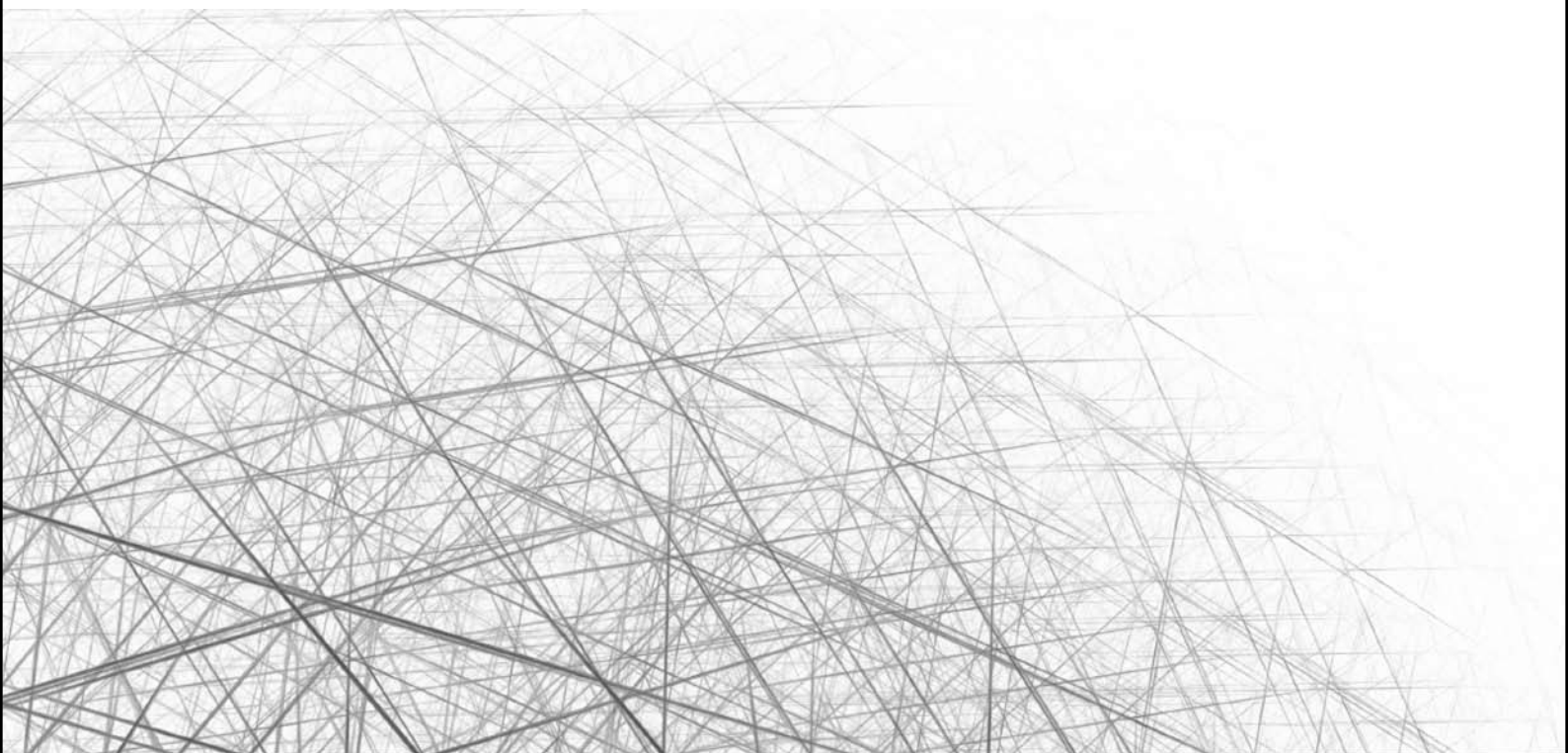
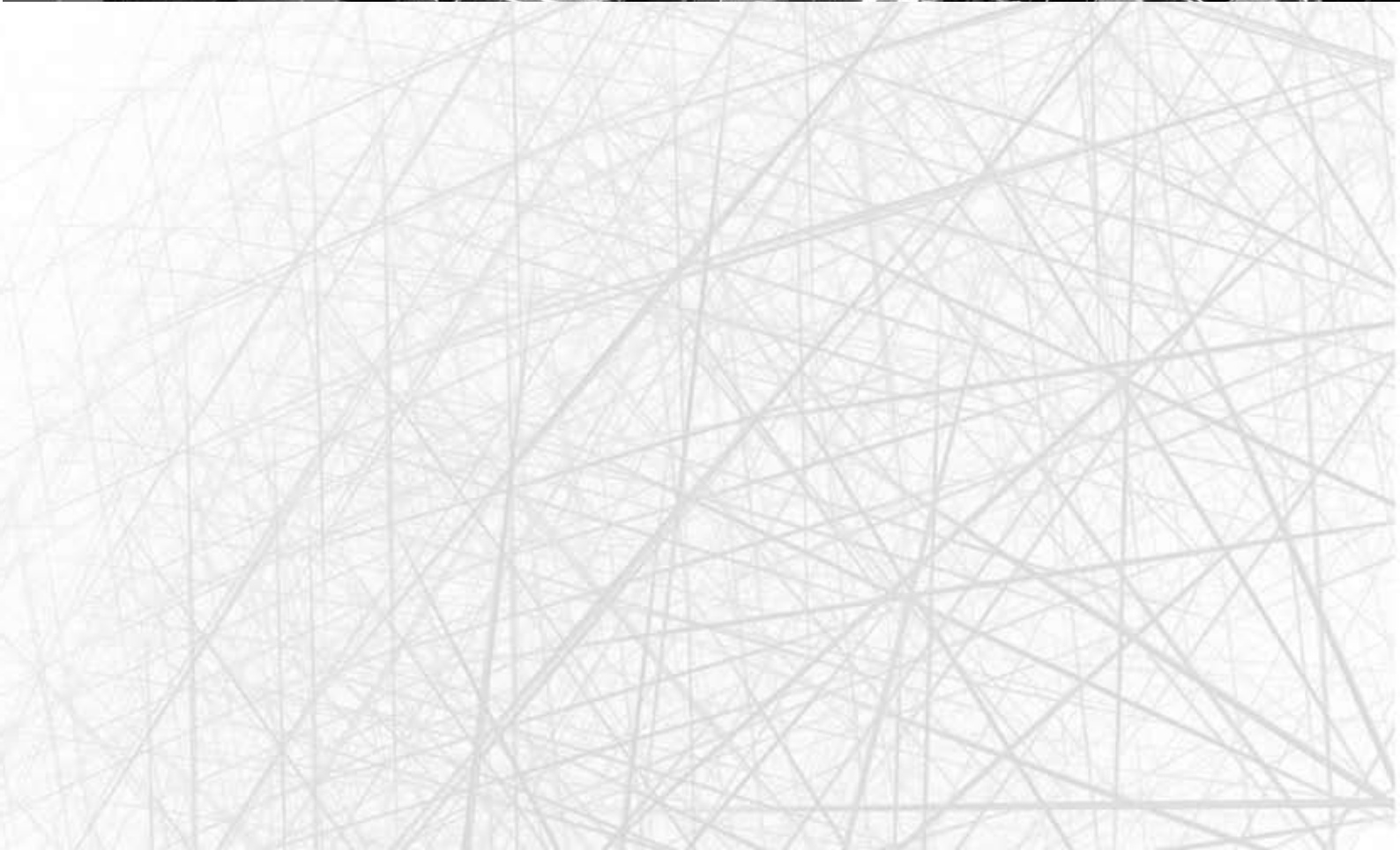
