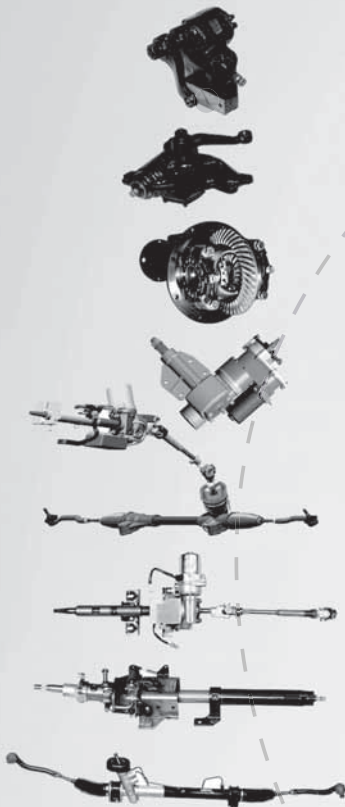




ANNUAL REPORT 2015-16

Creating Visions to Drive Tomorrow

SONA KOYO STEERING SYSTEMS LIMITED



Sona's DNA comprises of following Values:

- Respect for the individual
- Service to the customer
- Excellence in pursuit of our goals

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FROM CHAIRMAN'S DESK



Dear Shareholders,

I take great pride to share with you that Sona Koyo continues to be India's largest supplier for steering systems for passenger cars and utility vehicles. Your Company is present on almost all top-selling models.

Last year, the Company made decision to debut at the prestigious 'AutoMechanika' held in Frankfurt, Dubai, and New Delhi. The aim was to showcase designs and technologies to domestic and global players alike. In May 2016, we participated at the Dubai Automechanika, the piqued interest level of the target audience and the enquiries thereafter, indicates new business opportunities in the future.

As always, Sona Koyo participated in February 2016 Auto Expo at New Delhi. The Company displayed an array of its future oriented steering systems. This was well received by our customers and the media.

The technological advancement at Sona Koyo has been the result of continuous nurturing of in-house research & development. Drawing upon the technical strength of our Joint Venture Partners, which include JTEKT Corporation, Maruti Suzuki and Fuji Kiko. We have been able to soar to new heights. The Company has grown its product range beyond providing mechanical steering system. Sona Koyo now offers all major steering systems—mechanical, hydraulic, and electromechanical.

The success of our Electric Power Assist Module (EPAM) technology in the North American market is a testimony of the efforts put in by our in-house R&D team. Going forward, it is this focus on innovation and our perseverance that will provide us a competitive edge in the global market place.

In FY16, the passenger cars segment grew by 7.9% Year-on-Year (YoY), the highest domestic sales growth seen in five years. The surge was driven by low commodity prices, a slew of new model launches, and lucrative offers by OEMs. On consolidated basis, Sona Koyo reported net sales of ₹ 15,183 million for FY16, a YoY marginal decline of 2.1%.

The Society of Indian Automobile Manufacturers (SIAM) has predicted a growth rate of ~6-8% in FY17 for the overall PV segment. ICRA also foresees an improving economic environment implying domestic PV sales to grow by 8.5-9.5% rooting from replacement demand and offtake from first-time buyers. Taking this into account, Sona Koyo is ready for growth. It gets a further lift from its existence in several upcoming models, new product launches in new market segments, and an increase in exports.

On the operations front, the Company continued to reduce dependence on imported materials for critical parts. Efforts towards localization and backward integration have progressed well. Simultaneously, there is an improvement in capacity utilization of the aluminum die casting facility. Cumulatively, the result of these efforts led to raw material cost of consolidated revenue improving from 67% in FY15 to 66.3% in FY16. Also, during the year, the Company deployed a cloud based e-Procurement platform, which will serve as a reverse auction platform to procure materials from suppliers at low cost.

