%. The highlights of SKSSL's performance in 2007-08 are:

- Domestic Sales increased by 18% from Rs. 5260.9 million in 2006-07 to Rs. 6205.3 million in 2007-08
- Exports increased by 15.3% from Rs. 546.6 million in 2006-07 to Rs. 630.4 million in 2007-08
- Earnings before interest, depreciation, tax and amortisation (EBIDTA) increased by 3.8% from Rs. 640.3 million in 2006-07 to Rs. 664.6 million in 2007-08
- Gross fixed assets increased by 61.8% from Rs.2,314.6 million in 2006-07 to Rs.3,745.7 million in 2007-08
- Strategic investments increased by 71.9% from Rs. 298.7 million in 2006-07 to Rs. 513.5 million in 2007-08

Even though domestic sales have increased, the steep hardening of the Yen vs. the Rupee, the weakening of the Dollar against the Rupee, sharp increases in material costs especially steel & oil prices, rising interest rates and world wide inflation brought 4th quarter margins under pressure. Certain portions of cost increases have been offset by productivity improvements and volumes but some of the increases have been so sharp that we have been forced to approach the customer for compensation.

Chart A shows that oil prices continued to increase to record levels globally and had breached the US$ 100/barrel mark by the end of March 2008. While the Indian Government has managed to control the direct effect of such high oil prices on the Indian consumer, the prices of products like furnace oil and diesel, which are key to manufacturers, have increased. In addition, the higher levels of global fuel prices have significantly increased freight rates affecting real costs of the Company's imports.

Chart B shows that steel price inflation was also at high levels in India during the whole of 2007-08 and especially in the last quarter, the price increase has been extra ordinary. Such input cost increases have an effect on auto-component manufacturers, like Sona Koyo, where steel is a significant input cost. While generally, input cost hikes can sometimes be offset by productivity improvements and larger volumes, the extent of these recent increases are beyond the norm. Sona Koyo is in discussion with its customers to find solutions to this issue.

Chart A: Average Global Crude Oil Prices
USD/Barrel

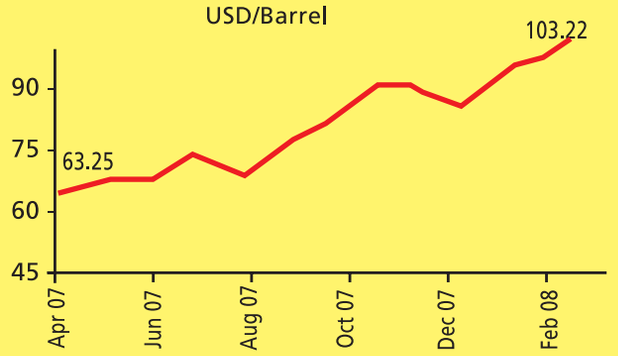


Chart B: Steel Price Inflation (WPI)

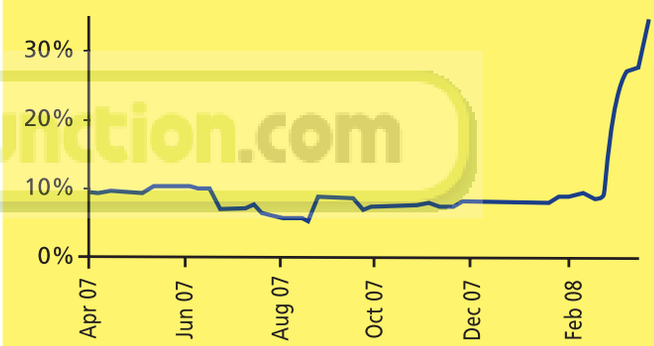
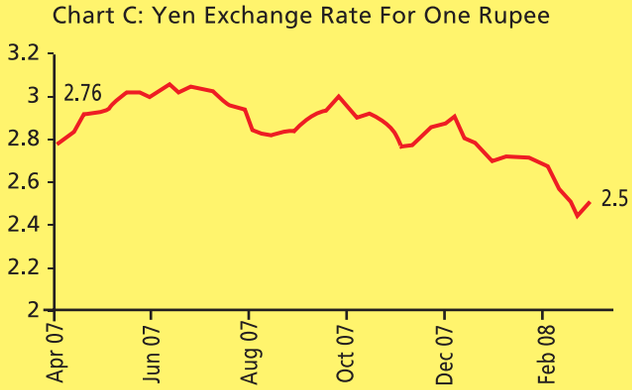


Chart C: Yen Exchange Rate For One Rupee



In addition, the second half of 2007-08 also witnessed a significant appreciation of the Japanese Yen in terms of the Indian Rupee. Chart C plots the data. SKSSL imports components from Japan, which go into the production of sub-assemblies or systems in India. With the rapid appreciation of the Yen, the cost of these imports have shown a marked increase, especially in the second half of 2007-08.

