

TVS MOTOR COMPANY LIMITED

Board of Directors

VENU SRINIVASAN
Chairman & Managing Director

GOPAL SRINIVASAN

T. K. BALAJI

H. LAKSHMANAN

T. KANNAN

N. GANGA RAM

C. R. DUA

K. S. BAJPAI

T. R. PRASAD

Audit Committee

T. R. PRASAD
Chairman

N. GANGA RAM

T. K. BALAJI

T. KANNAN

Investors' Grievance Committee

N. GANGA RAM
Chairman

VENU SRINIVASAN

T. KANNAN

President

K.N. RADHAKRISHNAN

Sr. Vice President - Finance

S.G. MURALI

Secretary

T. S. RAJAGOPALAN

Auditors

SUNDARAM & SRINIVASAN
Chartered Accountants,
23, Sir C.P. Ramaswamy Road,
Alwarpet, Chennai 600 018.

Listing of shares with

Madras Stock Exchange Ltd., Chennai.
Bombay Stock Exchange Ltd., Mumbai.
The National Stock Exchange of India Ltd., Mumbai.

Bankers

STATE BANK OF INDIA
Corporate Accounts Group Branch,
Greams Road, Chennai 600 006.

STATE BANK OF MYSORE
Industrial Finance Branch,
Midford Garden Road, Bangalore 560 001.

Registered office

Jayalakshmi Estates,
29 (Old No.8), Haddows Road, Chennai 600 006.

Factories

1) Post Box No. 4, Harita, Hosur 635 109.
Tel: 04344 - 276780
Fax: 04344 - 276016

2) Post Box No. 1, Byathahalli village,
Kadakola post, Mysore 571 311.
Tel: 0821 - 2596560
Fax : 0821 - 2596530/2596533

3) Bhatian Village, Nalagarh Post & Taluk
Solan District 174 101
Himachal Pradesh
Tel: 01795 - 220494
Fax: 01795 - 220496

Subsidiary Companies

Sundaram Auto Components Limited, Chennai.
TVS Motor Company (Europe) B.V., Amsterdam
TVS Motor (Singapore) Pte. Limited, Singapore
PT. TVS Motor Company Indonesia, Jakarta

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Financial Highlights

Rupees in crores

DETAILS	2006-07	2005-06	2004-05	2003-04	2002-03
Sales and other income	3928	3306	2955	2856	2726
Profit before interest, depreciation and tax	211	275	291	296	284
Profit before tax	91	168	200	215	201
Profit after tax	67	117	138	138	128
Net fixed assets	1003	794	770	704	533
Share capital	24	24	24	24	23
Reserves and surplus	786	742	655	551	400
Networth	751	673	614	562	423
Total borrowings	634	385	187	119	122
Earnings per share (Rs.)	2.80	4.93	5.79	5.83	5.54
Dividend per share (Rs.)	0.85	1.30	1.30	1.30	1.20
Book value per share (Rs.)	31.33	28.04	25.58	23.42	18.39

Note:

Effective 8th December 2003, the face value of the shares of the company was split from Rs.10/- per share to Re.1/- per share. Previous year figures were recast to conform to the split in the face value of the shares.

Notice to the Shareholders

NOTICE is hereby given that the fifteenth annual general meeting of the company will be held at 'The Music Academy', New No.168 (Old No.306), TTK Road, Chennai 600 014 on Friday, the 17th August 2007, at 10.15 A.M to transact the following business:

ORDINARY BUSINESS

1. To consider and if thought fit, to pass with or without modification, the following resolution as an ordinary resolution:

RESOLVED THAT the audited balance sheet as at 31st March 2007 and the profit and loss account of the company for the year ended on that date, together with the directors' report and the auditors' report thereon as presented to the meeting, be and the same are hereby, approved and adopted.

2. To consider and if thought fit, to pass with or without modification, the following resolution as an ordinary resolution:

RESOLVED THAT the interim dividend of Re.0.70 per share declared by the board of directors of the company on 25th October 2006 on 23,75,43,557 equity shares of Re.1/- each fully paid, absorbing Rs.16.63 crores out of the profits of the company for the year ended 31st March 2007 paid on 4th November 2006, be and is hereby approved.