Sona Koyo's culture encompasses a focus to go beyond the ordinary and make products that will supersede customer expectations. At present, the Company is working with several OEMs for new launches planned for the near future. An upgraded version of EPAM with enhanced features, such as brushless motors, is in the final stage of development. It is a standardized module with reprogrammable capabilities and hence, unlike the previous version, it will have the ability to cater to multiple clients. The target markets for upgraded EPAM are special, off-road, armored, and sports vehicles. Sona Koyo is well positioned at a time when the industry is set on an exciting growth curve.

For the year FY16, Sona Koyo has been awarded prestigious recognition by Maruti Suzuki for 'Quality Improvement' and 'Design and Development'

at Bangkok supplier conference. Mahindra & Mahindra has recognized valuable contribution by Sona Koyo in its two new launches in FY16, TUV 300 and KUV 100 at the Barcelona Supplier conference. Above awards reinforce the trust that OEMs place in us, their key partner for steering systems.

Skilled employees lay the foundation for the success of any company. The opportunity to upgrade their skills acts as a motivator for them. In 2013, with a clear objective to enhance the skills of employees, the Company established the Sona Skill Development Centre (SSDC). At SSDC, our major social intervention initiative is Project 'Praveen'. It is a four-month program undertaken to facilitate underprivileged youth for vocational training. The aim is to make them self-reliant and employable. This project is registered with the Automotive Skills Development Council (ASDC). This Council is promoted by the automobile industry through the Society of Indian Automobile Manufacturers (SIAM), and the Federation of Automobile Dealers Association (FADA), as well as Government of India represented by the Department of Heavy Industry and National Skill Development Corporation (NSDC). After completion of the course, the participants take tests, and evaluation by ASDC-approved assessors. Based on this assessment, successful candidates are issued ASDC certificates that enable them to secure jobs in the automotive industry. Since its inception, SSDC has concluded six batches, and trained 168 individuals under the 'Praveen' program with track record of 100% student successfully qualifying the ASDC certification.

Sona Koyo firmly promotes clean and sustainable technology. The Company has already established 450 KWp of roof top solar plant, thus saving 600 Tonnes of CO₂ per annum. The plan for harnessing solar energy for electricity generation is shaping up well. The Company plans to have 2MWp of rooftop solar plant in the next one year.

The Indian automotive industry is set for another year of positive growth. The Company continues to strengthen leadership in India, and augment presence globally to be geared for the same.

I take this opportunity to thank our partners for their encouragement: JTEKT, Maruti Suzuki and Fuji Kiko. I thank our customers, at SONA KOYO we are grateful to be of service to them: Maruti Suzuki, Mahindra & Mahindra, Tata Motors, Honda, Hyundai, Fiat India, Toyota Kirloskar, General Motors, John Deere, Club Car, Ezgo and Renault-Nissan India. And, of course, I would like to thank our bankers for their confidence: State Bank of India, Corporation Bank, Standard Chartered Bank, Yes Bank, Kotak Mahindra Bank, Allahabad Bank, Indian Bank, IndusInd Bank and State Bank of Hyderabad.

I thank the strength of SONA KOYO, all the employees, for continued support to the management. Finally, I would like to thank our shareholders for their firm belief in our capabilities and their continued patronage; they have always motivated us to deliver better results year after year.

'We think it today, you drive it tomorrow.'

This statement defines Sona Koyo's commitment to future and to you.



Sunjay Kapur
Chairman

BOARD OF DIRECTORS



(Left to Right) Mr. Ramesh Suri; Mr. Ravi Bhoothalingam; Mr. Kiran Manohar Deshmukh; Lt. Gen (Retd.) Shamsheer Singh Mehta; Mrs. Rani Kapur; Mr. Sunjay Kapur; Mrs. Ramni Nirula; Mr. Prasan Abhaykumar Firodia; Mr. P. K. Chadha; Mr. Hidekazu Omura; Mr. Kiyozumi Kamiki

