



TRAVELLING THE EXTRA MILE

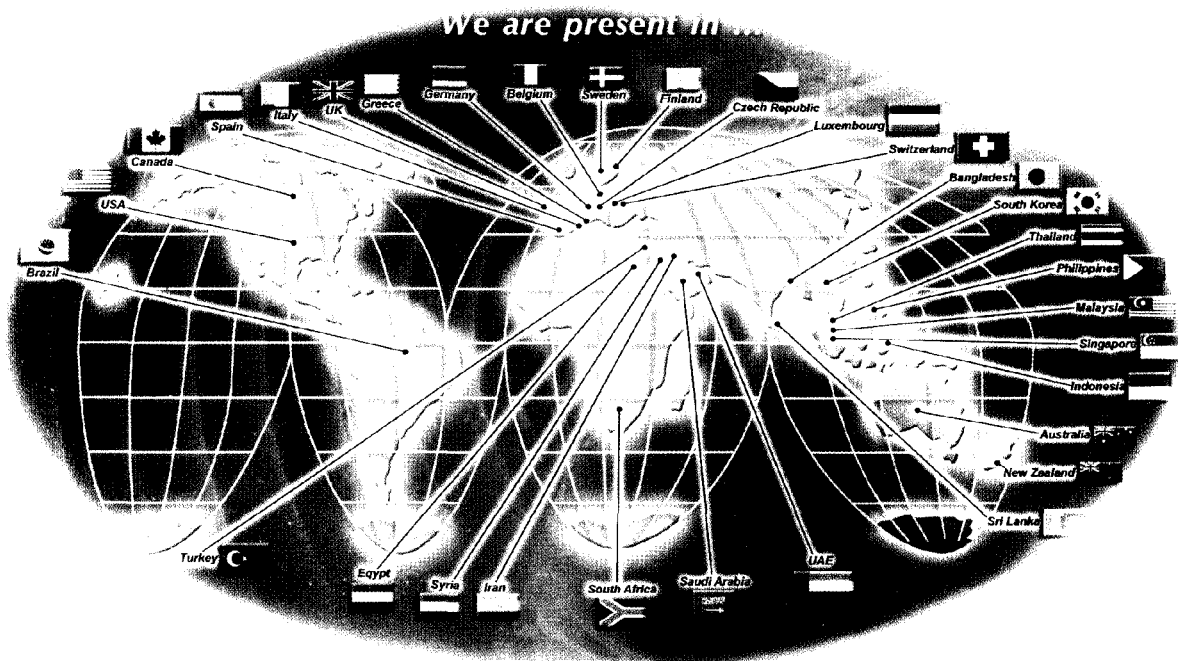
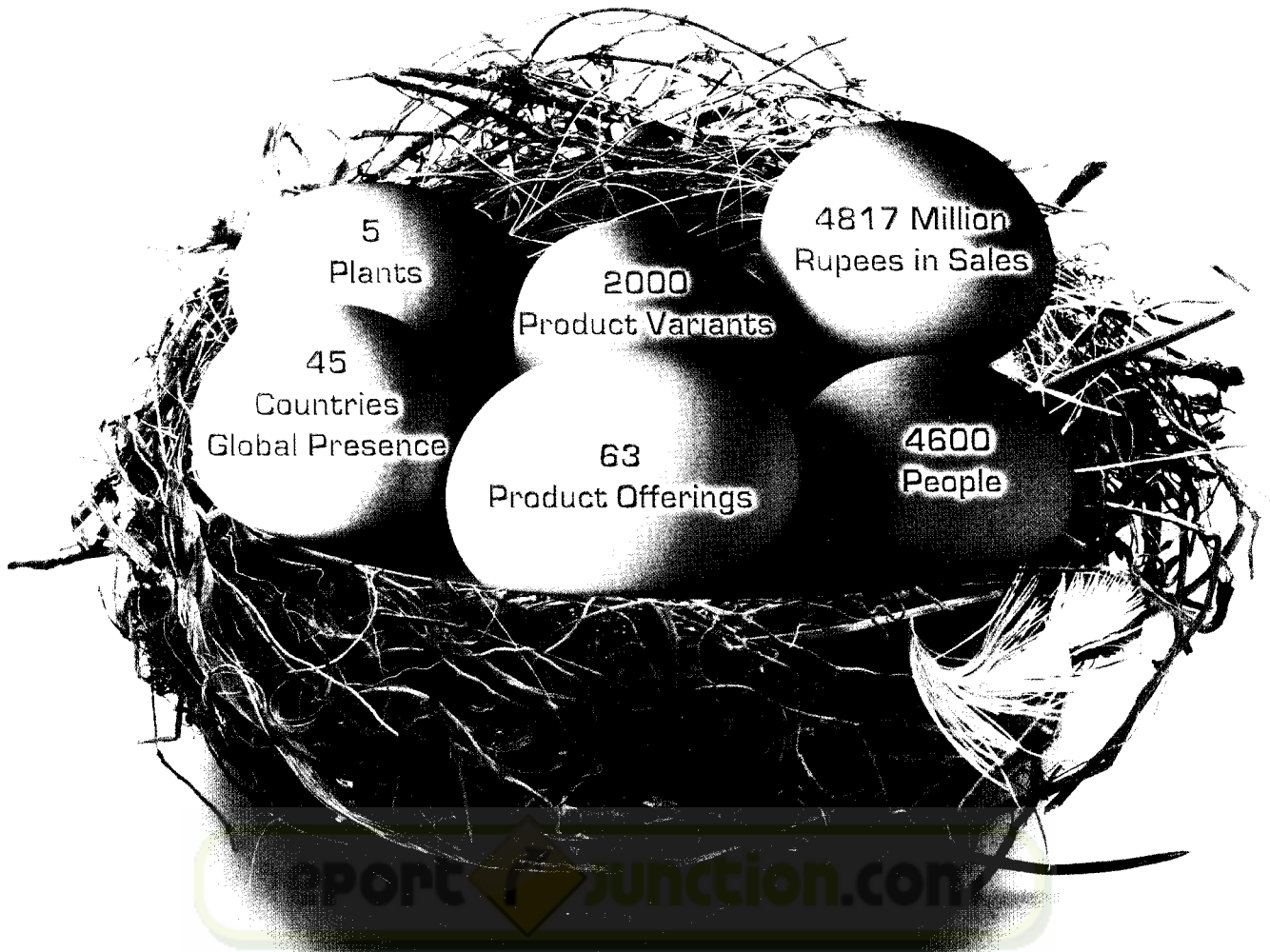