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Much of these unforeseen raw material price increases, and adverse currency fluctuations, could not be passed on to OEMs during 2007-08. However, the management is confident that the OEMs will share a part of these input price increases and some of the benefits of such sharing arrangements will flow into SKSSL's books with retrospective effect.

As far as exports are concerned, we had originally planned to do Rs.1 billion but as dollar exports became more and more unattractive we toned down our quest for dollar denominated exports and concentrated on getting more euro related orders hence we downgraded our projection to Rs.0.6 billion knowing that the overall growth would be maintained due to the booming domestic market.

SKSSL continued to focus on its Total Quality Management (TQM) and Total Productive Maintenance (TPM) practices, improving productivity, and actively pursued localisation and backward integration opportunities to reduce the impact of these cost pressures. Despite this, operating margins (EBIDTA/Sales) have dipped marginally.

In 2006-07, the Company embarked on a 4-year investment programme that focused on creating and enhancing capacities across products. In 2007-08 SKSSL has taken significant strides on the capacity and business creation front. The investment initiatives have also affected profits at the PBT level; however as this was a part of planned expansion the benefit of these investments will flow back to the bottom line in the years to come. The Company stays on track towards fulfilling its long-term strategic vision.

The proposed 4 years Rs. 4 billion capital expenditure programme focuses on expansion of its Manual and Hydraulic Power Steering facilities at Gurgaon and Chennai, localisation of its Column type Electronic Power Steering (C-EPS) facilities at Dharuhera and widening its production base across India to places like Uttarakhand and West Bengal. During 2007-08, the second year of this expansion process, SKSSL added capacities across products with a total expenditure of around Rs 1.33 billion.

The Company has developed four joint ventures during 2007-08.

- SKSSL has entered into a 49:51 Joint Venture with JTEKT (called JTEKT Sona Automotive India Ltd.). Sona Koyo will have management control. This JV will cater to the new C-EPS businesses.
- The Company has also entered into a new 51:49 Joint Venture with Fuji Kiko Co. Ltd. (called Sona Fuji Kiko Automotive Ltd.) where Sona Koyo will have management and Board control. This venture will focus on the Column business.
- SKSSL has also entered into a 30:70 joint venture with AAM International Holdings Inc. of USA where Sona Koyo has specific responsibilities, apart from a strategic minority stake. This venture will be crucial to bring in the latest light axle technologies owned by AAM and help penetrate markets especially in the domestic SUV and commercial vehicle market.
- In order to cater to the sheet metal part requirements of its partners, the Company floated a new joint venture - Arjan Stampings Ltd. - with an existing vendor - Arjan Auto Private Limited.

These developments have resulted in an increase in the Company's strategic investments to the tune of Rs. 214.8 million. This, along with the capacity additions and work in progress has significantly increased capital employed in the Company. In fact, the Balance Sheet total of capital employed has increased by 57.1% to stand at Rs. 3,931.9 million at the end of 2007-08.

Markets

Sona Koyo produces a range of products that go into Steering Systems, including the complete Steering System itself. During 2007-08, Steering Systems and related products accounted for 87% of the Company's sales. The Steering Systems portfolio includes Manual, Hydraulic and the fresh capacities of Electronic Power Steering Systems. The Company also manufactures driveline products including case differentials, axle components, rear axle assemblies and propeller shafts.

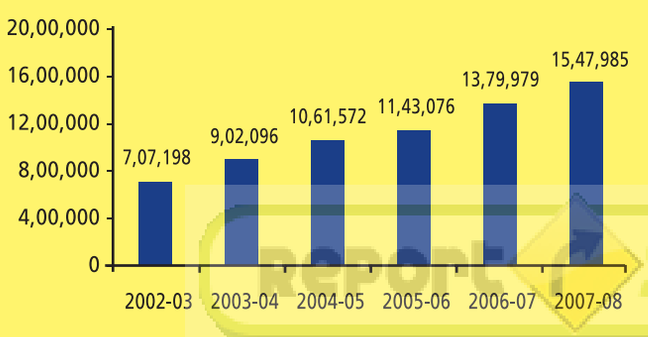
Sona Koyo is the largest supplier of Steering Systems to passenger vehicle manufacturers in the country and is actively growing its driveline business by focusing on products where it has a distinct competitive advantage. While the domestic market is key to most of the Company's revenues and growth, global markets also have a direct and indirect impact. On a direct route, the Company has been focusing on exports through strategic global partnerships and by penetrating specific market segments like off-highway vehicles. Indirectly, the Company supplies to major OEMs in India like Suzuki and Hyundai, who in turn export to global markets.