BOARD OF DIRECTORS



Mr. Sunjay Kapur



Mr. K. M. Deshmukh



Mr. Kiyozumi Kamiki



Mr. Hidekazu Omura



Mr. Kazuhiko Ayabe



Mrs. Rani Kapur



Mr. Ramesh Suri



Mr. Ravi Bhoothalingam



Mr. P. K. Chadha



Lt. Gen. (Retd.) S. S. Mehta



Mrs. Ramni Nirula



Mr. Prasan A. Firodia

BOARD OF DIRECTORS

Mr. Sunjay Kapur
Chairman

Mr. Kiran Manohar Deshmukh
Executive Vice-Chairman

Mr. Kiyozumi Kamiki
Dy. Managing Director

Mr. Hidekazu Omura
Nominee of JTEKT Corporation, Japan

Mr. Kazuhiko Ayabe
Nominee of Maruti Suzuki India Limited

Mrs. Rani Kapur
Mr. Ramesh Suri
Mr. Ravi Bhoothalingam
Mr. P. K. Chadha
Lt. Gen. (Retd) Shamsheer Singh Mehta
Mrs. Ramni Nirula
Mr. Prasan Abhaykumar Firodia

PRESIDENT & COMPANY SECRETARY

Mr. Sudhir Chopra

EXECUTIVE MANAGEMENT

Mr. Kiran Manohar Deshmukh
Mr. Kiyozumi Kamiki
Mr. Sudhir Chopra

OPERATING MANAGEMENT

Mr. Kiran Manohar Deshmukh
Mr. Kiyozumi Kamiki
Mr. Sudhir Chopra
Mr. A. D. Rao
Mr. Rajiv Chanana
Mr. R. Balaji
Mr. Vikas Marwah
Mr. Shoichiro Fujikawa
Mr. G. R. Yadav
Mr. Sudhir Kumar Sharma
Mr. Akhil Kumar Jain
Mr. S. Senthil Kumar
Mr. Balakrishnan Ramasamy
Mr. Jaydeep Kumar

TECHNICAL PARTNERS

JTEKT Corporation, Japan
Fuji Autotech AB, Sweden

AUDITORS

M/s S P Puri & Co.
Chartered Accountants
4/18, Asaf Ali Road
New Delhi 110 002

INTERNAL AUDITORS

Ernst & Young LLP
Golf View Corporate Tower-B, Sector 42,
Sector Road , Gurgaon 122002 (Haryana)

BANKERS

State Bank of India
Standard Chartered Bank
Corporation Bank
State Bank of Hyderabad
Allahabad Bank
Indian Bank
Yes Bank
Kotak Mahindra Bank
IndusInd Bank

REGISTRAR AND TRANSFER AGENT

Karvy Computershare Pvt. Ltd.
305, New Delhi House,
27, Barakhamba Road, Connaught Place,
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)
- 5) Plot No. 19, Industrial Area, Dharuhera,
Distt. Rewari (Haryana)
- 6) Village Malpura, Tehsil Dharuhera,
Distt. Rewari (Haryana)
- 7) Plot No. 731, Sector 37C, Pace City II,
Gurgaon (Haryana)

MANAGEMENT DISCUSSION AND ANALYSIS

Financial year 2016 saw the Indian automobile industry maintain positive growth across all segments. The Passenger Vehicle (PV) segment, in particular, witnessed high growth of 6.9% during the year, mainly driven by new launches. Sona Koyo Steering Systems Ltd. (Sona Koyo) faced the situation of stagnant sales in the last financial year caused due to shift in customer preference for few Car Models which performed exceptionally well and where the Company didn't participate. At the same time certain platforms, where the Company is participating such as KUV100/TUV300 (by M&M), Innova/Fortuner (by Toyota) and Vitara Brezza (by Maruti Suzuki), were launched either in the last quarter of the financial year or are being launched in the first quarter of FY17. As a result, the Company on standalone basis reported sales of ₹ 10,690 million (mn) compared to sales of ₹ 10,684 mn in the previous financial year. On Consolidated basis, the Company reported net sales of ₹ 15,183 mn for FY16, a marginal decline of 2.1% YoY. Considering that Sona Koyo is participating in many exciting upcoming launches, the Company is expected to achieve better performance in future years.

