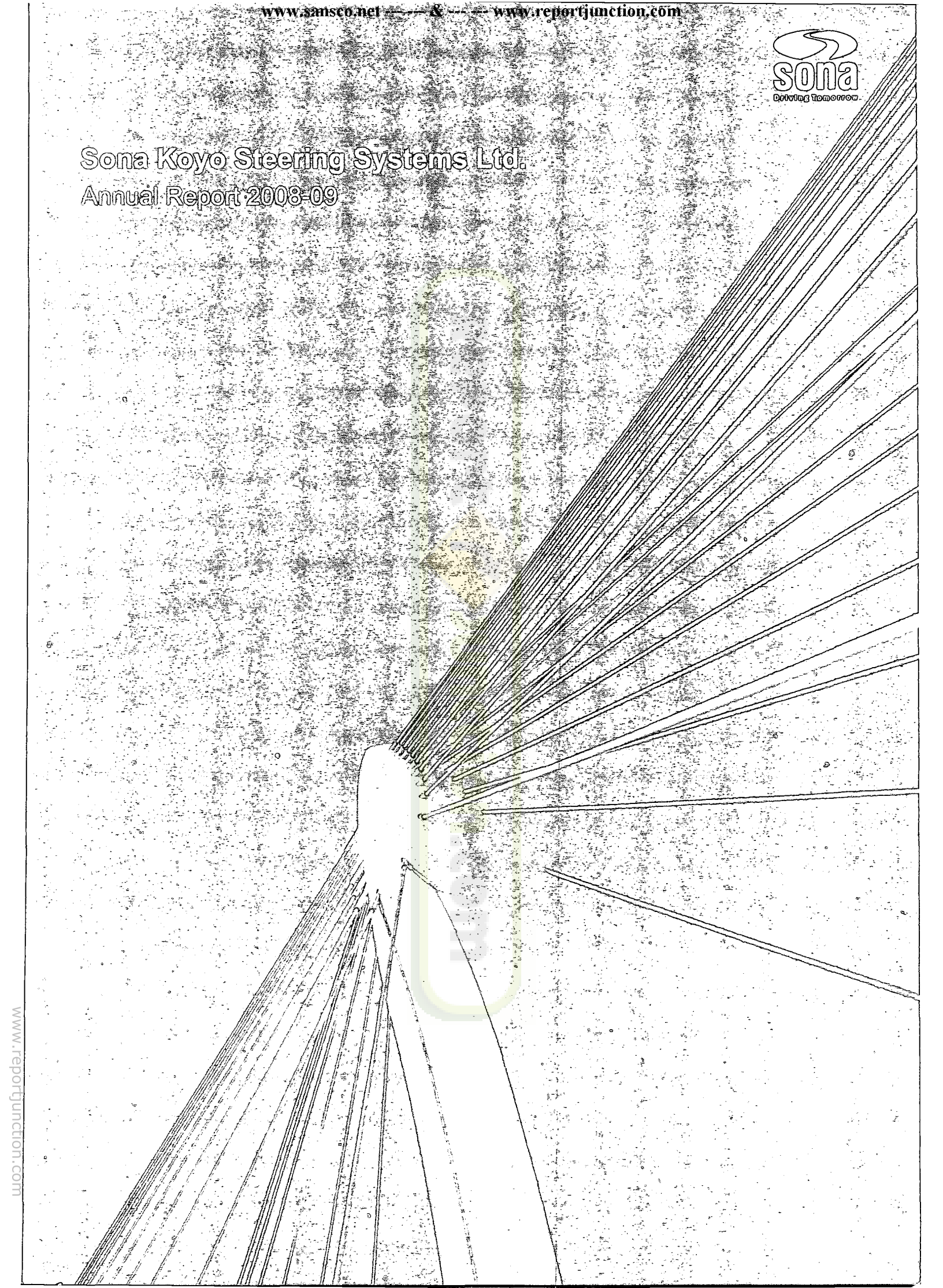
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