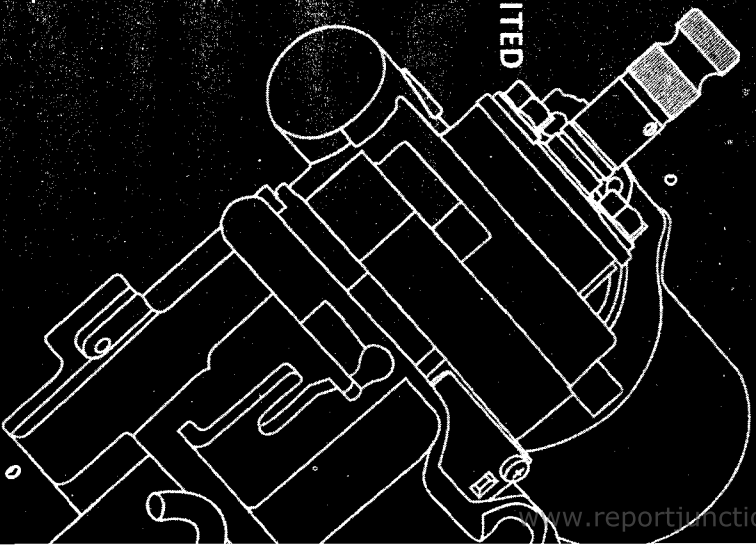


SONA KOYO STEERING SYSTEMS LIMITED
Annual Report 06-07



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Dear Shareholders,

At the outset, I want to share with you a personal loss at the passing away of our Director, Mr. Lalit Suri. He has served on your Board since the inception of the Company and has always been a great source of strength to all of us. His understanding of automobile market has guided us well. We will always miss him. I wish to inform you that Mr. Ramesh Suri, his brother, has consented to take his position on the Board.

2006-07 has been yet another year of excellent economic performance for India. According to the latest estimates released by the Government, the country will have grown at 9.2 per cent during the year. Thanks to the three preceding years of equally impressive performance, GDP growth between 2003-04 and 2006-07 now averages over 8.5 per cent!

This is something to be proud of. And, with more infrastructure investments, I strongly believe that we can maintain and even improve upon this growth performance over the next decade.

The automotive industry has been a major part of this growth. Recognising this potential, the Government of India in its 'Automotive Mission Plan, 2006-2016' has outlined a vision for India "to emerge as the global destination of choice for the "design and manufacture of automobiles and auto components". That India will become a global hub for small cars has also been confirmed by global industry leaders including Osamu Suzuki of Suzuki Motor Company, Rick Wagoner of GM, and Carlos Ghosn of Renault-Nissan. It has been estimated that by 2012, India will export one million cars. International automobile manufacturers are developing next generation global platforms, which will be launched in India at the same time as their global launch. I have the privilege to be the Chairman of one of the working groups of the Automotive Mission Plan 2006 - 2016.

In my last year's letter to you, I had mentioned our plan to invest Rs.4 billion over the next 4 years to scale up for the greater global opportunities. I am happy to inform you that during 2006-07, your Company invested Rs.0.66 billion to expand its capacities and has registered an impressive performance for the year.

Your Company shares this vision and will be a part of this growth. Indeed, everything that it is doing today, and will be doing in the years to come, is directed to Sona Koyo becoming a global integrated steering solutions provider and the partner of choice to global customers. And as the new generation global car and off-highway platforms come into play, your Company will develop new steering systems thereby enhancing our development capabilities further.

In my last year's letter to you, I had mentioned our plan to invest Rs.4 billion over the next 4 years to scale up for the greater global opportunities. I am happy to inform you that during 2006-07, your Company invested Rs.0.66 billion to expand its capacities and has registered an impressive performance for the year.