RESLOVED FURTHER THAT pursuant to the recommendation of the board of directors of the company, a final dividend of Re.0.15 per share on 23,75,43,557 equity shares of Re.1/- each fully paid up absorbing a sum of Rs.3.56 crores be and is hereby declared for the year ended 31st March 2007 and the same be paid to those shareholders whose name appear in the register of members of the company as at the close of 13th August 2007.

3. To consider and if thought fit, to pass with or without modification, the following resolution as an ordinary resolution:

RESOLVED THAT Mr. T Kannan, director who retires by rotation and being eligible for re-appointment be and is hereby re-appointed as a director of the company.

4. To consider and if thought fit, to pass with or without modification, the following resolution as an ordinary resolution:

RESOLVED THAT Mr. Gopal Srinivasan, director who retires by rotation and being eligible for re-appointment be and is hereby re-appointed as a director of the company.

5. To consider and if thought fit, to pass with or without modification, the following resolution as an ordinary resolution:

RESOLVED THAT Mr. T K Balaji, director who retires by rotation and being eligible for re-appointment be and is hereby re-appointed as a director of the company.

6. To consider and if thought fit, to pass with or without modification, the following resolution as an ordinary resolution:

RESOLVED THAT the retiring auditors Messrs. Sundaram & Srinivasan, Chartered Accountants, Chennai be and are hereby re-appointed as auditors of the company to hold office from the conclusion of this annual general meeting till the conclusion of the next annual general meeting of the company on such remuneration as may be fixed in this behalf by the board of directors of the company.

By order of the board

Chennai
June 28, 2007

T S RAJAGOPALAN
Secretary

Registered Office:
"Jayalakshmi Estates"
29, Haddows Road
Chennai 600 006

Notes

1. **A member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and vote instead of himself and the proxy or proxies so appointed need not be a member or members, as the case may be, of the company. The instrument appointing the proxy and the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority shall be deposited at the registered office of the company not later than 48 hours before the time fixed for holding the meeting.**
2. The register of members and the share transfer register will remain closed for a period of 4 days from 14th August 2007 to 17th August 2007 (both days inclusive).
3. Subject to the provision of Section 206A of the Companies Act, 1956, dividend, as recommended by the Board of Directors, if declared at the meeting, will be paid on or after 17th August 2007 to the Shareholders whose names appear in the Register of Members as at the close of 13th August 2007.
4. In terms of Section 205A read with Section 205C of the Companies Act, 1956, the dividends declared by the company which remain unclaimed for a period of seven years will be transferred to the Investor Education and Protection Fund (IEPF) established by the Central Government on the due dates. The particulars of due dates for transfer of such unclaimed dividends to IEPF are furnished in the report on corporate governance forming part of the annual report. Members who have not encashed their dividend warrants are requested to make their claim by surrendering the un-encashed warrants immediately to the company.
5. Members holding shares in physical form, in their own interest, are requested to dematerialise the shares to avail the benefits of electronic holding / trading.

6. Members are requested to notify to the company immediately any change in their address. Members holding shares in depository are requested to advise change of address to their depository participants.
7. As a measure of economy, copies of the annual report will not be distributed at the annual general meeting. Members are therefore requested to bring their copies of the annual report to the meeting.
8. Members are requested to affix their signature at the space provided on the attendance slip annexed to the proxy form and hand over the slip at the entrance of the meeting hall.
9. In terms of clause 49 of the listing agreement with stock exchanges, a brief resume of directors who are proposed to be re-appointed at this meeting is given below:

I. Mr T Kannan

Born on 9th May 1953, Mr T Kannan is a graduate in business administration from the Madurai University. He is connected with a number of organisations related to industry, education and charity. He was co-opted as a director of the company on 27th January 2000.

He has a wide range of experience in textile industry. He is the past chairman of The Cotton Textile Export Promotion Council, Mumbai. He is also the past Chairman of The South India Mills' Association during 1990-92.

He is the past Chairman of Confederation of Indian Industry, Southern Region, Chennai.

