

SONA KOYO STEERING SYSTEMS LTD. 01 • 02



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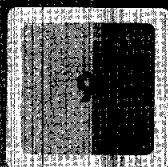
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CHAIRMAN'S LETTER

Dear Shareholders

**Your Company's
fortunes depend upon
the automobile sector
that, in turn, is very
closely linked to
macroeconomic
factors and consumer
confidence**

In line with standards of good corporate governance, your Company has decided to prepare a much more detailed annual report. In addition to my letter to you, this report contains detailed chapters on 'Management Discussion and Analysis', 'Corporate Governance' and 'Shareholder Information'. These are not only in line with Clause 49 of the listing agreement with all Indian stock exchanges, but have, in some instances, gone beyond the mandatory recommendations.

As discussed in detail on the chapter on 'Management Discussion and Analysis', 2000-01 has not been a good year for the economy. GDP growth is, at best, expected to be 5.4 per cent — a far cry from the 7 per cent plus growth that we experienced between 1994-95 and 1996-97. The index of industrial production clocked a mere 2.7 per cent growth, which, incidentally, happens to be the lowest since 1991-92.

Your Company's fortunes depend upon the automobile sector that, in turn, is very closely linked to macroeconomic factors and consumer confidence. The automobile markets relevant for your Company — automobiles and multi-utility

NOTICE

Notice is hereby given that the Eighteenth Annual General Meeting of the Members of Sona Koyo Steering Systems Limited will be held as under :

Day : Tuesday
Date : 23rd July, 2002
Time : 11.00 A.M.
Venue : FICCI Golden Jubilee Auditorium
Federation House
Tansen Marg
New Delhi – 110 001

to transact the following business :

ORDINARY BUSINESS

1. To receive, consider and adopt the audited Profit & Loss Account for the year ended 31st March, 2002, the Balance Sheet as at that date and the Reports of Directors and Auditors thereon.
2. To declare dividend for the year ended 31st March, 2002.
3. To appoint a Director in place of Mr. J.M. Kapur, who retires by rotation and being eligible, offers himself for reappointment.
4. To appoint a Director in place of Mr. Kiyoshi Takeda, who retires by rotation and being eligible, offers himself for reappointment.
5. To appoint Auditors of the Company and fix their remuneration.

SPECIAL BUSINESS

6. To consider and if thought fit, to pass with or without modification(s), the following resolution as an Ordinary Resolution :

"RESOLVED THAT Mr. Ravi Bhoothalingam be appointed a Director of the Company, whose period of office would be liable to determination by retirement of Directors by rotation."

7. To consider and if thought fit, to pass with or without modification(s), the following resolution as an Ordinary Resolution :

"RESOLVED THAT Mr. P.K. Chadha be appointed a Director of the Company, whose period of office would be liable to determination by retirement of Directors by rotation."

8. To consider and if thought fit, to pass with or without modification(s), the following resolution as a Special Resolution :

"RESOLVED THAT subject to the approval of the Central Government, the Company hereby accord its consent and

approval under Section 314 and all other applicable provisions, if any, of the Companies Act, 1956 to the appointment of Mr. Sunjay J. Kapur, a relative of Dr. Surinder Kapur, Chairman and Managing Director of the Company, as Chief – Business Development with the following remuneration :

- Basic Salary - Rs. 78,000 per month
- H.R.A. - 60 % of the Basic Salary.
- L.T.A. - For the appointee and his family including dependents, upto Rs. 48,000 per annum.
- Medical - Upto Rs. 15,000 per annum.
- In addition to above, the appointee shall be entitled to receive usual allowances and benefits, amenities and facilities including Staff Superannuation Fund, Retiring Gratuity, Provident Fund and Bonus benefits applicable to other employees occupying similar post or posts within the same salary scale or grade.

RESOLVED FURTHER THAT this resolution shall be deemed to confer the necessary authority to the Board of Directors to sanction, at their discretion and wherever necessary, with the approval of the Central Government, the necessary increments within the grade as they may deem fit and proper, to promote him to any higher grade or grades at their discretion and in due course together with the allowances and benefits as may be applicable to the grade or grades for the time being and to give increments within that grade or grades as they may deem fit and proper."