- Net sales increased by 70.8 per cent to Rs.5,808 million in 2006-07.
- Operating profit (OPBDIT) rose by 59.3 per cent to Rs.600 million.
- Profit after tax (PAT) increased by 70.4 per cent to Rs.277 million.
- Earning per share increased from Rs.1.85 in 2005-06 to Rs.3.1 in 2006-07

During the year, the domestic market for passenger vehicles – which is the largest and most important segment for your Company – grew by over 20 per cent. This buoyancy in demand is expected to continue at

least for the next four to five years. This is good news for Sona Koyo for several reasons. First, the compact car segment – where your Company's products have a very strong presence – will continue to dominate the domestic market. Second, trends in steering technology indicate that the proportion of passenger cars in India with electronic power steering will increase from current levels of 20 per cent to 40 per cent by 2012. Sona Koyo, being the pioneer in the domestic segment for Electronic Power Steering will have the first mover advantage. Third, there is a new class low-cost entry-level cars and light commercial vehicles which have an extremely good fit with your Company's product profile. Thus, we not only intend to supply overseas markets, but also retain the number one position in India.

In exports, we plan to sell competitively priced and high quality Manual Steering Sub-Assemblies to our partner JTEKT, USA. We have also commenced exports to Fuji Autotech Europe (FAE) – which is expected to increase to Rs.250 million in 2007-08. I have envisaged that 35 per cent of Sona Koyo's revenues should be accruing from exports by F-2010. We will be able to reach this target through focussed effort by the SONA Management Team.

I am happy to announce that Dharuhera plant of your Company which will manufacture C-EPS systems is complete and will start commercial production in July, 2007.

We are committed to and excited about our investment plans for the next few years. This will go towards expansion of current facilities, and setting up new plants at Uttaranchal and West Bengal to service OEM customers' new Plants. We would also be investing in localisation projects of both Hydraulic and Electronic Steering Systems to ensure our sustained cost competitiveness. All these measures are based on strong foundation of TQM and TPM principles and our commitment to R&D. Your Company's expenditure on R&D is expected to increase from 0.8 per cent of net Sales in 2006-07 to 1.5 per cent in 2007-08 – and further in the years to come. However, with our increased dependence on virtual prototyping and testing, the cost of making physical prototypes has reduced considerably.

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I will also share some of my concerns. We failed to meet our export target for 2006-07. This happened due to delays in the launch of the vehicle by our customer, which is now expected to happen in 2007-08. With your Company targeting a higher export growth, the strengthening of rupee is a cause of worry. It is also important to state that the sharp jump in revenues registered by your Company in 2006-07 was due to introduction of a new product, which cannot be expected to be replicated every year.

Sona Koyo will have to continuously innovate and adjust to the needs of the market. However, given the tremendous opportunity that we have ahead of us, my outlook for 2007-08 is very optimistic.

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. And please allow me to express my heartfelt thanks to you, the shareholders, for your continued faith in your Company.



Dr. Surinder Kapur

Chairman & Managing Director



BOARD OF DIRECTORS

Dr. Surinder Kapur
Chairman & Managing Director

Mr. Sunjay Kapur
Vice Chairman

Mr. Tomizo Nakaya
Nominee of JTEKT Corporation, Japan

Mr. Shinichi Takeuchi
Nominee of Maruti Udyog Ltd.

Mr. Jug Mohan Kapur
Mr. B.L. Passi
Mr. Ramesh Suri
Mr. Ravi Bhoothalingam
Mr. P.K. Chadha
Dr. Omkar Goswami

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. Gaiind
Mr. Pramod K. Agarwal
Mr. S.C. Gupta
Mr. A.D. Rao
Mr. Soumya Choudhry
Mr. Sameer Kumar Jindal
Mr. R.M. Lal
Mr. P.P. Gajpal

TECHNICAL PARTNERS

JTEKT Corporation, Japan (formerly Koyo Seiko Co., Ltd)
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.