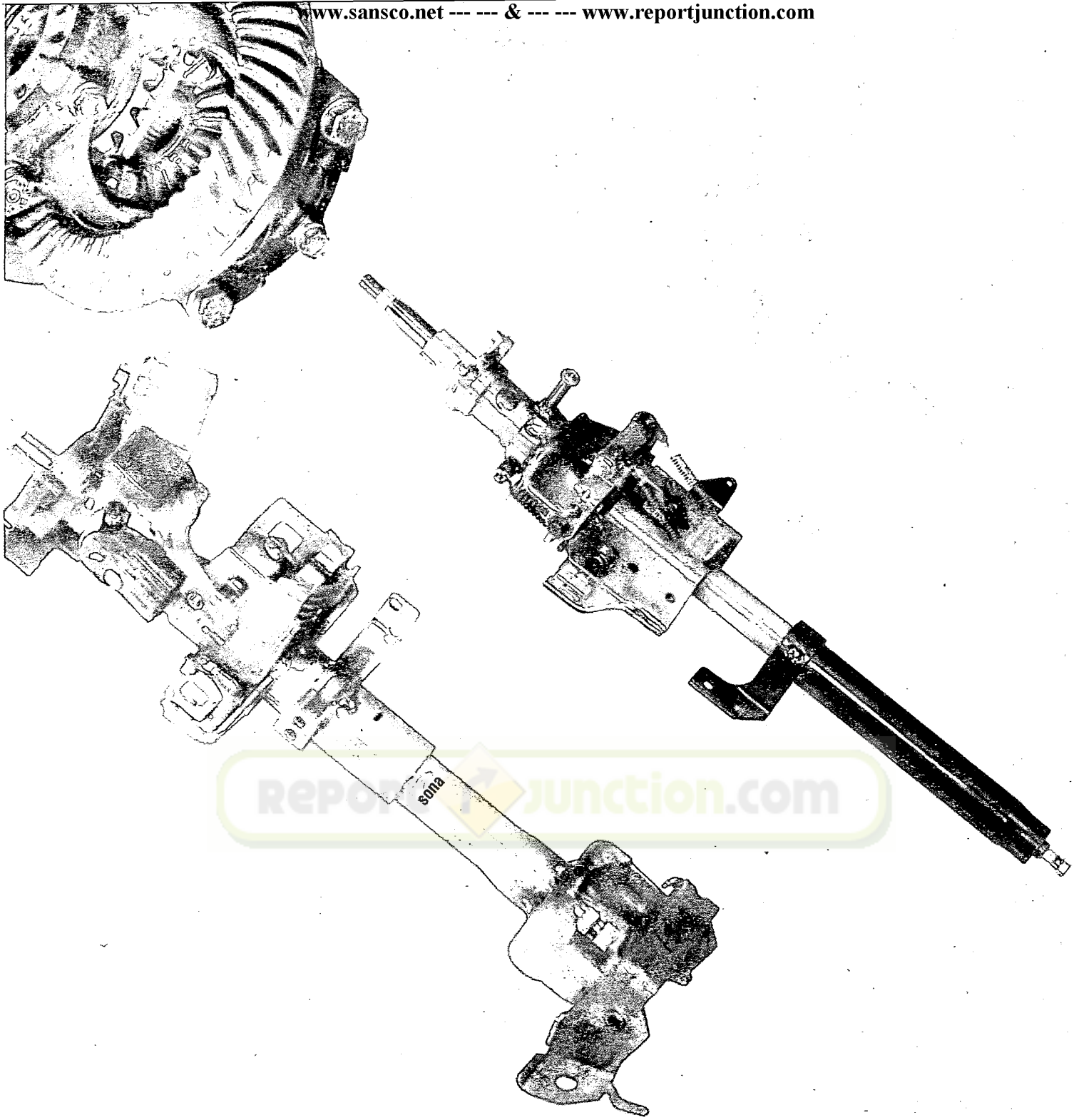
Sona Koyo Steering Systems Ltd.