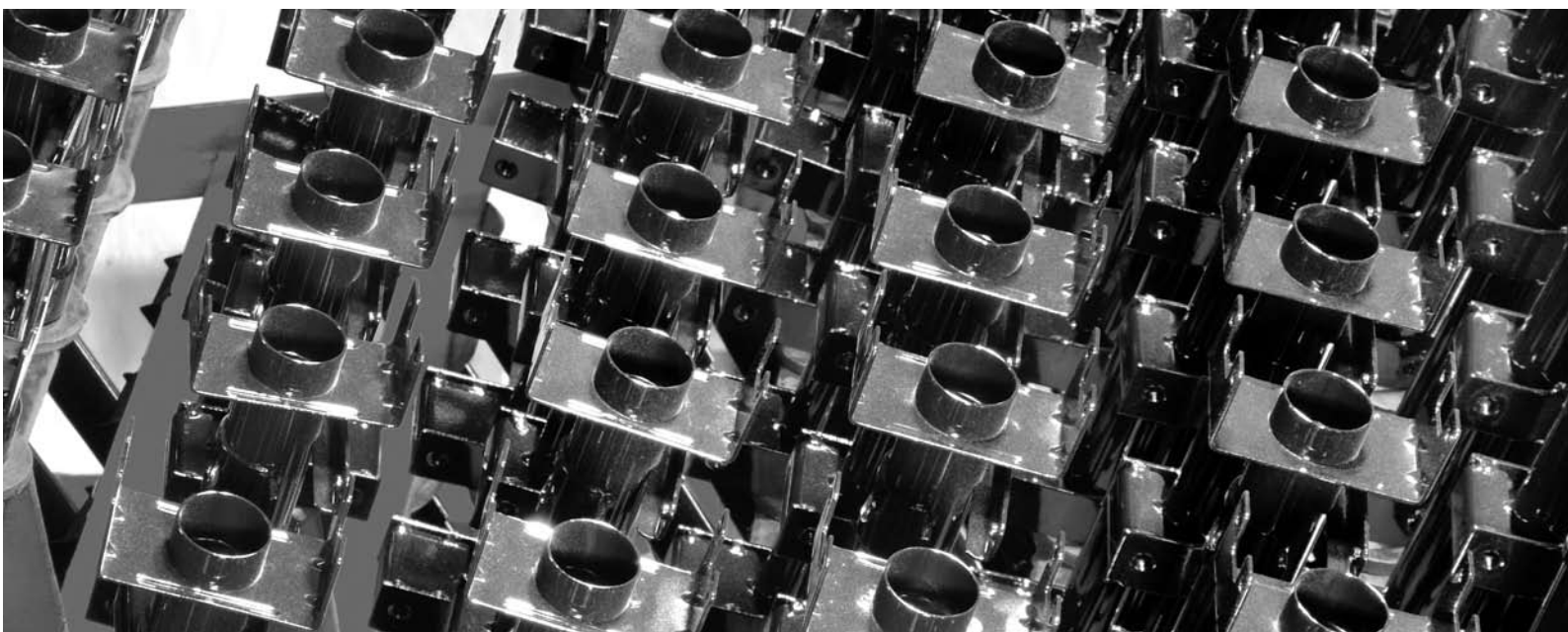