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

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

- 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
- Plot no 32, Industrial Area
Phase II, Dharuhera
Dist. Rewari (Haryana)



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MANAGEMENT DISCUSSION & ANALYSIS

The Indian economy has witnessed unprecedented growth in recent years. According to the latest estimates of the Central Statistical Organisation, the country's GDP has achieved growth of 9.2 per cent during 2006-07 - thus, lifting the compounded annual growth rate of the economy during the last four years to over 8.5 per cent. A key element of this growth has been the resurgence of manufacturing across all sectors, accompanied by an across-the-board buoyancy in investments. As a result of several quarters of consistent double-digit growth for index of industrial production (IIP) - closing with 12.5 per cent growth in March 2007 - the share of manufacturing has increased by over one percentage point to 26.4 per cent of overall GDP. Within manufacturing, the automotive industry has been one of the highest growth segments.

Domestic vehicle sales (including two wheelers) increased by 13.5 per cent during 2006-07 and crossed the 10 million mark for the first time in the country's history. Sale of passenger vehicles, which is the key end-use segment of Sona Koyo Steering Systems Limited ('Sona Koyo' or 'your Company'), grew by 21.93 per cent from 1.14 million units in 2005-06 to 1.39 million in 2006-07. Commercial vehicle sales grew by 33.3 per cent from 351,000 units in 2005-06 to 468,000 during 2006-07. In addition, vehicle exports also grew at a healthy rate of 25.4 per cent during the year, and reached the milestone of 1 million units.

This sustained growth in the domestic automobile industry has augured well for the auto components industry. Not only has demand increased, but also growth has given the key auto component manufacturers the opportunity of being the preferred suppliers to global automobile majors.

Recognising the potential of the auto industry, the Government of India has laid out an ambitious target in its 'Automotive

Mission Plan, 2006-2016'. The vision in this plan is for India to emerge as "... the destination of choice in the world for design and manufacture of automobiles and auto components with output reaching a level of US\$ 145 billion, accounting for more than 10 per cent of the GDP and providing additional employment to 25 million people by 2016."

Sona Koyo shares this vision and recognises that scale and technology are going to be the key drivers to make it a reality.

In line with this, your Company had already announced in the previous year's Annual Report, its investment plans amounting to Rs.4 billion over the next four years. During 2006-07, Sona Koyo invested over Rs.0.66 billion in expansion and modernisation of its operations. While the benefits of these additional investments will accrue in a more substantial way in the future, your Company registered an impressive performance in the current fiscal year. Highlights of Sona Koyo's financial performance during 2006-07 are:

- Net sales increased by 70.8 per cent - from Rs.3,400 million in 2005-06 to Rs.5,808 million in 2006-07
- Operating profit (OPBDIT) rose by 59.3 per cent - from Rs.377 million in 2005-06 to Rs.600 million in 2006-07
- Cash profits (PBDT) grew by 50.8 per cent - from Rs.358 million in 2005-06 to Rs.540 million in 2006-07
- Profit after tax (PAT) increased by 70.4 per cent - from Rs.163 million in 2005-06 to Rs.277 million in 2006-07
- Return on capital employed (ROCE) increased by over 6 percentage points to 27.8 per cent in 2006-07
- Return on net worth (RONW) grew by 1.5 percentage points to 20.8 per cent over the same period.
- Earning per share increased from Rs.1.85 in 2005-06 to Rs.3.1 in 2006-07.

MARKETS

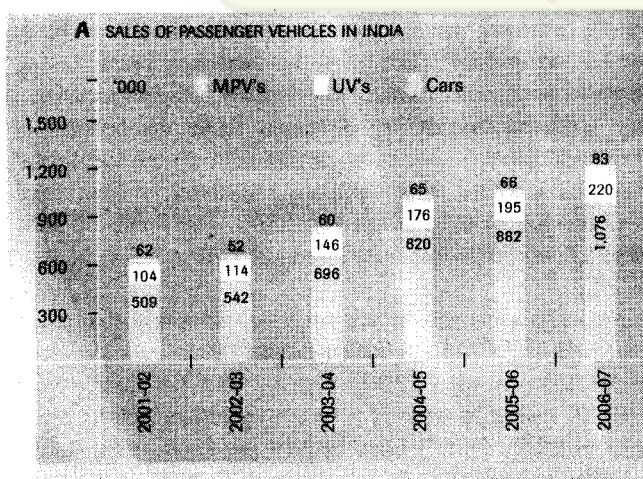
Sona Koyo's product portfolio includes two types of products - steering systems and driveline products. The steering systems portfolio includes Manual Steering, Hydraulic Power Steering, Steering Column and more recently introduced Column-type Electronic Power Steering Systems. Driveline products include case differentials, rear axle assemblies and propeller shafts.