Annual Report 2008-09



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Chairman's Letter



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Dear Shareholders,

The year 2008 – 09 has gone down in history as one of the worst years that the world economy has seen since the Great Depression of 1929. Icons of global business such as Merrill Lynch and Lehman Brothers have gone into oblivion, US auto marques such as Chrysler, GM are in bankruptcy while Toyota Motors, the bell weather of Japanese manufacturing has posted a loss of USD 4.4 Billion and expects to loose another USD 5.5 Billion by March 2010. The Indian economy has not been totally isolated from these world vagaries and neither has the auto sector.

Even though Passenger Vehicles grew by 6.75% from 1,768,283 to 1,887,619 units, the huge drop in Medium & Heavy and Light Commercial Vehicles by 32.45% and 10.45% respectively the over all market posted a 0.14% dip.

Higher input costs have hit everyone across the board. Steel prices rose by over 74% based on 2007 prices and have now settled at an increase of 33% over 2007 prices. The US$ rose by 23% from Rs. 39.98 in April 2008, to Rs. 49 in April 2009 and the Japanese Yen has also appreciated by 30% from April 2008 to April 2009. The cost of and access to funds for both consumers and corporates was another major issue. If you recall I had stated these as major issues facing the industry in my previous years address. As feared managing these issues has been a challenge for everyone associated with the sector – your company has been no different.

What we had viewed as a "temporary slow down" turned into one of the most challenging periods in recent economic history. Market sentiment, which took a huge dip towards the end of 2008-09 shaved 63.8% off the stock exchange from a high of 21,000 points. Lay offs, salary cuts and general uncertainty kept automobile customers away. We saw production schedules from our customers fluctuate wildly towards the end of the year. Auto companies, though quick to respond to the market, have had to revisit strategies and reach out to segments of customers which had until now remained untapped. Some key projects of our customers have got delayed or shifted – all leading to pressure on our top and bottom lines.

Your company has posted a top line growth of 1% moving sales up from Rs. 683.6 Crores to Rs. 693.2 Crores. Unfortunately huge input costs have hurt our bottom line terribly and we have for the first time in our history posted a loss of Rs. 31.03 Crores. It also pains me to announce Zero dividend to our shareholders for this year. It is the first time in the history of our company that I am not being able to support our shareholders – it is painful and it hurts. The pain has been doubly hard since we have had to undertake some very harsh measures internally. There has been downsizing of manpower, salary cuts and general tightening of the belt all around. We have not been able to pay bonuses to our shop floor workers. The pressure has also been passed on to our suppliers. The speed of our localisation plan has been stepped up and I am personally supervising its progress.

This will help cut our exposure to foreign exchange risks as well as contribute towards saving costs.

We remain true to our basic beliefs i.e. "Respect for the Individual", "Service to the Customer" and "Excellence in the Pursuit of our Goals" as well as follow our principles of TQM and TPM to keep competitive. We have stepped up our efforts on R&D taking out E-PAM technology to market. Some new businesses have been signed up in the truck and small goods carriers business and we hope to announce them shortly.

The 3 subsidiaries of Sona Koyo have been making steady progress. The JTEKT Sona Automotive and Sona Fuji Kiko Automotive facilities at Bawal are near completion and both should begin commercial production on time by November 2009. The Arjan Stampings facility at Farukh Nagar has started commercial production in April 2008. The AAM Sona facility at Pant Nagar in which Sona Koyo has an investment, has also started trial production.

While these tough times may be painful and difficult for us all – they also present opportunities for companies to work harder on internal systems, processes and policies that make them even more efficient. Let us look at Japan, who had to deal with an appreciating dollar, which rose from Yen 250 to 130 against the Dollar in a period of around just 1 year. The entire country looked inwards, rather than blaming the external forces, and came out with spectacular results. Their progress on internal efficiencies is well documented. We need to do the same.

That having been said, I view the future with cautious optimism. The recent return of a stable Government at the centre will undoubtedly help improve market sentiment, but the world economy continues to be in turmoil. The decision makers of our country have created a system that helps protect India from some of these storms and even today predict a GDP growth of anywhere between 5.5 and 6.5% – but we don't know for how long we will remain unaffected. Perhaps India and China will lead the world out of its current deflation – but whatever the future – it will take time for the global economy to turn around.

In the process it would be prudent for Sona Koyo to be cautious. We have seen a 9% increase in sales in the first two months of the year 2009-10 and commodity prices are looking stable. We are working closely with customers on forecasting and improving internal efficiencies. We will continue to look at internal efficiencies and make commitments with caution. We are looking at our project costs and are trying our best to prune them.