9. To consider and if thought fit, to pass with or without modification(s), the following resolution as an Ordinary Resolution :

"RESOLVED THAT the consent of the Company be and is hereby accorded under Section 293(1)(a) and other applicable provisions, if any, of the Companies Act, 1956 to mortgaging and / or charging by the Board of Directors of the Company of all or part of immovable and movable properties of the Company, wheresoever situated, present and future, of every nature and kind whatsoever and/or the whole of the undertaking of the Company in favour of Standard Chartered Bank to secure:

- Working Capital Facilities to the tune of Rs. 550 lacs

together with the interest thereon at the respective agreed rates, compound interest, additional interest, liquidated damages, commitment charges, premia on prepayment or on redemption, costs, charges, expenses and other monies payable by the Company to Standard Chartered Bank under the respective Heads of Agreement / Loan Agreement / Subscription Agreement / Credit Facility Agreement / Letter of Sanction / Memorandum of Terms and conditions, entered into / to be entered into by the Company in respect of the said facilities.

RESOLVED FURTHER THAT mortgage / charges created / to be created and / or all Agreements / Documents executed / to be executed and all acts done in terms of the above resolution by and with the authority of the Board of Directors are hereby confirmed and ratified."

Place : Registered Office By Order of the Board
UGF-6 Indra Prakash
21 Barakhamba Road
New Delhi – 110 001. Sudhir Chopra

Dated : 21st May, 2002 Company Secretary

NOTES :

- 1) A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and on a poll, to vote in his stead and such a proxy need not be a member of the Company. Proxies in order to be effective must be received by the Company not less than 48 hours before the time for holding the meeting.
- 2) The Register of Members and Share Transfer Books of the Company will remain closed from Wednesday the 10th July, 2002 to Tuesday the 23rd July, 2002 (both days inclusive).
- 3) Dividend to Shareholders as recommended by the Directors for the year ended 31st March, 2002, when declared at the meeting, will be paid :
 - (i) to those members whose names appear in the Register of Members of the Company, after giving effect to all valid share transfers in physical form lodged with the Company or its Registrars on or before 9th July, 2002; and
 - (ii) in respect of shares held in electronic form, to those "beneficiaries" whose names appear on the statements of beneficial ownership furnished by National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL), at the end of business hours on 9th July, 2002.

Non Resident Indian Shareholders having NRE Account in any scheduled bank are requested to intimate the same to the Company immediately for remittance of dividend.

The Company will dispatch the dividend warrants from 29th July, 2002 onwards.

- 4) Members are requested to inform their Bank Account Number and Bank branch details to the Company to enable it to include these details on the dividend warrants and thus minimise the chances of loss of dividend warrants. The above information may be given to the Company's Registered Office or its Share Transfer Agent.

- 5) Information under Section 205A read with the Companies Unpaid Dividend (Transfer to General Revenue Account of the Central Government) Rules, 1978 as amended is given below :

- (i) Pursuant to Section 205A of the Companies Act, 1956, all unclaimed / unpaid dividends up to the financial year ended 31st March, 1995 have been transferred to the General Revenue Account of the Central Government. Shareholders, who have not yet encashed their dividend warrants for the said period are requested to claim the amount from the Registrar of Companies, N.C.T. of Delhi & Haryana, Paryavaran Bhawan, B-Block, C.G.O. Complex, Lodhi Road, New Delhi 110 003 by submitting an application in the prescribed Form.
- (ii) Consequent upon amendment in Section 205A of the Companies Act, 1956 and introduction of Section 205C by the Companies (Amendment) Act, 1999, the amount of dividend for the subsequent years remaining unpaid or unclaimed for a period of seven years from the date of transfer to Unpaid Dividend Account of the Company shall be transferred to the Investor Education and Protection Fund set up by the Government of India and no payments shall be made in respect of any such claims by the Fund.

Members who have not yet encashed their dividend warrant(s) for the financial year ended 31st March, 1996 onwards are requested to make their claims to the Company accordingly without any delay.

- 6) Members are requested to notify promptly change in their address, if any, to the Company's Registered Office or MCS Limited, Sri Venkatesh Bhawan, 212-A, Shahpurjat, Behind Panchsheel Club, New Delhi 110 049, the Registrar and Transfer Agent, quoting the folio number.
- 7) All the queries related to Accounts must be sent to the Company before 9th July, 2002.
- 8) The members desirous to appoint a nomination in respect of their shareholding in the Company are requested to send the duly filled up and signed nomination form to the Company as enclosed with the Annual Report.
- 9) As a measure of economy copies of Annual Report will not be distributed at the Annual General Meeting. Members are requested to bring their copy of the Annual Report to the meeting.
- 10) Members, who hold shares in de-materialised form are requested to bring their Client ID and DP ID numbers for easier identification of attendance at the meeting.