During 2006-07, steering systems accounted for approximately 85 per cent of the total revenues of your Company, while driveline products constituted the rest.

Sona Koyo is the largest supplier of steering systems to passenger vehicle manufacturers in the country. While your Company intends to maintain its dominant position in the domestic market, it has identified exports as a thrust area and has targeted 35 per cent of its revenues to come from exports by 2010.

DOMESTIC

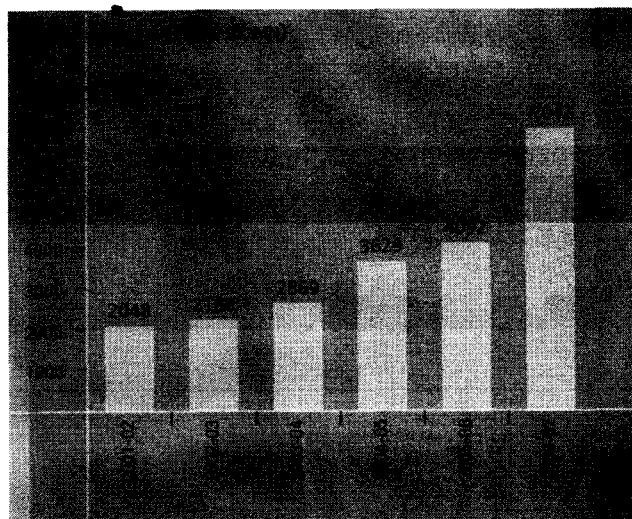
Sona Koyo focuses on supplies to the passenger car and multi-utility vehicle segments (including utility vehicles and multi-purpose vehicles). In the domestic market, passenger vehicle sales increased by 20.7 per cent from 1,143,076 units in 2005-06 to 1,379,698 units in 2006-07. Chart A gives the break-up for the sub-segments for over the past few years.



During 2006-07, passenger car sales - which is the largest and most important segment for your Company - grew by 22 per cent and crossed the one million mark. Utility vehicles (UV) grew by a relatively modest 13.2 percent; whereas multi-purpose vehicles (MPV) grew at an impressive 25.2 per cent, albeit on a smaller base.

The sales of Electronic Power Steering Systems, which came on-stream during the year, have resulted in a disproportionate increase in your Company's turnover. Gross sales of your

Company increased from Rs.4,092 million in 2005-06 to Rs.7,042 million in 2006-07. Chart B shows the trends in your Company's top-line since 2001-02.



Sona Koyo continues to maintain its leadership in the domestic passenger vehicle market. Moreover, there are several promising developments, which place your Company in a favourable position in this segment in the years to come.

First, due to the unprecedented rise in disposable income of households, the passenger car segment is expected to grow at a CAGR of over 15 per cent for the next four to five years as against 16.2% CAGR of the past five years ending March, 2007.

Second, the compact car segment, where Sona Koyo has a strong presence, is expected to continue to account for over 90 per cent share over the next few years. This trend will be compounded by the growth of compact cars exported from India with the plans of existing as well as new OEMs to make India a global export hub for compact cars.