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

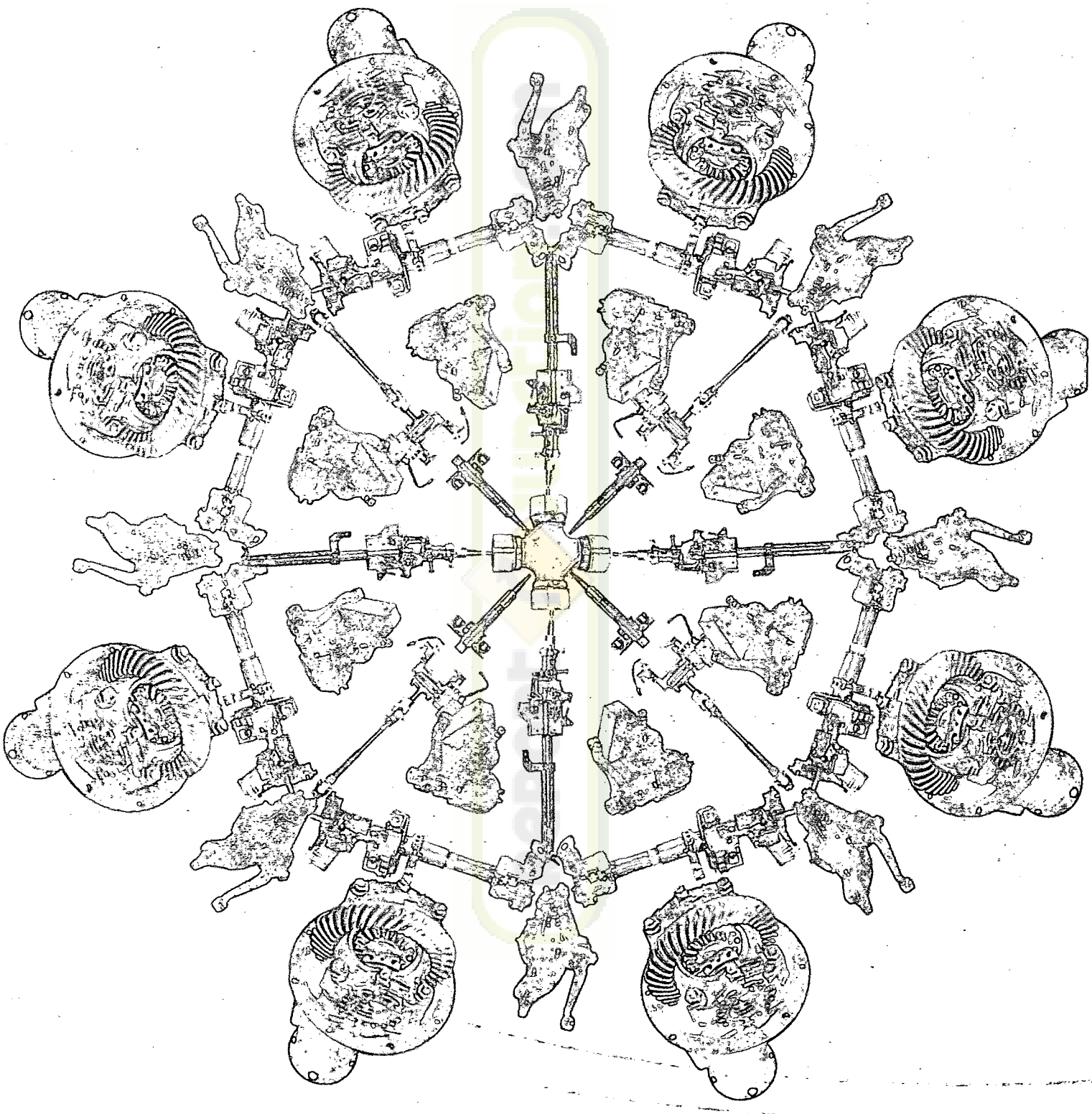


Dr. Surinder Kapur
Chairman

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Board of Directors



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BOARD OF DIRECTORS

Dr. Surinder Kapur
Chairman

Mr. Sunjay Kapur
Vice Chairman and Managing Director

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. Sunjay Kapur
Mr. K. M. Deshmukh
Mr. P. V. Prabhu Parriker
Mr. Sudhir Chopra
Mr. Sunder Rajan