He is also a leading Educationalist, Secretary and Correspondent of Thiagarajar College, Madurai, Vice Chairman & Correspondent of Thiagarajar College of Engineering, Thirupparankundram, Madurai.

He is the past member of Tamilnadu State Council for Higher Education.

He is a member of High Level Advisory Committee to ensure better administration in temples under the control of Hindu Religious and Charitable Endowments Department, Govt. of Tamilnadu.

He is the Chairman of Board of Trustees, Arulmigu Meenakshi Sundareswarar Thirukoil, Madurai.

He is a member of Tamilnadu State Planning Commission and Tamilnadu Chamber of Commerce & Industry, Madurai.

He is a member of the Cotton Textiles Export Promotion Council and Confederation of Indian Textile Industry.

He is a member of the audit committee and investors' grievance committee of the company. He is holding 65,590 equity shares in the company. Details of his other directorships / membership of committees are given below:

Directorships in other companies	Position held	Committee membership
Thiagarajar Mills Limited	Managing director	
VTM Limited	Chairman	Share transfer Demat and shareholder grievance committee-member
Sundaram Textiles Limited	Director	-
Colour Yarns Limited	Director	-
Sundaram Brake Linings Limited	Director	Audit committee member, Investors Grievance Committee-member
SIMA Textile Processing Centre Limited	Director	-

II. Mr Gopal Srinivasan

Born on 4th August, 1958, Mr Gopal Srinivasan is a commerce graduate from Loyola College, Chennai and is a Master of Business Administration (Industrial and Business Administration) from the University of Michigan, Ann Arbor, USA.

He is the past president of Manufacturers' Association for Information Technology and has been representing IT industry in the country and negotiating with the Government of India on its policies. He is also a member of the panel on development, manufacture and export of IT hardware constituted under the National Task Force on Information Technology and Software Development constituted under the authority of the office of the Prime Minister and a member of the State Level Information Technology Task Force headed by the Chief Minister of Tamil Nadu. He is a member of the small group set up by the Commerce and Industry Minister, Government of India to suggest policy and procedural changes to bring about a quantum jump in the export of electronic hardware.

He is currently the Chairman of the Tamil Nadu State Council of Confederation of Indian Industry (CII).

He has served as the President of Manufacturers' Association for Information Technology (MAIT). He was awarded "Electronics Man of the Year – 2004" by "Electronics for You" magazine in 2004 and also by ELCINA for the year 1996-97. He has also served as a key member in various panels of both Central and State Governments.

He is a member of the administrative committee of the company. He is holding 9000 equity shares in the company.

Details of his other directorships and membership of committees are given below:

Directorships in other companies	Position held	Committee membership
Harita TVS Technologies Inc. USA	Director	
Harita TVS Technologies Limited	Chairman	
ICICI Venture Funds Management Company Limited	Director	
Lucas - TVS Limited	Director	
Sundaram Industries Limited	Director	
Sundaram Investment Limited	Director	
Sundaram-Clayton Limited	Joint Managing Director	
T V Sundram Iyengar & Sons Limited	Director	
TVS Finance and Services Limited	Chairman	Shareholders / Investors' Grievance Committee member
TVS Investments Limited	Chairman	Shareholders / Investors grievance Committee member
TVS Logistics Services Limited	Director	
TVS Motor Company Limited	Director	
TVS Electronics Limited	Whole-time director	
Harita Electronics Private Limited	Director	
Vignani Technologies Private Limited	Director	

III Mr T K Balaji

Born on 12th July 1948, Mr T K Balaji is a Bachelor of Engineering, securing first rank from Madras University and is also a Master of Business Administration from IIM Ahmedabad with a Gold medal for outstanding scholastic performance.

Mr T K Balaji is a member of Development Council for Automobiles & Allied Industries, Government of India. He is the past president of Automotive Component Manufacturers Association of India (ACMA). He had served on the CII national council for a number of years. He was conferred a Special Award by the FIE Foundation of Maharashtra in March 1995 in recognition of his

contribution to the development of automotive component industry.