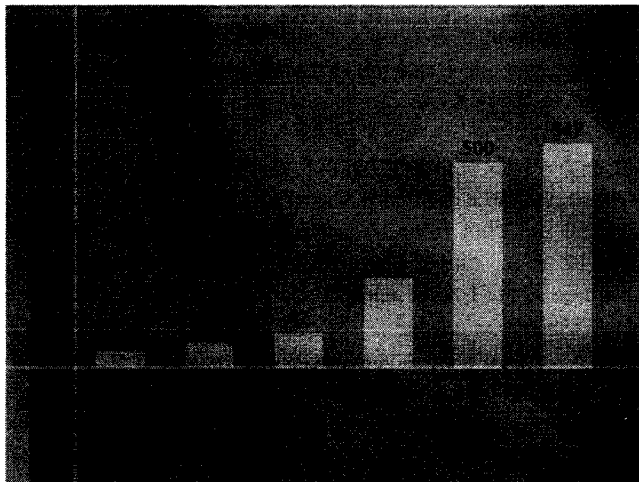
Third, there is a new class of light commercial vehicles as well as an entry-level car, which are indigenously developed and low-cost entry-level vehicles for the mass market. Sona Koyo has the capability of supplying both Steering and driveline parts to these high volume platforms.

Our forecast of the trends in steering technology indicates that the proportion of passenger cars in India with electronic power steering will increase from current levels of approximately 20 per cent to around 40 per cent by 2012. Sona Koyo, being the pioneer in the domestic segment for Electronic Power Steering will have the first mover advantage.

Further details of your Company's plans with respect to Electronic Power Steering have been discussed later.

EXPORTS

Sona Koyo recognises export as an important element of its strategy for long-term growth. During 2006-07, your Company's exports grew by 9.4 per cent from Rs. 500 million in 2005-06 to Rs. 547 million in 2006-07. Chart C shows the export performance of your Company since 2001-02.



In line with its vision to become a 'Supplier of Choice' to global customers, Sona Koyo has now revised 2010 target of overseas business from 45 per cent to 35 per cent due to much greater potential order book in the domestic market, while maintaining the export sales target for 2010. To achieve this target, your Company continues to focus aggressively on its two-pronged strategy for exports.

The first involves leveraging Sona Koyo's partnership with JTEKT Corporation and Fuji Kiko Co. Your 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-assemblies and components.

Last year's Annual Report had discussed the ongoing restructuring of the European operations of Fuji Kiko - Sona Koyo's joint venture partner in Fuji Autotech France SAS (FAF). This process is now complete. Sona Koyo is now present in

the French, Czech and Brazilian market through Fuji Autotech Europe (FAE) the holding Company of FAF and Fuji Koyo Czech (FKC). Fuji Autotech Brazil (FAB) is a 100% subsidiary of FAF. This will significantly improve Sona Koyo's access to the European and Latin American markets. During 2006-07, your Company established an associate company called Sona Autocomp Europe in France to be close to its key clients and provide logistics management services for auto components sourced from India.

Secondly, Sona Koyo intends to enhance its product design capabilities and provide complete steering solutions as a Tier I supplier in the non-passenger car segment, primarily the off-highway vehicle segment in the North America and European markets.

OPERATIONS

In view of the growth opportunities presented by both domestic and international markets, Sona Koyo has taken a conscious decision to invest in both scale and technology. The objective is to develop capabilities to become a provider of end-to-end solutions, and thus transit from being a vendor to a full-fledged steering solutions provider. This requires developing an efficient and robust supply chain to service the enhanced capacities, maintaining high quality standards, and building product designing and testing capabilities through investment in research and development.

MANUFACTURING CAPACITIES

During the previous year, your Company had announced its plan to invest Rs.4 billion for expansion and modernisation of its facilities in a phased manner between April 2006 and March 2010. More specifically, it had earmarked Rs.0.66 billion for 2006-07, primarily towards capacity expansion of Column-type Electronic Power Steering systems (C-EPS) in the new plant in Dharuhera.

During 2006-07, Sona Koyo added capacity for manufacturing 300,000 units of C-EPS at its Gurgaon plant. The Dharuhera plant, which will manufacture C-EPS, among other products, is complete and will start commercial production in July 2007.

DHARUHERA PLANT