EXPLANATORY STATEMENT PURSUANT TO SECTION 173(2) OF THE COMPANIES ACT, 1956.**Resolution No. 6 & 7**

In order to meet the future challenges and to grab the emerging business opportunities, it is imperative for the company to deepen and broaden its perspective at the Board Level.

With the above objective, Mr. Ravi Bhoothalingam and Mr. P. K. Chadha were appointed as Additional Directors of the Company on 27th March, 2002, by the Board of the Company. According to the provisions of Section 260 of the Companies Act, 1956, they hold office as Directors only upto the date of the ensuing Annual General Meeting. As required by Section 257 of the Act, notices have been received from members of the Company signifying their intention to propose the appointment of Mr. Ravi Bhoothalingam and Mr. P. K. Chadha as Directors of the Company.

Mr. Ravi Bhoothalingam is a Management Consultant. Keeping in view of Mr. Ravi Bhoothalingam's rich experience in the Management Consultancy and Human Resource Development, the Board consider it desirable that the Company should continue to avail the benefit of his expert advise.

Further, Mr. P. K. Chadha is also a Management Consultant. Keeping in view of Mr. P. K. Chadha's rich experience in the Management Consultancy, the Board consider it desirable that the Company should continue to avail the benefit of his expert advise.

The brief resumes of Mr. Ravi Bhoothalingam and Mr. P.K. Chadha have been given in the section of Corporate Governance of the Annual Report.

Except Mr. Ravi Bhoothalingam and Mr. P. K. Chadha none of the Directors of the Company is in any way, concerned or interested in the respective resolutions pertaining to their appointment.

The resolutions are accordingly recommended for members' approval.

Resolution No. 8

Mr. Sunjay J. Kapur, a U.S. citizen, is a graduate in Business Administration from Buckingham University, U.K., with major in Business Strategy and Human Relations. Mr. Sunjay J. Kapur is son of Dr. Surinder Kapur, Chairman & Managing Director of the Company.

In accordance with the provisions of Section 314(1)(b) of the Companies Act, 1956 the Board of Directors of the Company in its meeting held on 6th April, 1996 had appointed Mr. Sunjay J. Kapur as Vice President (Project & HRD) of the Company with effect from 1st November, 1996 for the total monthly remuneration not exceeding Rs. 10,000/- per month. Since then, Mr. Sunjay J. Kapur has played an active role in the formulation and implementation of HRD systems in the Company and has also been instrumental in tying up the collaboration with the Foreign Collaborator for the new projects undertaken by the Company.

Keeping in view of the contributions made by Mr. Sunjay J. Kapur in formulating the business strategies, tying up of strategic

collaborations and development of new business, the Board of Directors of the Company in their meeting held on 21st May, 2002 has elevated Mr. Sunjay J. Kapur to the position of Chief - Business Development and subject to the necessary approvals, decided to increase the remuneration payable to Mr. Sunjay J. Kapur as detailed in the enabling resolution.

Under Section 314 of the Companies Act, 1956, a Special Resolution of the Shareholders of the Company is required for the payment of remuneration, as detailed in the resolution, to any relative of the Director of the Company to hold any office or place of profit under the Company. Mr. Sunjay J. Kapur, Chief - Business Development, shall be entitled to the revised remuneration effective from the following day of passing of this resolution i.e. 24th July, 2002, on the terms and remuneration with usual benefits/perquisites as stated in the enabling resolution. The appointment of Mr. Sunjay J. Kapur with the said remuneration will also be subject to the approval of the Central Government.

Accordingly, in terms of Section 314 of the said Act, the members are requested to grant their consent to Mr. Sunjay J. Kapur holding and continuing to hold the office or place of profit as the employee of the Company on the terms and conditions set out in the aforesaid resolution. The members are also requested to authorise the Board to sanction in due course the promotion of Mr. Sunjay J. Kapur to the next higher grade / grades together with usual allowances and benefits.

None of the Director other than Dr. Surinder Kapur may be considered to be interested in passing of this Special Resolution.

The resolution is accordingly recommended for members' approval.

Resolution No. 9

The Bank referred to in the resolution has granted the Working Capital Facilities as contained in the resolution to the Company. As per the Loan Agreement(s) entered into with the Bank, the Company has to agree to create mortgage and/or charge in favour of the Bank on the properties of the Company. This attracts the provisions of Section 293(1)(a) of the Companies Act, 1956.