Sona Koyo continued to broaden its product portfolio across all steering systems. During the year, Sona Koyo made new inroads into the off-highway segments, modifying its internationally proven Electric Power Assist Module (EPAM) to new product markets, namely, the domestic tractor segment, sports vehicles and special vehicles.

Sona Koyo also continued to build relationships with existing clients while adding new customers. During the year, the Company started supplying steering assembly to Eicher Pollaris. The column division of the Company won business from Tafe and the work on new product development is progressing well.

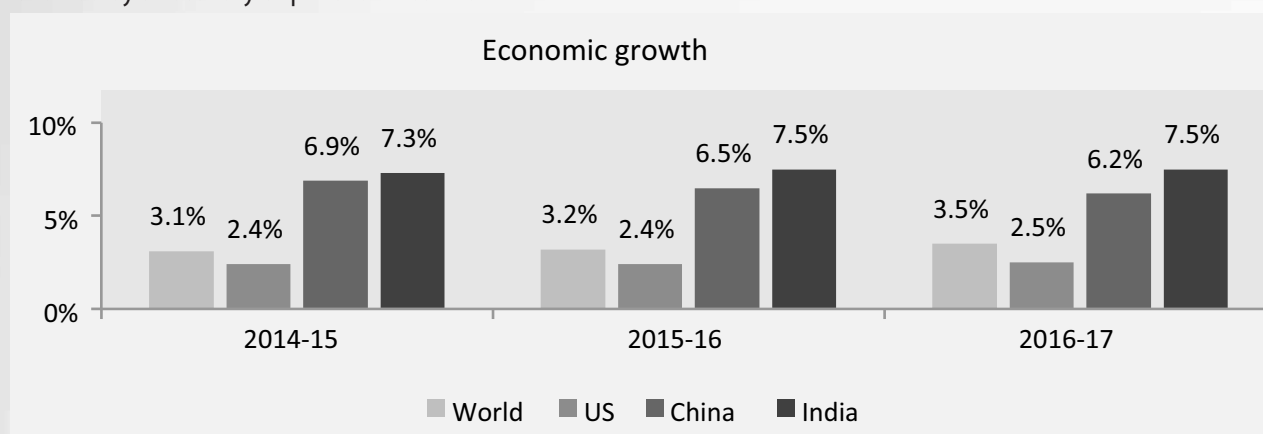
The Society of Indian Automobile Manufacturers (SIAM) has predicted a growth rate of ~6-8% in FY17 for the overall PV segment. ICRA also expects domestic PV sales to grow by 8.5-9.5% in FY17 backed by replacement demand and off-take from first-time buyers, thanks to the improving economic environment. Sona Koyo is now well-positioned to grow given its presence in several upcoming models; new product launches that will open new market segments; and growth in exports.

ECONOMIC SCENARIO

Improving outlook for Global and Indian economy

In FY16, India was the fastest-growing economy. The International Monetary Fund (IMF) has predicted a growth of 7.5% for FY16 and FY17 for India, while it expects the world economy to grow at 3.2% and 3.5% for FY16 and FY17, respectively.

In India, lower commodity prices and a relatively tight monetary stance have resulted in a faster-than-expected fall in inflation, making room for nominal interest rate cuts. According to the IMF, India's growth will be driven by increase in private consumption, benefited from lower energy prices, higher real incomes and a pick-up in industrial activity followed by a recovery of private investment.