He is a Member of the Audit Committee of the Company. He is holding 2,500 equity shares in the company. Details of his other directorships and membership/chairmanship of committees are given below:

Name of the company	Position held	Committee membership/ chairmanship
Lucas TVS Limited	Chief Executive & Managing Director	
Delphi-TVS Diesel Systems Limited	Managing Director	
Lucas Indian Service Limited	Director	
India Nippon Electricals Limited	Chairman	Investors grievance committee – Chairman
Sundaram-Clayton Limited	Director	Audit committee – Member Investors grievance committee – Member
TVS Electronics Limited	Director	Investors grievance committee – Member
T V Sundram Iyengar & Sons Limited	Director	-
Titan Industries Limited	Director	Remuneration committee – Chairman Audit committee – Member
TVS Automotive Systems Limited	Director	-
Apollo Hospitals Enterprise Limited	Director	-
India Japan Lighting (P) Limited	Chairman	-
Harita Electronics (P) Limited	Director	
Hastham Swasthi (P) Limited	Director	
Punarvasu Swasthi (P) Limited	Director	

By order of the board

Chennai
June 28, 2007

T S RAJAGOPALAN
Secretary

Registered Office:
"Jayalakshmi Estates"
29, Haddows Road
Chennai 600 006

Directors' report to the shareholders

The directors present the fifteenth annual report and the audited accounts for the year ended 31st March 2007.

1. FINANCIAL HIGHLIGHTS

Details	Year ended 31.03.2007	Year ended 31.03.2006
QUANTITATIVE		
Sales:		
	(Numbers in lakhs)	
Motorcycles	9.23	8.06
Mopeds	3.44	2.90
Scooters	2.59	2.44
Total vehicles sold	15.26	13.40
FINANCIAL		
	(Rupees in crores)	
Sales (net of excise duty) and other income	3928.19	3305.96
EBITDA	210.53	275.48
Interest (net)	32.08	13.12
Depreciation	87.60	93.91
Profit before tax	90.85	168.45
Provision for tax (including deferred tax and fringe benefit tax)	24.25	51.45
Profit for the year (after tax)	66.60	117.00
Surplus brought forward	35.50	38.21
Tax relating to earlier years	(0.32)	5.50
Profit available for appropriation	101.78	160.71
APPROPRIATIONS:		
Interim dividend	16.63	30.88
Proposed dividend	3.56	—
Tax on dividend	2.94	4.33
Transfer to general reserve	49.56	90.00
Surplus carried forward	29.09	35.50

2. DIVIDEND

For the year 2006-07, the board of directors declared an interim dividend of Re.0.70 per share on 25th October 2006 absorbing a sum of Rs.16.63 crores. The board of directors have recommended a final dividend of Re.0.15 per share for the year 2006-07, absorbing a sum of Rs.3.56 crores subject to the approval of shareholders in the ensuing annual general meeting.

3. PERFORMANCE

The total two wheelers sold during the year under review was 1.53 million units, registering an overall growth of 14 per cent over the previous year. Motorcycles grew by 15%, while mopeds and scooters grew by 19% and 6% respectively. The company's export sales grew by 30% to 1.03 lakh numbers from 0.79 lakhs of 2005-06.

The StaR brand significantly contributed to the growth of the company in the motorcycle category recording 29% increase over the previous year. The excitement in the StaR brand was maintained through continuous innovation and launch of variants viz. StaR City alloy wheel, StaR City Electric start and StaR Sport.

TVS StaR continues to perform well and will continue to make significant inroads in the economy segment by offering superior value.

The company is planning to enhance its presence in the growing executive segment which accounts for 50% of the motorcycle category. The company is developing a new model motorcycle which will be launched in the second half of this year. This motorcycle will redefine the executive segment by setting a new benchmark in the industry in terms of technology, performance and style.

During the year, the company launched Scooty Teenz to reach out to the semi-urban customers which is received very well in the market. With the launch of Scooty Pep + in 99 Colors, the Scooty brand is strengthened further and continues to maintain its leadership position in the sub 100cc scooter segment.

The company witnessed a growth of 19% in mopeds over last year and consolidated its market share at 88%.

