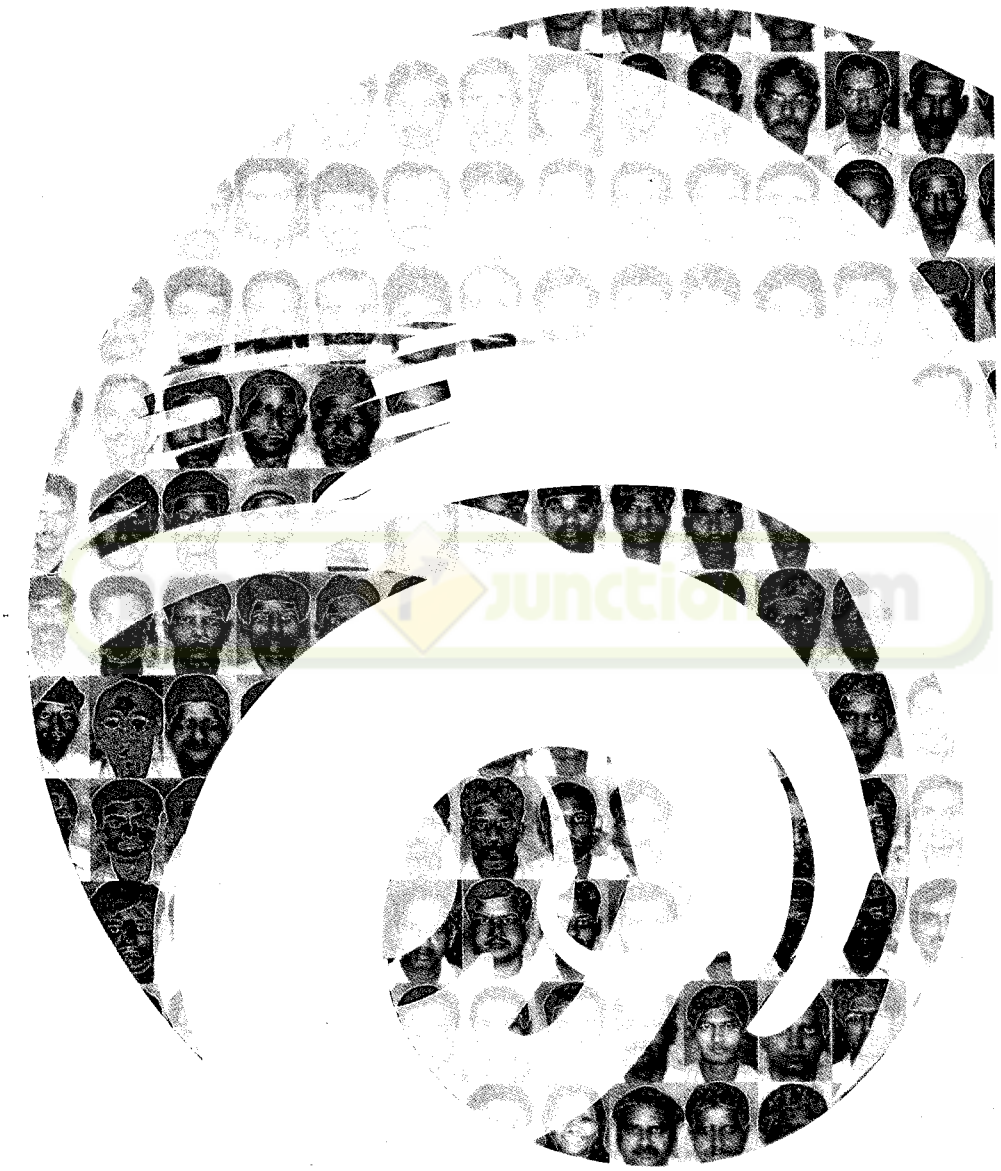
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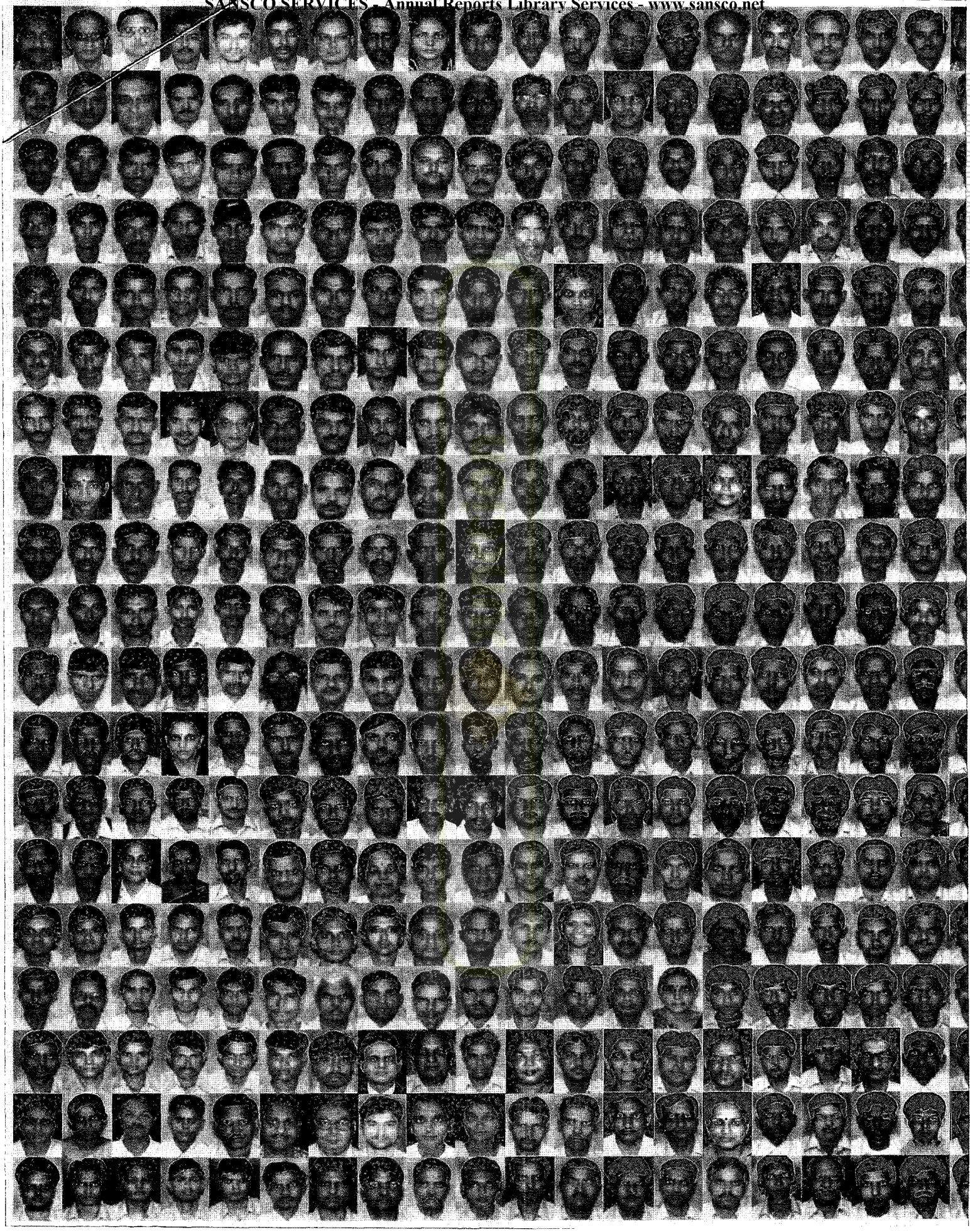
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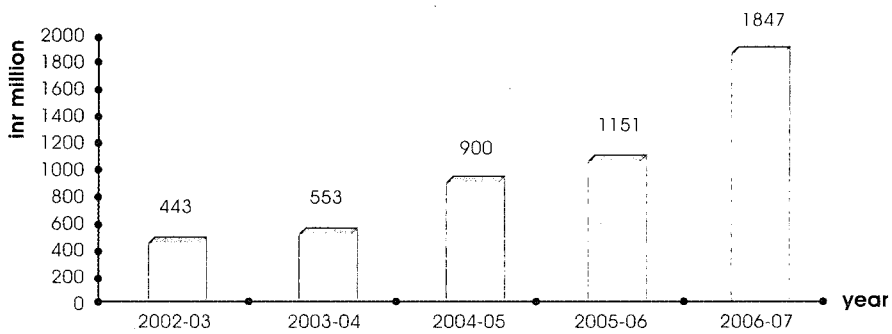
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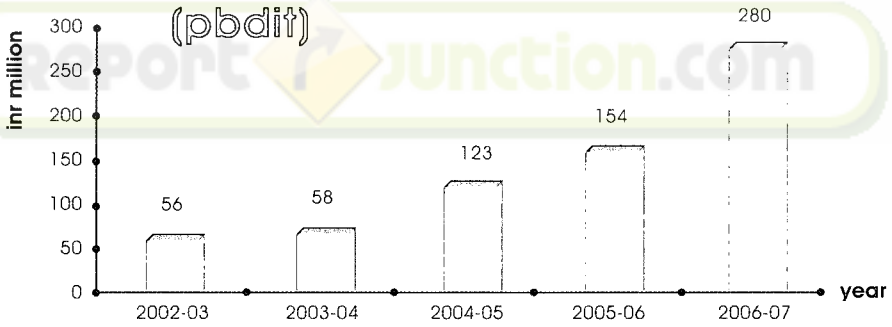
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SETCO AUTOMOTIVE LTD performance at a glance