OPERATING MANAGEMENT

Mr. Sunjay Kapur
Mr. K. M. Deshmukh
Mr. Sudhir Chopra
Mr. Sunder Rajan
Mr. A. Fujimoto
Mr. Atanu Maity
Mr. S. C. Gupta
Mr. A. D. Rao
Mr. Rajiv Chanana
Mr. P. V. Raju
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.
Corporation Bank
EXIM Bank of India

REGISTRAR & TRANSFER AGENT

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

REGISTERED OFFICE

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

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1) 38/6, NH-8
Delhi-Jaipur Road
Gurgaon - 122 002 (Haryana)
2) P. O. Box 14
Chennai- Bangalore Highway
Sriperumbudur
Distt. Chinglepet - 602 105
3) Plot No. 32, Industrial Area Phase II,
Dharuhera
Distt. Rewari (Haryana)

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Management Discussion and Analysis

MARKET SCENARIO

In 2008-09 Sona Koyo was able to sustain and marginally improve it's net sales growth despite severe pressure due to the Global Economic melt down and depressed local market sentiment. A favourable top line in the over-all passenger car and auto component market however did not translate into profitability during the year as almost all auto components majors have been severely affected by unfavourable conditions across all cost elements.

Oil prices continued their upward trend during the first half of 2008-09. In fact, crude oil prices at one stage went up to US $ 152/barrel (See Chart A) severely affecting power and freight costs. During the same period, steel prices also went up continuously month on month touching a record increase of 74% during Q2 FY 08-09 as compared to the base price level of April '07. (Refer Chart B). Other commodity prices also went up in the same ratio during this period. The impact of these factors listed above on our bottom line was significantly high. The Company went back to its' customers for price revisions and was able to mitigate the impact on costs to some extent.

However when the oil & commodity prices were cooling in the second half of 2008-09 (Refer Chart A & B), the Rupee suddenly took a reverse trend and depreciated against the Japanese Yen & the US Dollar. This put a severe strain on the Company, as 40% of total material costs came from imports (See Chart C & D on Exchange rate). In addition, during the third quarter of 2008-09, in keeping with market sentiment, which was also driven by the hike in interest costs and lack of availability of funds to retail consumers, volume demand from all Sona Koyo's customers went down across all categories resulting in negative growth

All of these factors resulted in an overall hike of 7% in material costs as compared to the previous year. A look at the turn of events since Jan '09, the over-all situation seems to be on the right direction for the current fiscal year 2009 - 2010.

1. Commodity prices have come down to April'08 levels. It is expected that these levels will be sustained for at least the next 2 years, as the revival of Global economy will take a while longer. This will greatly help the Company's endeavour at controlling material costs.
2. A strong and stable Government at the centre focusing on economic growth across all sectors will lift market sentiment. The resultant expected volume growth, will ensure higher utilisation of the Company's current capacities.
3. With foreign investors focusing on India, the expected inflows will result in an appreciation of the Rupee in the near future. This will result in a lowered cost of imports.
4. Interest rates are likely to come down further with the current levels of inflation. This will help in reducing our financial cost burden and will hopefully revive automobile sales thereby supporting both our top and bottom lines.
5. Apart from the external factors mentioned above, which are expected to provide comfort levels in the market condition, Sona have drawn up a well planned road map to reduce its material cost through

    a) Localization of imported parts
    b) Weight reduction on parts.
    c) Competitive and dual sourcing of materials, utilising the current market conditions.

Sona Koyo remains focused on our Total Quality Management (TQM) and Total Productive Maintenance (TPM) practices to improve productivity.

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Chart A: Average global crude prices
USD/ barrel