The profit before tax for the year under review was Rs. 90.85 crores as against Rs.168.45 crores in the previous year. The profit after tax stood at Rs. 66.60 crores in 2006-07 compared to Rs.117.00 crores in the previous year. The fall in profit was mainly due to steep increase in raw material cost. Due to intense competition in the industry, especially in the highly price sensitive entry level segment, where the company has a significant presence, it was not possible to pass on the cost increase to its customers leading to lower margin. Higher marketing cost consequent to introduction of new products / variants and increase in interest cost due to higher cost of borrowings further led to lower profit for the year.

4. EXPANSION ACTIVITIES

The company has established a new plant in Himachal Pradesh with an annual production capacity of 4,00,000 units scalable to 6,00,000 units. The commercial production commenced in April 2007.

Product development for the 3-wheeler project is nearing completion and the commercial launch is planned in the second half of 2007-08.

5. SUBSIDIARY COMPANIES

PT TVS Motor Company Indonesia, a subsidiary of the company, has established a manufacturing facility at Karawang, near Jakarta in Indonesia with production capacity of 3 lakh vehicles per annum. The commercial production of the new product 'TVS Neo', exclusively developed for the Indonesian market, has already commenced and the launch is scheduled for July 2007.

Sundaram Auto Components Limited, a wholly owned subsidiary of the company, has established a manufacturing facility at Himachal Pradesh to manufacture plastic moulded components. The plant has commenced commercial production in April 2007.

As on date of this report, the following are the subsidiaries of the company:

Name of the Company	Subsidiary of M/s
Sundaram Auto Components Limited	TVS Motor Company Limited
TVS Motor Singapore Pte. Limited	TVS Motor Company Limited
TVS Motor Company (Europe) B.V.	TVS Motor Company Limited
PT TVS Motor Company Indonesia	TVS Motor Company (Europe) B.V.

The company has obtained the approval of the Ministry of Corporate Affairs, New Delhi vide letter no.47/224/2007-CL-III dated 18th May 2007 in terms of Section 212(8) of the Companies Act, 1956 exempting the company from attaching the balance sheet and profit and loss account of the subsidiaries along with the report of the board of directors and that of the auditors' thereon, with the company's accounts for the year ended 31.03.2007.

As directed by the Central Government, the accounts of the subsidiaries are consolidated with the accounts of the company in accordance with Accounting Standard 21 (AS 21) prescribed by The Institute of Chartered Accountants of India. The consolidated accounts duly audited by the statutory auditors and the consolidated balance sheet information form part of the annual report.

The annual accounts, reports and other documents of the subsidiary companies will be made available to the members and investors at any time upon receipt of a request from them.

The annual accounts of the subsidiary companies will be available at the registered office of the company and at the respective subsidiary companies concerned. If any member or investor wishes to inspect the same during the business hours of any working day.

6. DIRECTORS

Mr. T Kannan, Mr. Gopal Srinivasan and Mr. T K Balaji, directors, retire at the ensuing annual general meeting of the company and being eligible, offer themselves for re-appointment.

7. AUDITORS

M/s Sundaram & Srinivasan, Chartered Accountants, Chennai, retire at the ensuing annual general meeting and are eligible for re-appointment.

8. CORPORATE GOVERNANCE

As required by clause 49 of the listing agreement, a management discussion and analysis report and a report on corporate governance are enclosed. A certificate from the auditors of the company regarding compliance of the conditions of corporate governance as stipulated by clause 49 of the listing agreement is attached to this report.

The Chairman and Managing Director and Senior Vice President – Finance of the company have issued necessary certificate to the board in terms of Clause 49 (V) of the Listing Agreement with Stock Exchanges for the financial year ended 31st March, 2007.

9. STATUTORY STATEMENTS

As per the requirements of 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, the information regarding conservation of energy, technology absorption and foreign exchange earnings and outgo are given in Annexure I to this report.

The particulars required to be furnished under Section 217(2A) of the Companies Act, 1956 read with the Companies (Particulars of employees) Rules, 1975 as amended, are given in Annexure II to this report. In terms of the provisions of Section 219(1)(b)(iv) of the Companies Act, 1956, the Directors' Report (excluding Annexure II) is being sent to all the shareholders of the company. Any shareholder interested in obtaining a copy of the said annexure may write to the Company Secretary at the registered office of the company.