Annual Report 2006

pricol limited

www.reportjunction.com

pricol at a glance



Travelling the Extra Mile...



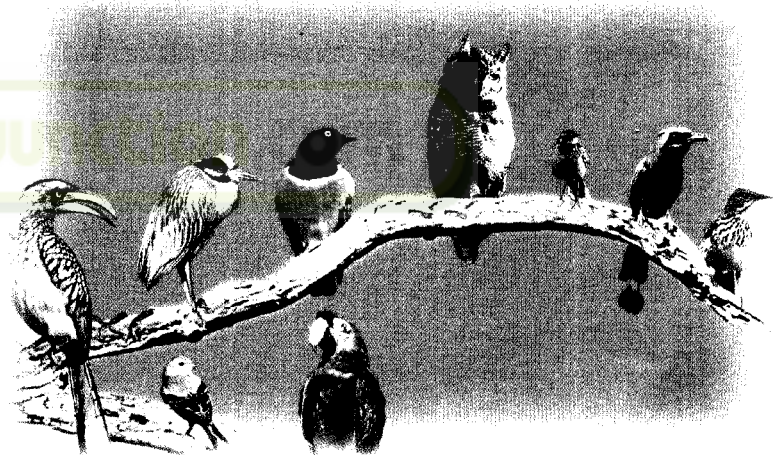
From a mere vision over thirty years ago, to a recognised player in the auto component industry, ours is a legacy enriched by people. This transition has also been possible because we have not remained content to just walk within confined parameters, but have been willing to travel the extra mile for our **customers, employees, suppliers and share holders.**

In travelling these extra miles, we have also understood how important it is to enrich our immediate world.

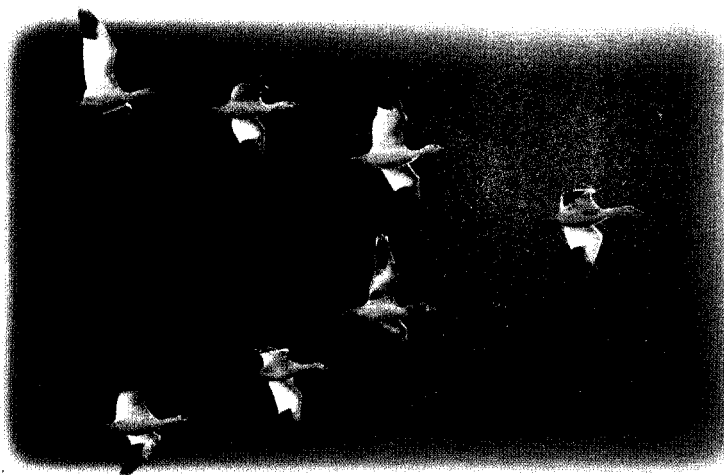
...for our Customers

Today's markets are customer driven. The key to success is to consistently deliver beyond their expectations. At pricol, we walk the extra mile to delight our customers in every way possible.