None of the Directors is concerned with or interested in the resolution.

The resolution is accordingly recommended for members' approval.

Inspection of Documents

The material documents referred to herein above will be open for inspection for the Members at the Registered Office of the Company from the date hereof upto the date of the meeting during business hours.

Place : Registered Office
UGF-6 Indra Prakash
21 Barakhamba Road
New Delhi - 110 001.

Dated : 21st May, 2002

By Order of the Board

Sudhir Chopra
Company Secretary

We achieved relatively superior results by greater operational efficiencies, concerted reduction in cost and sharp cuts in interest expenditure - without sacrificing quality

vehicles (MUV) — declined or were flat throughout 2001-02. Not surprisingly, your Company's net sales fell by 4.1 per cent from Rs. 2,135 million in 2000-01 to under Rs. 2,048 million in 2001-02.

Despite the fall in sales and huge pressures on prices and margins, your Company produced relatively superior results. These were achieved by greater operational efficiencies, concerted reduction in cost without sacrificing qualities and sharp cuts in interest expenditure. Operating profit (profit before interest, depreciation and tax) has increased by 12.5 per cent to Rs.188 million in 2001-02. Post-tax profit has more than doubled to almost Rs.48 million in 2001-02. Total debt has been reduced from Rs.320 million in 2000-01 to Rs.166 million in 2001-02 and financial charges have declined from Rs.63 million to Rs.44 million.

We will strive to better in 2002-03. As I shall briefly explain, your Company has put systems in place that ought to further improve profitability even in a difficult market scenario. But before that, let me dwell upon our views of the market for 2002-03.

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. The way we look at it is that your Company has to generate even higher profits with flat sales.

However, over the next three to five years, two global trends will manifest themselves in India. First, there will be a growth in the MUV segment. And second, electronic systems will become more ubiquitous in automobiles. How are we preparing for these changes?

Through new components, we are gradually increasing our presence in the MUV category, without sacrificing our market share in passenger cars. And we are actively engaged in increasing electronic elements in our components. For instance, your Company will soon begin producing electronic power steering systems for Maruti. In the near future, we shall produce such systems for other car and MUV manufacturers, as well. In other words, even if the overall market remains flat, your Company will strive to grow its top line and increase market share through product diversification and design and production of higher value components.

The world famous Toyota Production System and improved techniques of supply chain management have helped reduce costs.

We have always given, and will continue to give, primacy to growing productivity. Your Company's management and shop floor skills have steadily improved thanks to the strong foundations of the world famous Toyota Production System. We extensively use Total Quality Management (TQM) and Total Plant Maintenance (TPM) methodologies to steadily improve operational efficiencies. Improved techniques of supply chain management have helped reduce costs. It is of satisfaction to us that your

Company was conferred the Award for Best Cost Reduction by Toyota, and its quality initiatives were recognised by Hyundai.

All these initiatives will continue—indeed intensify—in the future.

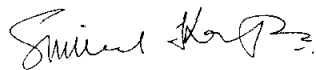
In addition, your Company hopes to grow revenues through its focused business development groups. In 2001-02, we set up a business development group under the charge of a Vice President to spearhead our marketing initiatives and build even closer ties with customers. This group is expected to widen our customer base, further increase our presence in the passenger car segment, and help develop new products, explore untapped segments and aggressively bid for new orders. We have also set up an export group. And in order to steadily cut costs, we have a dedicated supply chain management group, whose job is to aggregate the purchase requirements of all group Companies and make cost-effective bulk purchases.

Companies are as good as their people. Today's entrepreneurial employees and managers desire performance-based incentives and rewards. To structure such a system, we are in the process of altering our HR policies that will give much greater weight to variable compensation based on transparent and fair performance criteria. We believe that such a HR policy will further align employees to performance and, thus, to maximisation of long-term shareholder value.