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On the whole the Indian automobile sector showed a slow down, but this was primarily due to a 5.2% fall in two-wheeler sales, and a 10% fall in three-wheeler sales. As Chart D shows, domestic passenger car sales, which are Sona Koyo's key market, have grown in a sustained manner over the last 6 years.

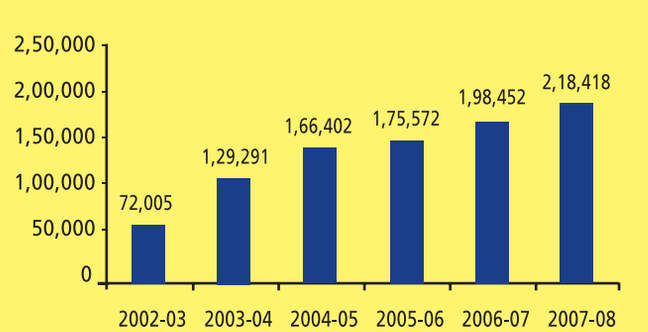
The 12.2% growth of passenger car sales in 2007-08 is lower than the 20.7% growth witnessed in 2006-07, however, as the ACMA-McKinsey report states the long term annual growth rate will be close to 10% between 2007 and 2015. So, the opportunities in the Indian car market remain on the right course.

Chart D: Domestic Passenger Car Sales (nos)



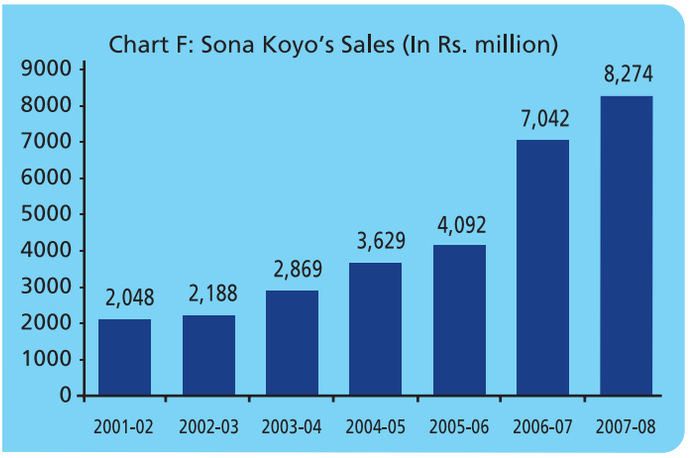
Exports of Indian cars continued to grow at a healthy rate, increasing by 10.1% in 2007-08. Chart E plots the data for India's export sales over the last 6 years.

Chart E: Indian Passenger Car Exports (nos)



In this milieu, SKSSL continued to outperform the market. The Company's gross sales increased by 17.8% to Rs. 8,274 million in 2007-08 (see chart F). Much of this growth came from an18% growth in domestic sales from Rs. 5,261 million in 2006-07 to Rs. 6,205 million in 2007-08.

Chart F: Sona Koyo's Sales (In Rs. million)



In India, while the compact segment maintained its sales levels, the mid-size segment grew on the back of new model launches, while the UV segment witnessed good demand growth for its popular variants. There was also a spurt in demand for exports from two leading passenger car manufacturers in India - Suzuki and Hyundai. Sona Koyo is well positioned with these clients and benefited from having products that catered to some of the growing segments and models. The Company's active partnership with customers in their new model development from an early stage continued to help grow SKSSL sales.

The competitive intensity of the Indian market is expected to further increase with global steering manufacturers entering India with 100% wholly owned subsidiaries. In the beginning, they will service the segment catered to today by imports (around 30% of the market). Many of these companies have existing partnerships in India. Their direct entry will eat into the sales of these partnerships first. After which there will be a general increase in competition. Sona Koyo is gearing up for this by making necessary investments and forging global alliances that will help it to maintain its ability to enter into new platform business of international vehicle manufacturers. While this competition is imminent, it is also important to understand that the market is going to be much larger so there will be a space for most manufacturers within this market.