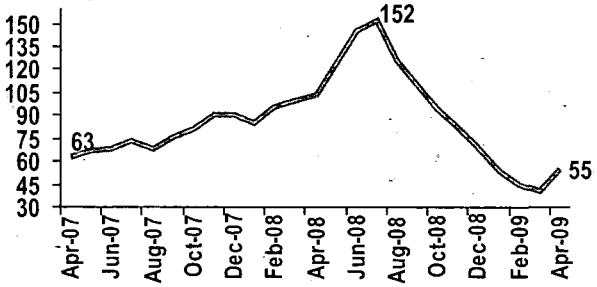


Chart B: Steel Price Inflation

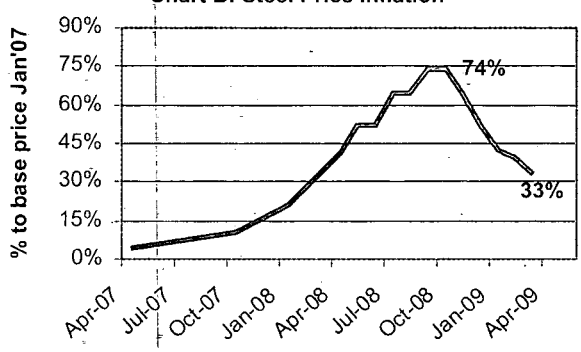


Chart C :Yen Exchange rate for one Rupee

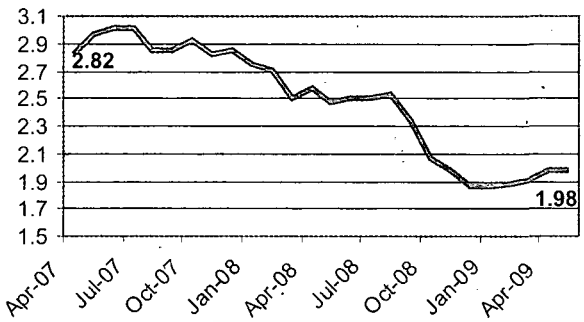
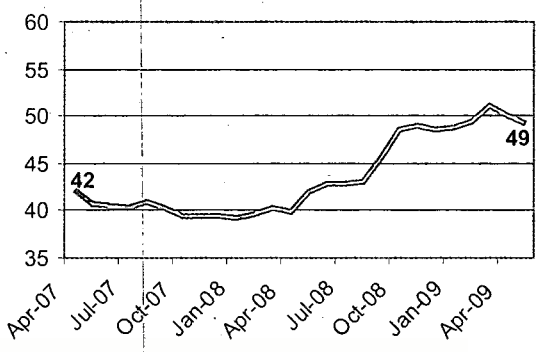


Chart D :Rupee Exchange rate for one USD

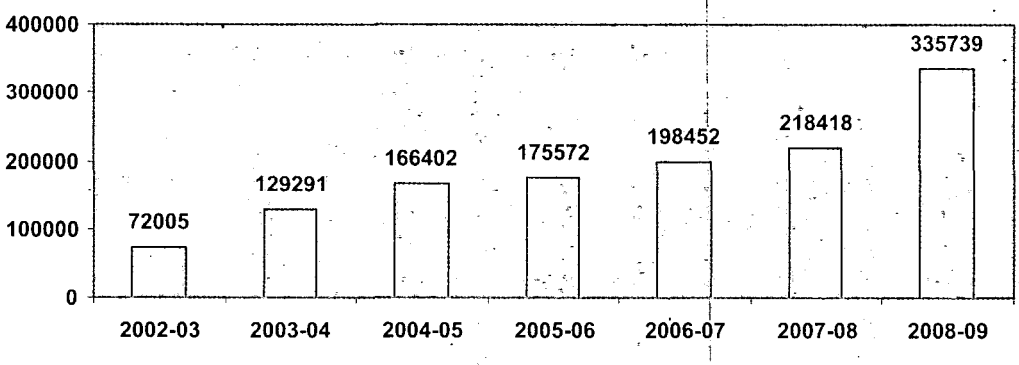


MARKETS

Sona Koyo has been steadily consolidating its position as the leading Steering Systems supplier in the country comprising of a steering product portfolio of Manual and Hydraulic Steering Gears, Manual and Electronic Steering Column as well as Intermediate Shafts. The Company's products are made to global standards of quality and performance and are increasingly sought by customers who use them in vehicles destined for domestic as wells as export markets. The focus segments are passenger car and utility vehicle although Sona Koyo is steadily increasing its presence in the commercial vehicle segment having established a pipeline of products and solutions for small commercial vehicles. Although Steering-products constitute 87% of the Company's sales, 13% of the sales are from Case Differential, Rear Axle Assembly, Propeller Shafts and Intermediate Drive Shaft for light passenger vehicles.