Sona Koyo Steering Systems Ltd.

Annual Report 2010~11





Contents

| | |
|--|----|
| Chairman's Letter | 2 |
| Vice Chairman & Managing Director's Letter | 4 |
| Board of Directors | 6 |
| Management Discussion and Analysis | 8 |
| Corporate Governance Report | 16 |
| Additional Shareholder Information | 29 |
| Directors' Report | 37 |
| Auditors' Report | 41 |
| Financials | 44 |
| Auditors' Report (Consolidated) | 69 |
| Financials (Consolidated) | 70 |

Chairman's Letter



Dear Shareholders,

In 2010-11, Sona Koyo Steering Systems Ltd. realized another milestone in its history by surpassing the Rs 1000 crore mark and achieved a Sales Turnover of Rs 1032 crore. With all its subsidiary Companies now commencing full year production, Sona Koyo Group on a consolidated basis posted a Sales Turnover of Rs 1203 crore. This reflects a 21% growth in sales on standalone basis and 41% on consolidated basis. The group also recorded higher net profit of Rs 44.63 crore on consolidated basis. Your company is committed to exceed Customer expectations by consistently providing high quality products. Management focus towards improving capacity utilization and value addition per employee, supported by strong market demand has helped the Company to achieve significant growth in turnover and profitability.

The global economy continues to recover at a slow pace than the forecast, while the emerging markets are beating the forecast growth. India is witnessing excellent growth and is expected to be a 5 million passenger vehicle market by 2015. India is now home to all the major Global Automotive Companies, which provide the Indian Automotive Components Companies good opportunities for growth. The auto component industry will expand both due to growth in domestic demand as well as International demand for its Indian OEMs.

India is most likely to be one of the fastest growing automobile markets, and perhaps the third largest, in terms of domestic market volumes, by 2020. The growth trajectory in automobiles in India was high, in double digits, during the past decade partly because of the acceleration in economic growth, and partly, because of favourable factors such as increasing finance penetration and rising consumer aspirations. The same factors are likely to continue to drive more than 10 per cent growth in cars, utility vehicles, light commercial vehicles, and scooters over the next 10 years. As per SIAM estimates, the sector is expected to grow at 15%-16% in FY-12 despite being impacted by factors like high inflation, rising raw material costs, increase in interest rates and fuel prices. Government's bolstered steps for the infrastructure development will continue to support the economic growth and employment opportunities in the Indian Economy.