In accordance with the provisions of Section 217(2AA) of the Companies Act, 1956 with respect to Directors' Responsibility Statement, it is hereby stated:

- that in the preparation of annual accounts for the financial year ended 31st March 2007, the applicable Accounting Standards had been followed along with proper explanation relating to material departures;
- that the directors had selected such accounting policies and applied them consistently and made judgements and estimates that were 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 of the company for the year under review;

- iii. that the directors had taken proper and sufficient care 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; and
- iv. that the directors had prepared the accounts for the financial year ended 31st March 2007, on a "going concern basis".

10. ACKNOWLEDGEMENT

The directors gratefully acknowledge the continued support and co-operation received from the holding company i.e. Sundaram-Clayton Limited, Chennai. The directors thank the bankers,

investing institutions, customers, dealers, vendors and sub-contractors for their valuable support and assistance.

The directors wish to place on record their appreciation of the excellent work done by all the employees of the company during the year under review.

The directors also thank the investors for their continued faith and support to the company.

For and on behalf of the board

Chennai
June 28, 2007

VENU SRINIVASAN
Chairman



Annexure I to directors' report to the shareholders

Information pursuant to section 217(1)(e) of the Companies Act, 1956

A CONSERVATION OF ENERGY

1. Measures taken

- (i) Heating the fuel & oil with waste heat recovery system at CPP has reduced the power consumption of electrical heaters.
- (ii) Load centric auto power factor controllers have been provided in the feeders to reduce line loss.
- (iii) Automatic switch off facility has been provided in the machines to switch off the motors and lightings during idle time.
- (iv) VFDs have been provided to higher rated fans and pumps at paint plants for optimisation.
- The above measures have resulted in a saving of Rs 2.70 crores.

2 Proposed measures

- (i) Extending waste heat recovery hot water system to paint plant process application & eliminate running of SKO fired boiler.
- (ii) Extending waste heat driven VAM to Chiller units.
- (iii) Optimal air control system for air compressors to reduce consumption of electrical energy.
- (iv) Implementing Solar water heater system at canteen.
- The above measures are expected to yield an annual savings of approximately Rs 1.50 crores.

B TECHNOLOGY ABSORPTION

1. Specific areas in which R & D is carried out by the Company:

- (i) The company designed and developed new product and variants for entry level segment of motorcycles.
- (ii) The company also designed and developed petrol, CNG and LPG variants of 3 Wheelers.
- (iii) Design and development of 160cc, 4 stroke motorcycle for premium segment.
- (iv) Design and development of 110 cc step thru bikes.

2. Future plan of action:

- (i) Development of new technologies for reducing emission and improving the fuel economy.
- (ii) Development of technologies for improved NVH and ride quality.

3	Expenditure on R & D	Rs. in crores
	Capital expenditure	37.28
	Revenue expenditure	47.75
	Expenditure pending allocation	17.51
	Total	102.54
	Total expenditure as a percentage of turnover	2.61%

- 4 Data relating to imported technology:
(Technology imported during the last 5 years reckoned from the beginning of the financial year) Nil

C FOREIGN EXCHANGE EARNINGS AND OUTFLOW

1 Export activities

During the year total export sales crossed one lakh units. The company expanded its presence to 44 countries from 38. The company also commenced exporting components and sub-assemblies from June 2007 to its subsidiary company in Indonesia.

2 Total foreign exchange earned and used

	Rs. in crores
Foreign exchange used	334.91
Foreign exchange earned	258.10

For and on behalf of the Board

Chennai
June 28, 2007

VENU SRINIVASAN
Chairman

Management Discussion and Analysis Report

The year 2006-07 was a year of mixed fortunes for TVS Motor Company (TVS-M).

Overall, for the second year in succession, TVS-M achieved a better growth rate of 14% than the Industry's 12 %.

On the sales front, the company recorded total sales of 1.53 mn two wheelers, with turnover of Rs. 3928 crores, representing an increase of 19% over the previous year. The impressive growth in the top line was, however, not reflected in the profit before tax which dropped to Rs. 91 crores from Rs. 168 crores in the last year. The fall in PBT was due to a variety of factors, the most important being the steep increase in raw material costs which could not be passed on to customers in the wake of intense competition.