New concepts have helped us compress time, adhere to strict time schedules, deliver quality products and add value in different ways.



...for our People



Our people mean everything to us. Our work culture symbolises our commitment to become a part of the global industry. Each of our programmes centre around nurturing their talents. Our proactive approach to management has resulted in the creation of empowered people who are always willing to travel beyond the call of duty.

Learning is viewed as a continuous process and has enabled our team to be on the constant lookout to implement newer methods to enhance performance.

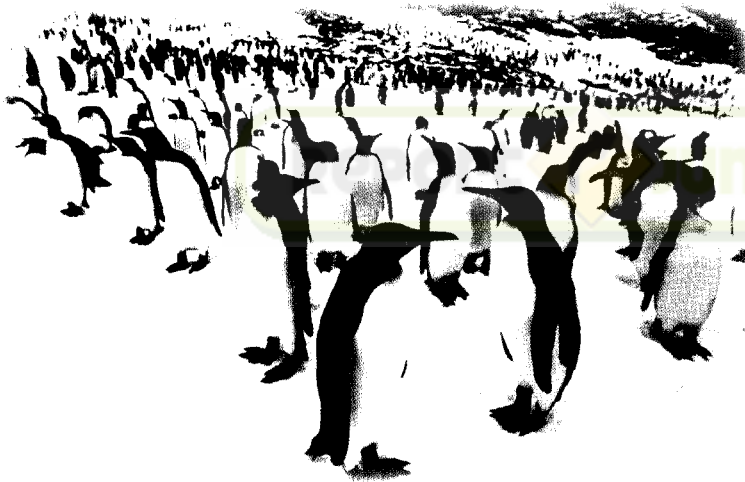
...for our Suppliers

As an integral part of the Pricol family, our suppliers share our passion for learning and implementing newer ideas at the workplace. We ensure that they are in tune with the latest practices, both in terms of technology and enhanced production processes.

We regard our suppliers as our valuable partners in progress and we are always willing to travel the extra mile to benefit them.



...for our Share Holders



Our shareholders make it possible for us to dream higher and reach farther. Consistent dividends through the years have been our way of showing them how much we value their contribution to our growth.

We take pride in sharing our wealth of values with them for we believe that with each extra mile we build lasting bonds.

We believe it is our turn to give back to our world what we have received from it.

Pricol Rural Development Programme

PRDP is an initiative to create a sustainable environment for the members of our neighbouring rural community through the following initiatives:

- Rain water harvesting ➤ Optimise water usage
- Solid waste management ➤ Afforestation
- Organization of health and medical camps
- Creating self help groups in the community

We also avidly support social causes that improve health care, literacy and environment.

At pricol, growth signifies greater things than just prosperity. It is an indication that we need to strive harder, walk longer and be willing to go all those miles extra for the welfare of our society and our world.

...for the World



BOARD OF DIRECTORS

Mr. Vijay Mohan, Chairman & Managing Director
 Mr. L. Lakshman
 Mr. E.K. Parthasarathy
 Mr. Suresh Jagannathan
 Mr. C.R. Swaminathan
 Mr. D. Sarath Chandran
 Mr. K.N.V. Ramani (upto 5th August, 2005)
 Mr. Takeshige Tabuchi (upto 29th July, 2005)
 Mr. Shinji Shirasaki (w.e.f 29th July, 2005)
 Mr. Haruo Ishida, Alternate Director to Mr. Shinji Shirasaki
 Mr. C.N. Srivatsan
 Mr. T.K. Balaji
 Mr. V. Ramakrishnan
 Mr. R. Vidhya Shankar (w.e.f 21st May, 2005)
 Mrs. Vanitha Mohan, Executive Director

COMPANY SECRETARY

Mr. T.G. Thamizhanban (w.e.f 27th May 2006)