Other developments in the Automobile sector include gradual shift of production facilities from high-cost regions in North America and European Union to lower-cost regions such as China, India and South America. The Asian countries, especially China and India, are expected to account for 40% of growth in the auto industry over the next five to seven years. Cost & Efficiency optimization shall be the key words. The Automakers have started to reduce the number of technological platforms with a greater diversity of models produced from each platform in order to remain cost competitive.

There is also a shift for "green" cars, which will not only mean increased use of alternative energy sources but also "lightweighting" of components. A majority of the systems are becoming "electronic" for the same reason. Increasing fuel prices and concerns over global warming have focussed attention on the auto industry which has resulted in efforts towards either relying less on traditional fossil fuels or using renewable sources of energy. It is likely that "green" cars will

represent up to a third of total global sales in developed auto markets and up to 20% in urban areas of emerging auto markets by 2020.

Your company is the leader in the "Electronic Power Steering (EPS)" in India and our partners JTEKT are not only the global leaders in the steering business, but also the number 1 Electronic Steering Systems provider in the world. Thus the creation of Sona Koyo's subsidiary, JSAI, is an important strategic decision your Company took. I am very pleased to say that our partnership with JTEKT is progressing very well on other fronts, too. JTEKT is supporting Sona Koyo, for example, with technical experts to improve productivity and quality.

In order to improve quality, reduce costs, and increase value addition, your Company is exploring options of backward integration. One such project already initiated by the Company is to set up Aluminium Die Casting Plant at a new location in Malpura, near Dharuhera. The Company has also decided to set up facilities for in-sourcing which essentially involves in-house machining of certain key components. Capex outlay of Rs. 50 crore has been earmarked for these new projects.

In view of the exponential growth that the Industry is witnessing, a big challenge that the Automotive Industry is facing today is the development of tier 2 & tier 3 suppliers for quality and productivity. Sona Koyo is leading a major Indo-Japanese program called VSME (Visionary Small & Medium Enterprises), which is supported by JICA & NMCC. This program is aimed at upgrading the entire supply chain, beginning with tier 3 and tier 2 suppliers, and creating a win-win relationship between suppliers and customers in this chain.

I am certain that these efforts of optimizing the supply chain will benefit your Company not only in short-term, but also for years to come.

I take this opportunity to thank our partners; JTEKT, Maruti Suzuki and Fuji Kiko, our customers; Maruti Suzuki, Mahindra & Mahindra, Tata Motors, Hyundai, Mando India, Fiat India, Toyota Kirloskar, General Motors, and Renault-Nissan India, our bankers; State Bank of India, Corporation Bank, Standard Chartered Bank, Exim Bank, Yes Bank, Kotak Mahindra Bank, Allahabad Bank, Indian Bank and State Bank of Hyderabad, and our employees for their continued support and confidence in our management.

Finally I thank all the shareholders of our company for your faith in the management and the future of Sona Koyo.



Dr. Surinder Kapur
Chairman

Vice-Chairman & Managing Director's Letter



The automotive industry continued its strong growth momentum in 2010-11 with auto sector sales growing at 26% YoY. The passenger vehicles segment outperformed the sector with healthy growth of 29% YoY in the same period driven by ballooning spending power, easier financing and a wider choice of models in an economy growing at nearly 8%-9% annually. As per SIAM estimates, such high growth rates in the sector are expected to moderate to 15%-16% in FY12 mostly because of high inflation, rising raw material prices, increase in interest rates and fuel prices.

The auto sector will continue to grow at a healthy pace in FY12 driven on the back of unabated demand from tier II and tier III cities. At the same time entry of global automakers like Volkswagen and Audi will further boost the upmarket car segment. India will continue to attract global car manufacturers to set up and improve the manufacturing base in India due to its ever-increasing large pool of technically qualified manpower as well as its ability to offer cost effective value engineering solutions. Favorable demography and presence of the world's largest middle class with disposable income resulting in higher affordability will provide necessary impetus to the automobile sector in India.