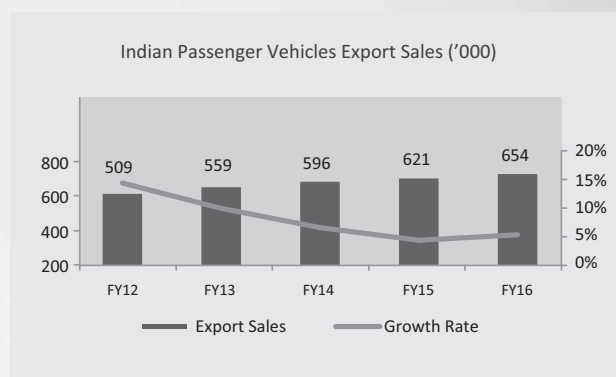
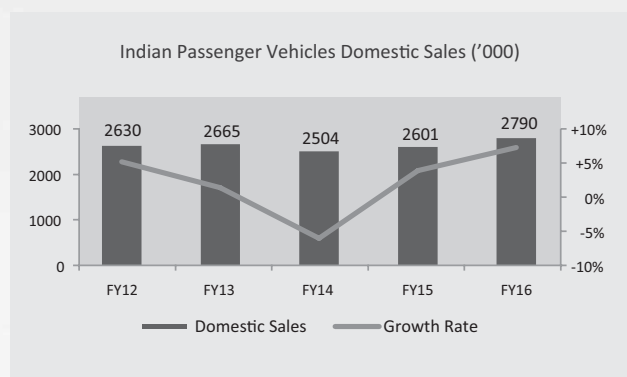
Source : IMF

For FY16, the Index of Industrial Production (IIP) witnessed a growth of 2.4% against a growth of 2.8% in FY15. Manufacturing, which is the largest segment, grew 2% in FY16 against 2.3% last year. Industrial production in FY17 is expected to pick up on the back of increased infrastructure spending by government and improvement in both the consumer goods and capital goods segments.

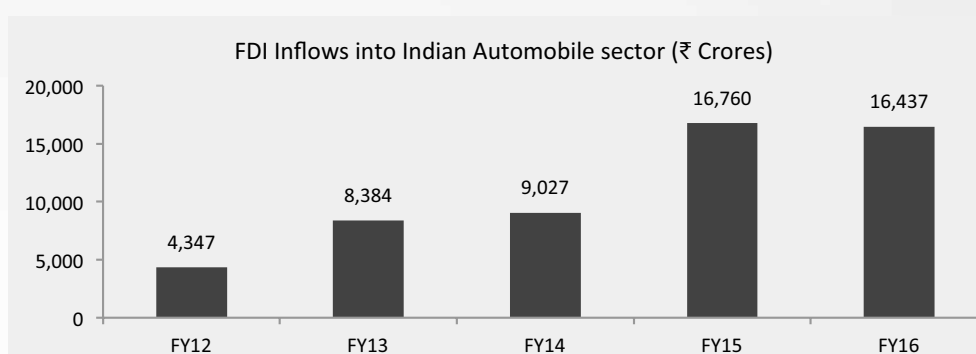
MARKET OVERVIEW

Overall PV volumes grew by 6.9% to 3.4 mn units, with domestic sales and exports registering growth of 7.2% to 2.8 mn units and 5.2% to 0.7 mn units, respectively, compared to 3.9% and 4.2% in FY15. Within the PV segment, passenger cars grew by 7.9% YoY, posting their highest domestic sales growth rate in five years. Low commodity prices, improved performance in markets like the UK, the US, Germany and France, coupled with new model launches and incentive schemes for customers, helped boost growth.

The domestic commercial vehicles (CVs) segment reported 11.5% growth with medium and heavy commercial vehicles (M&HCVs) clocking 29.9% and light commercial vehicles (LCVs) growing by a marginal 0.3%. Domestic three-wheelers posted a growth of 1% with passenger carriers seeing a step up of 2.1% and goods carriers declining by 3.6%.



The government's thrust on 'Make in India', with a view to transform India into a manufacturing and technology hub, has attracted new foreign direct investment (FDI) into the automotive sector. The industry has seen investments from both global and local OEMs with the effect of building/expanding capacity and research and development (R&D).



Source: Report from Ministry of Commerce & Industry

OUTLOOK

Sustained growth for automotive industry in FY17

SIAM is expecting positive performance by the automotive industry in FY17, forecasting growth of 6-8% in PV sales. Further, prediction by the Indian Meteorological Department (IMD) of an above-average monsoon is expected to revive rural demand. Announcement of the 7th Pay Commission of wage hikes, easing of interest rates and rising disposable incomes in the hands of individuals will provide further fillip to demand. OEMs have lined up a slew of new launches for

FY17, which, coupled with lucrative customer incentives, will boost demand. ICRA is expecting domestic sales to grow by 8.5-9.5%, driven mainly by replacement demand and improved overall economic environment.