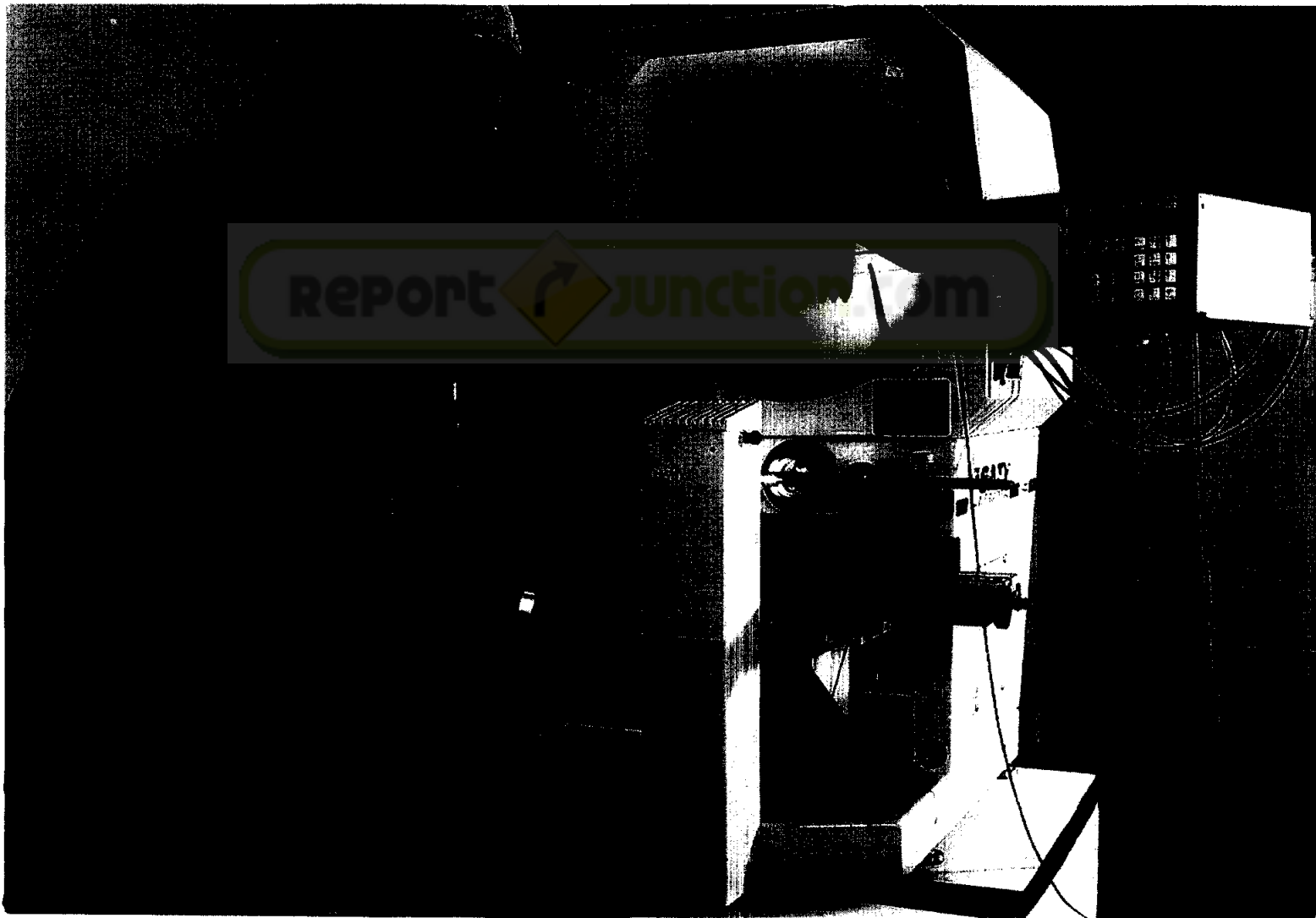
Your Company has also restructured its Board of Directors to increase the presence of Independent Directors and to practice good corporate governance in letter as well as in spirit.

I believe that the initiative that we have taken in 2001-02 in the marketing, production, new product development and operations front will deliver superior results even in a relatively flat market. And if markets recover, so much the better.

I want to thank you for your support, and thank every employee of Sona for his or her excellent performance in a tough year. Here's to better times.



Dr Surinder Kapur
Chairman & Managing Director



Sona

SONA KOYO STEERING SYSTEMS LTD.

BOARD OF DIRECTORS

Dr. Surinder Kapur
Chairman & Managing Director

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

Mr. Kiyoshi Takeda
Nominee of Koyo Seiko Co., 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

**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

WORKS

1. 38/6 NH-8
Delhi-Jaipur Road
Gurgaon 122 001 (Haryana)
2. P.O. Box 14
Chennai-Bangalore Highway
Sriperumbudur
Distt Chinglepet
Tamilnadu 602 105