India's passenger car and commercial vehicle manufacturing industry is the seventh largest in the world, with an annual production of more than 3.7 million units in 2010. According to recent reports, India is set to overtake Brazil to become the sixth largest passenger vehicle producer in the world, growing 16-18 per cent to sell around three million units in the course of 2011-12. According to the Society of Indian Automobile Manufacturers, annual car sales are projected to increase to 5 million vehicles by 2015 and north of 9 million by 2020.

During 2010-11 the domestic market witnessed new launches by almost all the OEM's. 'Cruze' by General Motors, 'Aria' by Tata Motors, 'Alto K-10' by Maruti Suzuki and the much awaited and acclaimed 'Etios' from Toyota to name a few, apart from launches in small commercial vehicles. Tata 'Nano', the small car wonder which could not live up to the market expectations saw sales zoom to levels of 10,000 cars in Mar 2011 on the back of a renewed marketing effort by the company.

Sona has maintained its leadership position because of its ability to offer innovative solutions to the customers right from design to manufacturing to complete assemblies. The present product portfolio comprises of Manual and Hydraulic Steering Gears, Manual and Electronic Steering Column as well as Intermediate Shafts. The Company's products are made to global quality standards and performance. In its efforts to venture into new market segments Sona has started supplying Manual Columns for heavy commercial vehicles even though the focus segments remains passenger cars and utility vehicles.

Sona, at the operating levels, improved its Capacity Utilization by producing 4,983,580 units under the Steering and Column Assembly group as compared to 4,257,385 units produced last year (an increase of 17%). A new Manufacturing facility at Sanand started commercial production in the last quarter after overcoming the challenges faced in the relocation of civil structure from Singur, West Bengal. At the Financial front, the Company decided to divest non strategic investments where management participation of Sona was limited. At the same

time, the Company increased investment in its subsidiary Company engaged in the Sheet Metal business. New capital expenditures were met out of operating cash flows and as a result the Company reported a better debt equity position at the end of the year.

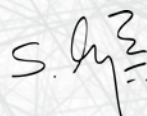
Access to International technology through our Technology Partner and Shareholder JTEKT Corporation, Japan has helped the Company to deliver quality products acceptable to our customers. With their help, Sona has successfully localized part of the technology and this has helped to bring the Import content down from 33% to 18% of total material cost. With the help of the In-house R&D efforts, Sona has now developed the EPAM (Electronic Power Assist Module) for off highway vehicle applications. Facilities to manufacture EPAM have been set up at the Dharuhera Plant and supplies have been made for pilot production. Sona is now preparing for mass production in FY12.

In FY11, the Company initiated a major HR initiative to make Sona an employer of choice. This was aimed at strengthening leadership competencies by conducting classroom sessions involving experts to share different leadership strategies. This new initiative also involved a detailed study of Job Description at various levels in the organization, define Competencies for all levels of management, and run an assessment centre with an eye on the future organization structure and a Customer Facing Organization. This initiative also included a separate session to refresh and reinforce our basic beliefs i.e. "Respect for the individual", "Service to the Customer", and "Excellence in the Pursuit of our Goals". We trust that the Group Vision and Mission is underpinned by its Values and Core Beliefs and also believe that a strong and enduring value system differentiate Sona from its competitors.

Another initiative taken by the Company was to upgrade its IT infrastructure during the year. The Oracle ERP application used by the Company for Financial Accounting, Material Management and Sales & Distribution Management was upgraded from Release 11i to Release 12 with IBM acting as Implementation partner for this exercise. In addition, the Company has set up PPMS (Product Profitability Management System) with the help of 3CiT. These initiatives shall deliver robust financial controls, streamlined processes, and reduced operating costs.

The coming pages will give you an in-depth view of the market, market challenges and various factors that impact our business. I would like to thank the Management Board of the Company for their continued support and guidance in steering the Company forward.

We look forward to yet another successful year ahead; and I take this opportunity to convey my sincere thanks for your continued support.



Sunjay Kapur
Vice Chairman & Managing Director

Board of Directors



BOARD OF DIRECTORS

Dr. Surinder Kapur
Chairman

Mr. Sunjay Kapur
Vice Chairman & Managing Director

Mr. K. M. Deshmukh
Dy. Managing Director

Mr. Hiroyuki Miyazaki
Nominee of JTEKT Corporation, Japan

Mr. Kazuhiko Ayabe
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) Shamsheer Singh Mehta
Dr. Rakesh Mohan

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. A. D. Rao
Mr. Rajiv Chanana
Mr. P. P. Gajpal
Mr. Manoj Sharma
Mr. Deepak Arora
Mr. Shyamal Saha

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
Corporation Bank
State Bank of Hyderabad
EXIM Bank
Allahabad Bank
Indian Bank
Yes Bank Ltd.
Kotak Mahindra Bank Ltd.