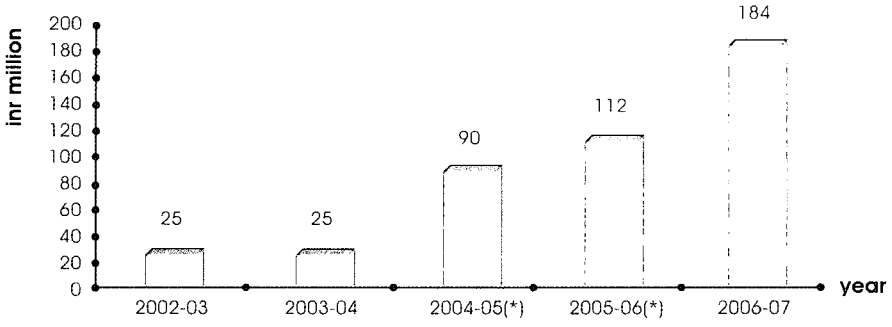
turnover



profits before depreciation, interest & tax (pbdit)



profit before taxes



figures of 2005-06 and 2006-07 reflect consolidated figures of Setco Automotive Ltd
figures of 2004-05 and 2005-06 are annualized
(*) before prior period adjustment and exceptional items

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Board of Directors	Pratap Merchant Harish Sheth — Managing Director. Satish Deshpande Harshal J.Shah Arun Arora
Auditors	Manesh Mehta & Associates Chartered Accountants Baroda, Gujarat, India
Bankers	Bank of Baroda
Registered Office & Factory	Baroda - Godhra Highway, Kalol - 389 330 District Panchmahals, Gujarat, India
Corporate Office	54-A, Tardeo Road Nr. Film Center Mumbai - 400 034, Maharastra, India www.setcoclutch.com

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DIRECTORS REPORT

Your directors have pleasure in placing before you this 24th Annual Report of your Company along with the audited accounts for the 12 month period ended on 31st March 2007.

01.00 Preamble

With great pleasure your directors would like to inform you that your company has successfully completed its 25 years of business life on 5th May 2007 and have entered into an era which is full of excitement and challenging growth opportunities.

Your directors take pleasure in informing you that your company's wholly owned subsidiary in UK, Setco Automotive UK Limited i.e. SAUL has formed its wholly owned US subsidiary in the name of Setco Automotive (North America) Incorporated (SANAI) in April 2006, to initiate trading operation in the USA. SANAI in turn has acquired a new business unit from the Haldex Corporation of USA at Paris in Tennessee, which has started operating under the banner of Setco Automotive (NA) Inc. from 1st January 2007.

In their financial results for the period ending 31st March 2007, SAUL with its own account has consolidated the trading (12 months) and manufacturing operations (3 months) of SANAI and in turn Setco Automotive Limited (SAL) has consolidated its results with that of SAUL.

01.00 Financial Results

Your directors are happy to report that there has been a quantum improvement in the performance of your Company during the period under review. The summary of the consolidated financial results are as follows:

(Rs.Crs)

	31.03.2007	31.03.2006	
	(12 Months)	(9 Months)	Annualised
Turnover	184.70	86.35	115.13
Operating Profit (PBDIT)	28.03	11.53	15.37
Profit Before Tax (PBT)	18.49	* 8.39	11.19
Profit After Tax (PAT)	13.06	3.26	4.35
* Before prior period adjustments & exceptional items			

01.01 The summary of financial results of the Company as a stand alone unit are as follows:

(Rs.Crs)

	31.03.2007	31.03.2006	
	(12 Months)	(9 Months)	(Annualised)
Turnover	151.13	79.70	106.27
Operating Profit (PBDIT)	22.86	10.04	13.39
Profit Before Tax (PBT)	16.10	*7.16	9.55
Profit After Tax (PAT)	11.45	2.41	3.21
* Before prior period adjustments & exceptional items			