The domestic market continues to be the key to the bulk of the Company's revenues and growth, largely on account of increasing opportunities in the domestic market as OEMs expand capacities and enhance model line-ups to cater to both domestic and export markets. For example Maruti Suzuki and Hyundai have more than doubled their export portfolio in the last year alone and more OEMs plan to substantially increase their export targets (See Chart E).

Chart E : Indian Passenger Car Exports (No.)



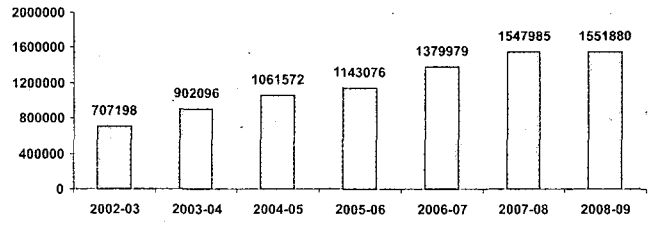
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With the year 2008-09 being as challenging as ever due to the severe economic downturn across the world, depressed market sentiment, contraction of liquidity and credit and inflation having reached levels of 12.8% by mid 2008 all took a toll on the automotive market.

Therefore,

- While the passenger car (Car + Utility Vehicle) industry grew by 6.7%, the sales in the domestic market alone grew only 0.13 % (See Chart F)
- The sales of Commercial Vehicles fell by a huge 22.3 % with Heavy Commercial Vehicles in particular falling by 32.5%

Chart F : Domestic Passenger Car Sales (No.)



The above contrasts sharply with what was an expected growth of 18% in passenger vehicles and a 20% growth in commercial vehicles.

Chart G : Sona Koyo's Gross Sales (In Rs. Million)

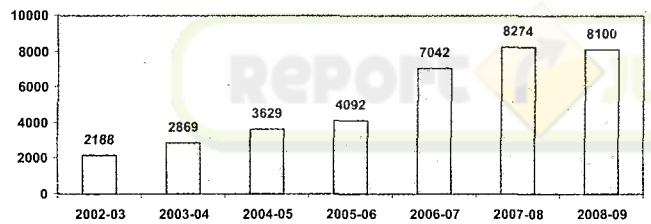
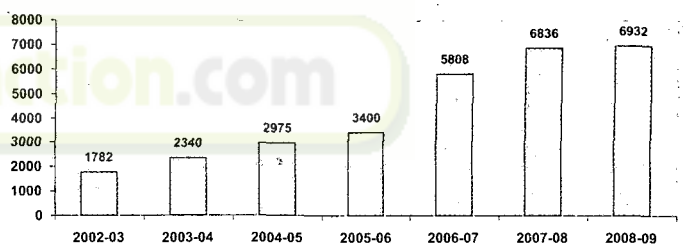


Chart H : Sona Koyo's Net Sales (in Rs. Million)



In this rather volatile economic environment the Company's Gross Sales declined marginally from Rs. 8274 Million in 2007-2008 to Rs. 8100 Million in 2008-09 (See Chart G), although the Net Sales improved marginally from Rs. 6835 Million to Rs. 6,931 Million (See Chart H) over the same period. This difference in the trends between Gross and Net Sales is due to the impact of excise tax structure.

However the last quarter witnessed a reversal of the previous quarter trends as the Government's multi-pronged fiscal strategies to infuse liquidity and control inflation started to yield results. Various excise duty cuts, reduction in interest rates and availability of loans also helped towards the slow recovery. Over-all the company believes that the long term demand potential shall remain intact with a trend growth of 8% over the next 4 to 5 years.

During 2008- 09 in the domestic market, production of compact hatchback and the midsize segments, particularly compact sedans, continued its growth trend while the overall premium segments suffered despite introduction of new models. Maruti Suzuki, Hyundai, General Motors and TATA Motors who introduced numerous new models mainly drove the higher sales in compact and small sedans. Maruti Suzuki and Hyundai also significantly increased their exports by 64%. The launch of the much-awaited ultra compact "Nano Car" from TATA Motors was however postponed. The usually buoyant utility vehicle market suffered a slight decline mainly due to economic conditions. However with new launches on the anvil, the market is expected to bounce back in 2009-10. Sona Koyo remains well positioned with customer in these vehicle segments and will benefit from segmental growth. The Company's active partnership with OEMs in their new model development from conceptual stages will continue to grow the future sales of Sona Koyo.

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