The current year 2007-08 may prove to be a challenging year for the company, with industry slowdown, accentuated by restricted availability of retail finance for two wheelers and that too at higher interest cost. TVS-M has already initiated appropriate measures to meet the challenge and hopes to do better in the current year.

INDUSTRY STRUCTURE AND DEVELOPMENTS

The two-wheeler category is steadily moving from a discretionary purchase to an essential purchase, especially among the burgeoning Indian middle class households. Better quality and durability, higher fuel efficiency, new age styling and features in conjunction with a slew of new product launches and greater finance availability have been the primary drivers of sales in the past years.

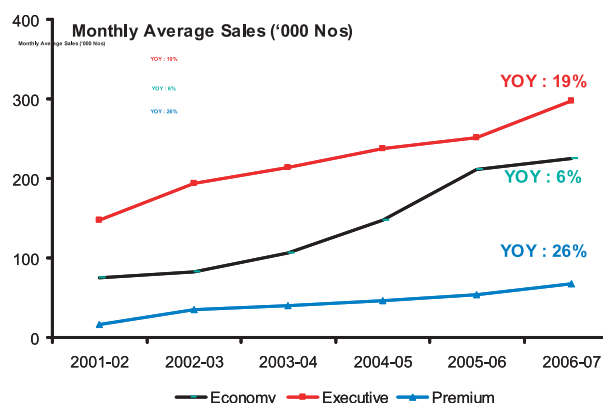
The first half of 2006-07 saw the industry sales going up by 21% over the corresponding period of last year. However, there was a dramatic slowdown during the second half with growth decelerating to 13% and 5% in the third and fourth quarters, respectively.

Increased inflationary pressure and rise in interest rates were the primary deterrents for higher rate of growth in the industry during the latter half of 2006-07.

Finance availability, has lately become restrictive, because of the key financiers curtailing their exposure in large states like Uttar Pradesh, Punjab and Haryana. Further, the financiers have withdrawn the low down payment schemes, which attracted the lower income population strata in the last 2 years, and have imposed more stringent eligibility norms for financing in the wake of high delinquency rates.

Motorcycles continued to be the dominant category in the industry with a growth of 15% and its category share increased from 82% to 84%.

The economy segment, which spurred growth in the motorcycle category in the past years, was the worst affected because of restricted availability and increased cost of retail finance and grew marginally at 6%. However, the premium and the executive



segments, which are less sensitive to finance availability, grew faster at 26% and 19%, respectively.

The ungeared scooters category grew significantly by 10 %.

Mopeds grew at 3% and its category share of 5% was maintained. However, geared scooters continued to decline.

The table below shows the category growth and their category shares :

Particulars	2005-06			2006-07		
	Sales in mn	Growth	Category share	Sales in mn	Growth	Category share
Motorcycles	6.20	19%	82%	7.10	15%	84%
Ungeared scooters	0.79	7%	10%	0.87	10%	10%
Geared scooters	0.20	-22%	3%	0.10	-49%	1%
Mopeds	0.38	7%	5%	0.39	3%	5%
Total two wheelers	7.57	15%	100%	8.46	12%	100%

BUSINESS OUTLOOK AND OVERVIEW

During 2006-07, the Indian economy posted a healthy GDP growth of 9.4%, with Services leading the way with 11% growth, closely followed by industrial growth at 10.2%. Agricultural growth continued to be moderate at 2.7%.

In 2007-08, GDP is projected to grow at 8.2% with a growth of 6% in per capita income. However, the increased interest rates and inflationary pressures are likely to adversely impact the buying behaviour of the consumers leading to reduced discretionary purchases. This trend is estimated to continue at least till the first half of 2007-08 resulting in flat two-wheeler sales.

Retail financiers are expected to remain conservative in disbursements and hence the market is unlikely to expand in favour of the low-income groups.

More than 60 per cent of the sales of two wheelers are dependent on retail finance. Hence, these factors dampened the growth during the crucial marriage season in the key Northern states of