02.00 Dividend

In November 2006 your Directors, with pleasure declared for the company a maiden interim dividend of 10 %, (Rs. 1/- per share) based on the significantly improved performance of the first half of 2006-07. Your Directors have recommended for approval by the members at the next Annual General Meeting, a final dividend of another 10 % (Rs.1/- per share) plus a Silver Jubilee dividend of 5 % (Rs.0.50 per share) taking the total dividend for the year at 25 % (Rs.2.50 per share)

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03.00 Operations and Finance

03.01 Consolidated Financials

During the period under report, on an annualized basis the turnover of the Company has registered a 60.4 % growth with gross sales touching Rs.184.70 Crs. The Operating Profit (PBDIT) has increased by 82.4 % at Rs.28.03 Crs. The Profit Before Tax (PBT) scaled up to Rs.18.49 Crs marking a rise of 65.5%. Profit After Tax (PAT) had increased by 3 fold at Rs.13.06 Crs. All these indicate record achievement for your company.

03.02 Financials of Setco Automotive Limited (As a stand alone Company)

During the period under report, on annualized basis turnover of the Indian operation recorded a growth of 42.2 % at Rs.151.13 Crs. The Operating Profit (PBDIT) has registered a growth of 70.7% at Rs. 22.86 Crs. The Profit Before Tax (PBT) went up by 68.6% touching Rs.16.10 Crs. The Profit After Tax (PAT) had risen to Rs.11.45 Crs marking a rise of 256.7 %. This is a record breaking performance achieved by your Company.

03.03 Net Worth of Setco Automotive Ltd.

Your Directors are pleased to inform you that the consolidated net worth of the Company has gone up to Rs.35.54 Crs as on 31.03.2007 as against Rs.23.20 Crs as on 31.03.2006.For Setco Automotive Limited, as a stand alone entity, net worth has gone up to Rs. 29.41 Crs as on 31.03.2007, as against Rs.19.92 Crs as on 31.03.2006. Improvement in the net worth has resulted from ploughing back the profits.

04.00 Major Developments

Formation of a subsidiary in USA

In April 2006, SAUL, the wholly owned subsidiary of your Company had formed its wholly owned subsidiary in USA, at Paris, in the state of Tennessee in the name and style of Setco Automotive (NA) Incorporated (SANAI) with registration in the state of Delaware. This newly formed subsidiary is for setting your Company's footprint in the American market.

Formation of an Export Oriented Unit (EOU) at Kalol

With a view to accelerate the growth of your Company's export business and to derive the tax benefits under the EOU Scheme, an EOU was formed at Kalol, next to the main unit, in November 2006.

Declaration Maiden Interim Dividend

A maiden interim dividend of 10 % (Rs.1/- per share) was declared in November 2006 based on outstanding performance of the first half of 2006-07.

Foreign Acquisition

In pursuance of the long term growth strategy, the Company acquired through its U.S. subsidiary SANAI a manufacturing facility from Haldex Corporation of USA at Paris, Tennessee, in December 2006. This new manufacturing unit has started operating under the banner of Setco Automotive (NA) Inc. from 1st January 2007.

05.00 Fixed Deposits

The Company has no public deposits and has not accepted any fresh deposits during the year under report.

06.00 Directors

06.01 Retirement of Directors

i. With grief, your Directors would like to inform you that Shri K.B.Patel, Technical Director of your Company, after a brief spell of illness passed away on 8th May 2007. Late Shri Patel was associated with the Company almost from its inception and had been a pillar of strength for the Company. He played a yeoman's role

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for the all-round development of the company – its products, processes and people. His invaluable contribution to the Company is most gratefully acknowledged by the Directors of your Company. Setco, as an institution will miss Late Shri K.B.Patel at all times.

ii. Shri N.R.Badrinarayan, the Bank of Baroda nominee director has resigned from the Board w.e.f. 29.01.2007 on Bank's decision to withdraw its nominee from the Company's Board. The Board of Directors thankfully acknowledges the valuable advice and guidance provided by him to the company during his tenor as Director. Your Directors would like to put on record their appreciation for the services rendered by Shri Badrinarayan during his association with the Company on the Board.