AUDITORS

M/s. Suri & Co.,
 Chartered Accountants
 Coimbatore

BANKERS

Andhra Bank
 ICICI Bank Limited
 IndusInd Bank Limited
 HDFC Bank Limited
 State Bank of India
 IDBI Bank Limited
 Bank of Nova Scotia
 BNP Paribas
 Hongkong and Shanghai Banking Corporation Ltd

REGISTERED OFFICE

702/7, Avanashi Road,
 Coimbatore - 641 037, India.
 Ph : 0422-4336000 Fax : 0422-4336299
 E-mail : city@pricol.co.in

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Subsidiary Company :	
1. Integral Investments Limited	51
2. English Tools and Casting Limited	57

FACTORIES**PLANT I**

132, Ooty Main Road,
 Perianaickenpalayam,
 Coimbatore - 641 020.

PLANT III

4/558, Chinnamathampalayam,
 Bilichi Village,
 Press Colony Post,
 Coimbatore - 641 019.

PLANT II

Plot No.34&35, Sector 4
 IMT Manesar
 Gurgaon - 122 050

PLANT IV

2/439, Main Road,
 Karamadai Post,
 Coimbatore - 641 104.

PLANT V

Survey No.1065 & 1066,
 Pirangut, Taluk Mulshi,
 Pune - 412 108.

DIRECTORS' REPORT & MANAGEMENT ANALYSIS

Your Directors have pleasure in presenting the Thirty Fourth Annual Report and audited accounts for the financial year ended 31st March 2006.

FINANCIAL RESULTS

The summarised financial results are :

	Rs. in million	
	2005 - 06	2004 - 05
Net Sales & Services - Domestic	4217.013	3891.318
- Export	599.869	598.364
Total	4816.882	4489.682
Profit Before Interest and Depreciation	807.428	909.761
Less : Interest	121.868	68.325
Depreciation	256.600	218.902
Profit Before Tax	428.960	622.534
Less : Provision for		
Current Taxation	123.000	220.000
Fringe Benefit Tax	8.870	—
Deferred Tax (Asset)	(6.000)	(10.000)
Profit After Tax	303.090	412.534
Add : Tax provision for earlier years withdrawn	—	12.272
Extra-Ordinary Income (Net)	29.785	(2.660)
Balance brought forward	219.903	150.380
Amount available for appropriation	552.778	572.526

DIVIDEND

Your Directors recommend a dividend of 100% on the paid-up equity share capital of the Company for the year ended 31st March, 2006.

APPROPRIATION

	Rs. in million	
Dividend 100% (Previous year 100%)	90.000	90.000
Dividend tax 14.025% (Previous year 14.025%)	12.623	12.623
General Reserve	250.000	250.000
Surplus to be carried over	200.155	219.903
Total	552.778	572.526

DIRECTORS' REPORT & MANAGEMENT ANALYSIS (Contd..)

INDUSTRY STRUCTURE AND DEVELOPMENTS

During the financial year 2005-06, the Automotive Industry has shown a modest growth when compared to the previous year. The growth as per Society of Indian Automobile Manufacturers (SIAM) and Tractor Manufacturers Association is

Category	Vehicles Sold		Growth	
	2004-05 In numbers	2005-06	2005-06 %	2004-05
Passenger Car	980,849	1,052,287	7.28	19.37
Utility Vehicle	180,865	199,063	10.06	21.02
Multi purpose Vehicle	66,260	67,459	1.81	9.56
Medium & Heavy Commercial Vehicle	211,980	221,542	4.51	25.04
Light Commercial Vehicle	136,390	169,722	24.44	26.28
Scooters / Scooterette	983,127	992,032	0.91	4.72
Motor cycles	5,241,876	6,201,619	18.31	20.28
Mopeds	351,169	375,922	7.05	5.47
Three Wheelers	374,657	437,072	16.66	16.38
Tractors	247,000	285,000	15.38	31.00
Total	8,774,173	10,001,718	13.99	17.32

OPERATIONS

During fiscal 2005-06, the company's domestic turnover has increased from Rs.3,891 million to Rs.4,217 million recording a marginal growth of 8.4% over the previous year. Though it looks low comparing with the overall growth of automotive industry, it has been achieved under fierce price competitive environment and change in product mix. In Export, the turnover hardly increased from Rs.598 million to Rs.600 million, due to loss of contract from a large customer.

In 2005-06, the margins were under pressure due to intense competitive prices offered to customers to retain market share, steep increase in cost of materials and other inputs. This has resulted in reduction in operating profit from Rs.910 million to Rs.807 million.