REGISTRAR AND 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

WORKS

- 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 Ph II
Dharuhera, Distt. Rewari (Haryana)
- 4) Plot No. D9, TML Vendor Park,
Survey No. 1, Village Northcotepura,
Sanand, Ahmedabad (Gujarat)

Management Discussion and Analysis

Market Scenario

2010-11 started in an environment of incipient domestic recovery amidst uncertainty about the state of the global economy, a perception that was reinforced with the precipitation of the Greek sovereign debt crisis a few weeks later. Throughout the year, the goal of Reserve Bank of India's monetary policy was to nurture the recovery in the face of persistent global uncertainty while trying to contain the spillover of supply-side inflation.

The Indian economy is estimated to have grown by 8.6 per cent during 2010-11. Agricultural growth was above trend, following a good monsoon. The index of industrial production (IIP), which grew by 10.4 per cent during the first half of 2010-11, moderated subsequently, bringing down the overall growth for April-February 2010-11 to 7.8 per cent.

The global economy during the first quarter of 2011 continued with the momentum of late 2010. The global manufacturing purchasing managers' index (PMI) for February 2011 was close to a record high, while the global services PMI recorded its fastest pace of expansion in almost five years. International trade performed much better as compared with last year but the month-on-month momentum remained uneven. Clearly, global recovery, as a whole, still looks fragile and uneven. However, consumer confidence in major countries, which improved during January-February 2011, moderated in March 2011 on the back of higher oil prices. GDP growth in the US, which was strong at 3.1 per cent in Q4 of 2010, slipped to 1.8 per cent.

At present, uncertainty over the pace of international growth, and even its durability, has increased. Inflationary pressures are building in virtually every region. As per current research, the world's largest economy, the United States, will be hard pressed to move beyond a 2.5 – 3% annualized growth range in the absence of renewed stimulus. The world's third largest economy, Japan, has probably slipped back into recession, albeit temporarily. Prospects for most European countries are limited by the spreading sovereign debt related strains in the southern peripheral countries, and the increasing bailout costs that the northern countries, such as Germany, are assuming.

The aftershocks emanating from Japan's earthquake are increasingly being felt around the globe in the form of reduced manufacturing, particularly for automobiles and technology products. The disruption to supply chains have effectively reduced global auto assemblies by about 11% YoY in April 2011, a sharp reversal from an 8% YoY increase prior to the tsunami in Japan. The greatest impact is in the Asia-Pacific region, where Japanese parts have the largest import penetration in the world's biggest car-producing region.

The Brent crude price surged from an average of US\$ 75 a barrel during May-September 2010 to US\$ 123 a barrel by April 2011. The International Monetary Fund (IMF), in its April 2011, World Economic Outlook (WEO), has assumed US\$ 107 a barrel for the full year 2011. Since February 2011, oil prices have come under further pressure on account of apprehensions about supply disruptions due to political developments in the Middle East and North African (MENA) region. The demand for oil is expected to increase with the possibility of Japan substituting some of its shut-in nuclear power capacity with oil-based generation, combined with higher energy usage once reconstruction gets underway. Steel prices also continued to show upward movement throughout the year (refer Chart A & D).

On the Financial front, with the exception of a brief period of May- August 2010, when Rupee depreciated against US\$, due to the European debt crisis, the pressure this fiscal has been on rupee to appreciate. Going forward factors like robust capital flows due to the slow economic recovery in other parts of the world, rising interest-rate differential in the wake of the RBI's monetary tightening and Weak US\$ due to ultra-low US interest rates are likely to exert upward pressure on the Rupee.

As 8.5-9.0 per cent average annual GDP growth has now become a new benchmark for India to assess its growth performance, it would require special efforts to achieve the same in view of current scenario. As per CRISIL estimates, the GDP is expected to grow at 8.3 per cent in 2011-12, as the rising cost of credit would slow industrial growth to 8.2 per cent and agriculture growth, despite a normal monsoon, would decline due to a higher base.