06.02 Reappointment of Directors

i. Shri Satish Deshpande, Director of the Company in accordance with Section 256 of the Companies Act 1956, retires by rotation at the 24th Annual General Meeting of the Company and being eligible, has offered himself for reappointment. Your Directors recommend considering reappointing Shri Satish Deshpande as Director on the Company's Board. A resolution in this behalf is placed for your consideration.

ii Shri Harshal J. Shah, Director of the Company in accordance with Section 256 of the Companies Act 1956, retires by rotation at the 24th Annual General Meeting of the Company and being eligible, has offered himself for reappointment. Your Directors recommend considering reappointing Shri Harshal J. Shah as Director on the Company's Board. A resolution in this behalf is placed for your consideration.

iii. Shri Arun Arora who was co-opted as an Additional Director of the Company by the Board of Directors with effect from 29th March 2007, hold office under Section 260 of the Companies Act 1956, till the date of ensuing Annual General Meeting of the Company and is eligible for reappointment. The Company has received a notice in writing from a member under the provision of section 257 of the Companies Act 1956 proposing the candidature of Shri Arun Arora for the office of a Director. Your Directors recommend appointing Shri Arun Arora on the Board of your Company. A resolution in this behalf is placed for your consideration.

07.00 Auditors

The present statutory auditors Messrs Manesh Mehta & Associates, Chartered Accountants, Vadodara retire at this Annual General Meeting. It has been proposed to reappoint Messrs Manesh Mehta & Associates, as statutory auditors of the Company. Your Directors recommend their reappointment as Auditors of the Company till the next Annual General Meeting. A resolution to that effect is placed for your consideration.

08.00 Comments on Audit Remarks

In compliance of Section 217 (3) of the Companies Act 1956, your Directors have to give their comments on the Auditor's remarks as follows. The notes on accounts in schedule 18 and the Director's Responsibility statements are self explanatory as regards comments made by Auditors in their Audit Report. As regards specific remarks of the Auditor's in Para 4(d)(i) & (ii) of their Report relating to recognition of sales revenue and accounting of gratuity and leave encashment on accrual basis and the impact of these deviations from the mandatory Accounting Standards, your Directors have to state that steps have already been initiated to modify / amend the systems and the relevant accounting policies followed consistently from year to year in past to harmonize the same and bring them in line with the mandatory standards.

09.00 Directors Responsibility Statement

In terms of Section 217 (2AA) of the Companies Act, 1956, the Board of Directors of the Company would like to state that:

i. In preparation of the annual accounts, the applicable standards have been followed save the following exceptions, which are consistently followed by the Company as stated in the Significant Accounting Policies and Notes to the Accounts, Schedules 17 & 18:

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a) Accounting Standard 9, in accounting sales on dispatches of the goods from the works with payment of excise duty and providing for taxes, as against recognizing the revenues from sales only on transfer of significant risk and rewards of the ownership to the buyer.

b) Accounting Standard 15, in accounting gratuity and leave encashment on cash basis as against on accrual basis.

ii. Selected accounting policies were applied consistently and the Directors made judgment and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit or loss of the Company for the period.

iii. Proper and sufficient care has been taken for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities.

iv. Annual accounts have been prepared on a going concern basis.

10.00 Corporate Governance

Your Company is committed to observe the best practices in the area of Corporate Governance. In so far as compliance with the requirement of Clause 49 of the Listing Agreement with the Stock Exchange is concerned, the Company has complied with the norms and disclosures that are to be made. The Management Discussion and Analysis and Corporate Governance Report along with the Auditors' Certificate for the same are incorporated in this report.

11.00 Particulars of Employees

None of the employees were in receipt of remuneration during the year equal to or in excess of sum prescribed as per Section 217 (2A) of the Companies Act, 1956 read together with the Companies (Particulars of Employees) Rules, 1975 as amended.

12.00 Conservation of Energy Technology Absorption, FOREX Earnings

Information pursuant to Section 217 (1) (e) of the Companies Act, 1956 read with the Companies (Disclosures of particulars in the Report of Directors) Rules, 1988 is detailed below:

A Conservation of Energy:

Your Company's business being in an automobile engineering related industry where cost of energy is comparatively very low, overall impact of energy on cost of production is not significant. However, general energy conservation measures considered necessary are implemented at different points in the factory and office and the same are reviewed from time to time to save energy, besides developing consciousness amongst the operating personnel. This has bearing on total energy charge to be absorbed. No major investment is considered necessary in this regard.

B Technology Absorption:

Company is engaged in manufacturing clutches for commercial vehicles under the Foreign Technology Collaboration. Almost all components are indigenized to reduce dependence on imports. However, as per the collaborators specifications and also with a view to have the benefit of superior global quality and global price competitiveness, few critical components not produced in India, continue to be imported.

C Foreign Exchange Earnings and Out-Go:

The overall foreign exchange earnings and out-go is detailed in Notes 21 and 22 (ii) (c) of Schedule 18 of the Annual Accounts.

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