- The increase in financial cost was due to hardening of interest rates and higher borrowing to meet increased Capex for new projects.

GREEN FIELD PROJECTS

A wholly owned subsidiary PT PRICOL SURYA was established for manufacturing company's two wheelers products in Karawang, near Jakarta, Indonesia, to cater to the requirements of two wheeler OEM's in Indonesia. The project is underway. The commercial production is expected to commence in December 2006.

Some of our OEM customers are setting up manufacturing plants in Pantnagar, Uttaranchal State, India. They requested the company to create manufacturing facilities, in order to satisfy their requirements. The company is in the process of setting up a Plant in Pantnagar, Uttaranchal State. It is expected to commence commercial operations before March 2007.

OUTLOOK

The Indian automobile industry, according to the Industry sources, will grow at CAGR of 9.5% for the next few years. To tap this opportunity, Indian automobile companies have announced expansion plans. Efforts are on to seize the prevailing opportunities by offering our products with international standards at competitive prices to achieve reasonable growth in domestic markets.

The company is also focusing more on garnering overseas business. Opening of marketing and sales offices in Europe and USA are in the process.

DIRECTORS' REPORT & MANAGEMENT ANALYSIS (Contd..)

OPPORTUNITIES, CHALLENGES, RISKS & CONCERNS

The market for automotive industry is growing year after year and India is also emerging into a manufacturing hub for automobiles.

Hardening of interest rates, continuous increase in oil prices, materials and other inputs, fluctuating foreign currency, frequent change in models and design, low volumes, pricing pressure, fierce competition etc are challenges thrown to the auto component industry.

Any economic slow down leading to reduced growth in the vehicle industry, inflationary pressure and spiraling of input cost due to external factors may influence the profitability of the company. Your company is in the process of strengthening the risk management frame work to constantly monitor risk and implement timely action to mitigate any adverse impact.

INTERNAL CONTROL SYSTEMS AND THEIR ADEQUACY

The company has adequate internal control systems to monitor internal business process, financial reporting and compliance with applicable laws. The company periodically reviews the adequacy and effectiveness of the control systems. The Audit Committee at their meetings regularly reviews the significant observations of the compliance and other monitoring reports. The heads of various monitoring / operating cells and statutory auditors are invited to attend the Audit Committee meetings.

FINANCE

Your Company continues to hold highest rating of A1+ for Commercial Paper from ICRA and high rating of FAA from CRISIL for fixed deposits. The total deposits from public outstanding as on 31st March, 2006 amounted to Rs.57.107 million. 40 deposits amounting to Rs.0.926 million matured but had not been claimed by the depositors as on that date. Out of these, 11 Deposits amounting to Rs.0.417 million have since been repaid.

DIRECTORS

Mr. Suresh Jagannathan, Mr. D. Sarath Chandran and Mr. L. Lakshman, Directors retire by rotation at the ensuing Annual General Meeting and are eligible for reappointment.

DEVELOPMENTS IN HUMAN RESOURCES / INDUSTRIAL RELATIONS

The company continues to give emphasis on training and development of personnel to upgrade their skill and motivate them. Industrial Relations at all the works of the company remained cordial through out the year.

CORPORATE SOCIAL OBJECTIVES

The Company continues to focus on its commitment to improve Safety, Health and Environment at all levels.

The company and employees actively involve in various rural development programmes like rain water harvesting, afforestation, solid waste management, sewage / waste water treatment, health & hygiene, for the economic development of the rural people.

CONSERVATION OF ENERGY

The Company continues to put its endeavor to adopt various energy saving measures for conservation of energy even though it is not a power intensive industry.

FOREIGN EXCHANGE EARNINGS AND OUTGO

During the year the Company's foreign exchange earnings were Rs.603.084 million (Rs.602.229 million in 2004-05). The revenue expenditure in foreign currency was Rs.985.077 million (Rs.882.914 million in 2004-05) and the capital expenditure was Rs.50.251 million (Rs.78.299 million in 2004-05).



DIRECTORS' REPORT & MANAGEMENT ANALYSIS (Contd..)

STATUTORY STATEMENTS

As required by section 212 of the Companies Act, 1956, a statements showing the Company's interest in the subsidiaries along with audited accounts is enclosed to the Balance Sheet of the Company except PT Pricol Surya, Indonesia whose first year of accounts has not been audited as on this date.

The statement showing the particulars of technology absorption pursuant to section 217(1)(e) of the Companies Act, 1956, read with Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988, is given in the annexure forming part of this report.