Both SIAM and ICRA have predicted M&HCV to be the flag-bearer of the Commercial Vehicle (CV) segment with a growth rate of 12-15% in FY17, driven by replacement demand of ageing fleet, pre-buying before BS-IV gets implemented across India, increased focus on infrastructure growth, improved spend on National Highways and lifting of the ban on sand mining in various regions.

PV density expected to become 1.5 times of current vehicle penetration by 2020

India has the largest population of young people in the world, yet a low vehicle penetration (PV) (32 vehicles per 1,000 people in 2015) makes it one of the world's most attractive auto markets. Owing to its unique demographic dividend, and government initiatives, such as 'Make in India' and 'Smart Cities', the Indian auto industry holds immense growth potential. According to E&Y analysis, India's PVs are expected to grow from around 29 mn during 2015 to more than 48 mn vehicles by 2020.

Automotive Mission Plan (AMP) envisages autocomponent sector to be \$150 bn by 2026

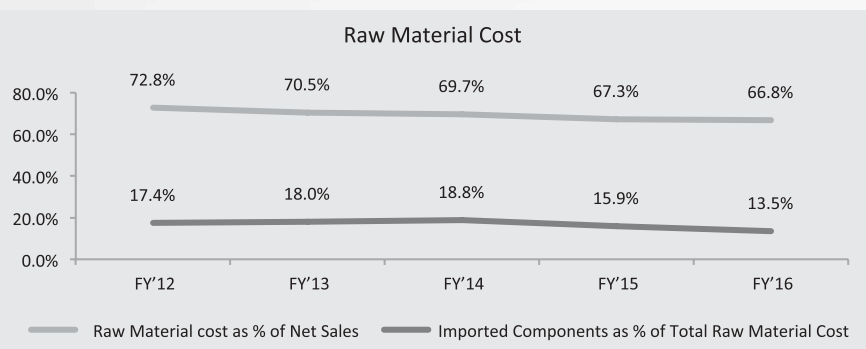
The AMP 2026 envisages that the Indian automotive industry will grow 3.5-4 times in value from its current level of output by 2026, comprising over 12% of the national GDP. By 2026, India would stand first in the world in production/sale of small cars, two-wheelers, tractors and buses, and third in PVs and heavy trucks.

Vehicle sales are expected to touch 66 million units by FY26. To achieve this projection, the auto industry will require additional investment of ₹ 4.5–5.5 trillion. The growth of the automotive market will translate into huge potential for the auto component sector. According to AMP 2016-26, the autocomponent sector is expected to grow at a CAGR of 13% from \$38 billion in FY15 to more than \$150 billion by 2026.

OPERATIONS

With improving operating efficiencies at the top of its agenda, Sona Koyo has seen effective results every year. Localization efforts, backward integration, VA/VE (value analysis and value engineering) activities and active involvement with suppliers have helped in lowering the raw material cost as a percentage of net sales to 66.8% in FY16 from 67.3% in FY15 on standalone basis. On a consolidated basis, raw material cost as a percentage of net sales declined from 67% in FY15 to 66.3% in FY16.

Operations at the Aluminum Pressure Die Casting (PDC) facility are improving and the Company is now achieving 80% capacity utilization. The graph below depicts the continuous decline in raw material cost as a percentage of revenue on standalone basis.



With decline in material cost, Sona Koyo, on standalone basis, was able to improve its contribution levels (Sales – Variable Cost) from 26.9% in FY15 to 27.5% in FY16. However, the Company suffered at the PBT level due to increase in fixed costs. There was a significant increase in Employee cost which was due to change in regulations such as retrospective change in Payment of Bonus Act and two times increase in Minimum Wages. These changes were beyond the control