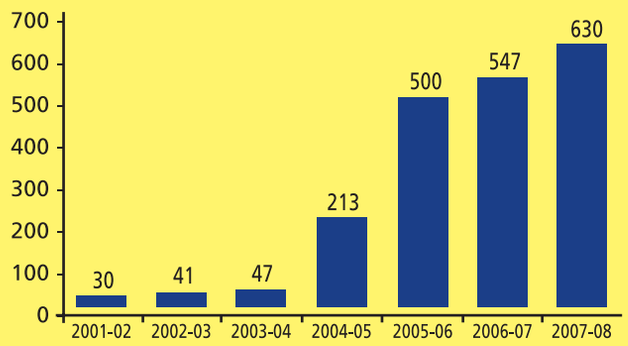
On the export side, revenues increased by 15.3% to Rs. 630.4 million in 2007-08. Chart G plots how Sona Koyo has steadily built its overseas business over the last 7 years. It is evident that the export thrust really started in 2004-05 and during the period 2004-05 to 2007-08, the Company's exports have grown rapidly at a Compound Annual Growth Rate (CAGR) of 43.5%.

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The Company has maintained its two-pronged export strategy. The first involves leveraging Sona Koyo's partnership with JTEKT Corporation and Fuji Kiko. Here, the Company plans to become an important element in JTEKT's and Fuji Kiko's global sourcing chain by being the preferred Tier II Supplier of Steering System sub-assembling and component. Already, in 2007-08, over 10% of its exports were to Fuji Autotech Europe (FAE) and such opportunities are expected to increase.

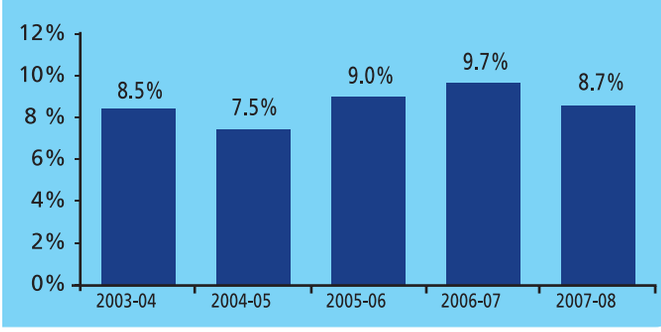
Chart G: Sona Koyo's Exports (In Rs. million)



Second, Sona Koyo has been focusing on developing significant designing capabilities, and providing complete steering solutions as Tier I suppliers in the non-passenger car segment, including off-highway vehicles. On this front, there has been a significant breakthrough in 2007-08 as the Company started commercial supplies of its own developed Electronic Power Steering named as Electronic Power Assist Module (EPAM) to the off-highway segment in the US.

As this report goes to print, the global economy, lead by the US is headed for a major slowdown. However, it is safe to say that the US-lead global real sector slowdown has not significantly affected the Indian economy. Advance estimates of the Central Statistical Organisation (CSO) suggest that real GDP in India grew by 8.7% during the year. While this will be less than the 9% plus growth achieved in 2005-06 and 2006-07, it is, by any yardstick, a very impressive growth rate for an economy as large as India's. Indeed, it brings the Compounded Annual Growth Rate (CAGR) over the last five years to over 8.7% (see Chart H). Indeed, the world is looking at the emerging economies like India and China to provide it with the growth impetus for the near future and the long-term growth and change in tastes of the consuming class in India is expected to continue.

Chart H: India's Real GDP Growth



In fact, the global slowdown is more of an opportunity for manufacturers like Sona Koyo. The Company does not yet cater to a large extent, to the global market so there is little effect on direct sales. However, there is going to be more opportunities as international manufacturers, reeling under cost pressures will look to increasingly outsourcing manufacturing to relatively low cost hubs like India.

Operations

Given the long-term growth opportunities both within India and abroad, Sona Koyo continues to invest both in increasing capacities and improving technologies. The Company believes that global scales and cutting edge technologies are critical to become a "Supplier of Choice" for global OEMs. In this endeavour, it is important to develop capabilities to become a provider of end-to-end solutions, and thus transit from being a vendor to a full-fledged automotive solutions provider. This development process is not only about investments, it is also about creating efficient and robust supply chain systems, maintaining uncompromising quality standards, and building product designing and testing capabilities that are world class. Thus, SKSSL's operations focus on manufacturing capacities, productivity and quality improvement programmes, supply chain management and research & development.

Manufacturing Capacities

During 2007-08, SKSSL established two new manufacturing plants at Uttarkhand and Singur, in addition to the existing plants at Gurgaon, Chennai and the newly developed facility at Dharuhera. Operations commenced at the Company's Dharuhera plant with shipments of Column type Electronic Power Steering (C-EPS) in July 2007 to Maruti Suzuki. Construction has

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