As required by the provisions of section 217(2A) of the Companies Act, 1956, read with Companies (Particulars of Employees) Rules, 1975, the names and other particulars of employees are set out in the annexure forming part of this report.

DIRECTORS RESPONSIBILITY STATEMENT

The Directors confirm:

- that the applicable accounting standards have been followed along with proper explanation wherever required in the preparation of Annual Accounts.
- that the Company has adopted prudent accounting policies.
- that proper care has been taken for maintenance of accounting records in accordance with the provisions of the Act and
- that the Annual Accounts of the Company have been prepared on a going concern basis.

AUDITORS

The Auditors of the Company, M/s. Suri & Co., retire at the ensuing Annual General Meeting and are eligible for reappointment.

CORPORATE GOVERNANCE

Pursuant to Clause 49 of the Listing Agreement with the Stock Exchanges, Corporate Governance Report and Auditors' Certificate regarding compliance of the same are made a part of this Annual Report.

CAUTIONARY STATEMENT

Management Discussion and Analysis forming part of this Report is in compliance with Corporate Governance Standards incorporated in the listing agreement with Stock Exchanges and such statements may be "forward-looking" within the meaning of applicable securities laws and regulations. Actual results could differ materially from those expressed or implied. Important factors that could make a difference to the Company's operations include economic conditions affecting demand / supply and price conditions in the domestic and overseas markets in which the company operates, changes in the Government regulations, tax laws and other statutes and other incidental factors.

ACKNOWLEDGEMENTS

The Directors wish to thank Denso Corporation, Japan, Customers, Distributors, Dealers, Suppliers, Shareholders, Bankers and other Collaborators for their continued support and co-operation during the year under review. The Directors also wish to place on record their appreciation of the contribution made by the management team and the employees at all levels.

Coimbatore
27th May 2006

For and on behalf of the Board
Vijay Mohan
Chairman & Managing Director

ANNEXURES TO DIRECTORS' REPORT

Statement pursuant to section 217(1)(e) of the Companies Act, 1956, read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988.

TECHNOLOGY ABSORPTION

I. Research and Development (R & D)

(i) Specific areas of R & D

The Company has an R & D centre which is approved by the Department of Science and Technology, Government of India. Our R & D is engaged in several areas including :

- Designing and development of new products
- Improvement in existing products
- Value Engineering.

(ii) Benefits derived from R & D

- Customer satisfaction
- Quality Improvement
- New products
- Cost reduction

(iii) Future plan of action

- Anticipate customers requirements
- Design & Develop new products and accessories accordingly

Expenditure on R&D : (Rs. in Million)

Capital	47.887
Recurring	139.286
	187.173
R & D expenditure as a percentage of sales	3.89%

II. Technology Absorption, Adaptation and Innovation

Imported Technology

The technology imported during the year 2001 from M/s.DENSO Corporation, Japan, for manufacture of Vacuum Switching Valves, Manifold Absolute Pressure Sensors and Speed Sensors for automotive vehicles and the technology imported during the year 2002 from (a) M/s. DENSO Corporation, Japan, for manufacture of instrument cluster using Stepper Motor, (b) M/s. NHK Spring Co.Ltd, Japan for manufacture of Chain Tensioner and (c) M/s. Directed Electronics Inc, USA for the manufacture of Vehicle Remote Entry and Security System have been fully absorbed.

Particulars of Employees pursuant to section 217(2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975 and forming part of the Report of the Directors for the year ended 31st March, 2006.

Name & (Age)	Designation / Nature of Duties	Remuneration		Qualification & Experience (Years)	Date of Commencement of Employment	Last Employment
		Gross (Rs. in Million)	Net			
Vijay Mohan (58)	Chairman & Managing Director General Management of affairs of the Company	8.877	5.715	Bachelor of Engineering & Master of Management Science (33)	03.04.1973	—

- NOTE : 1. Mr. Vijay Mohan is related to Mr. D. Sarath Chandran, Director and Mrs. Vanitha Mohan, Executive Director. Mr. Vijay Mohan owns more than 2% of the equity shares of the Company as on 31st March 2006.
2. The Chairman & Managing Director is appointed for a period of five years at a time.
3. Gross remuneration comprises salary, commission, allowances, monetary value of perquisites and the Company's contribution to provident fund, gratuity and superannuation fund.
4. Net remuneration is exclusive of contributions to provident fund, gratuity fund, superannuation fund and tax deducted.