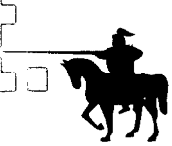
INDIA

Tube Investments of India Limited

Annual Report 2007-08

GREATER CHALLENGE.

STRONGER RESOLVE.



Cautionary Statement

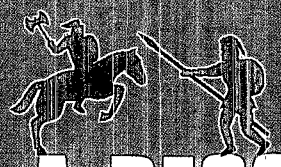
Certain expectations and projections regarding the future performance of the Company referenced in the annual report constitute forward looking statements. These expectations and projections are based on currently available competitive, financial and economic data along with the Company's operating plans and are subject to certain future events and uncertainties, which could cause actual results to differ materially from those indicated by such statements.

Contents

The year 2007-08 turned out to be a challenging one for TI due to a combination of various factors: intense competition, cheaper imports, higher input costs (mainly steel), rupee appreciation and a decline in the performance of a major user-industry (two-wheeler).

TI, with almost 70 per cent of its revenues derived from the auto component sector, was no exception to this prevailing industry trend. The Company did well to report a 9 per cent increase in total revenues to Rs. 1762 crores in 2007-08 and an operating profit of Rs. 77 crores.

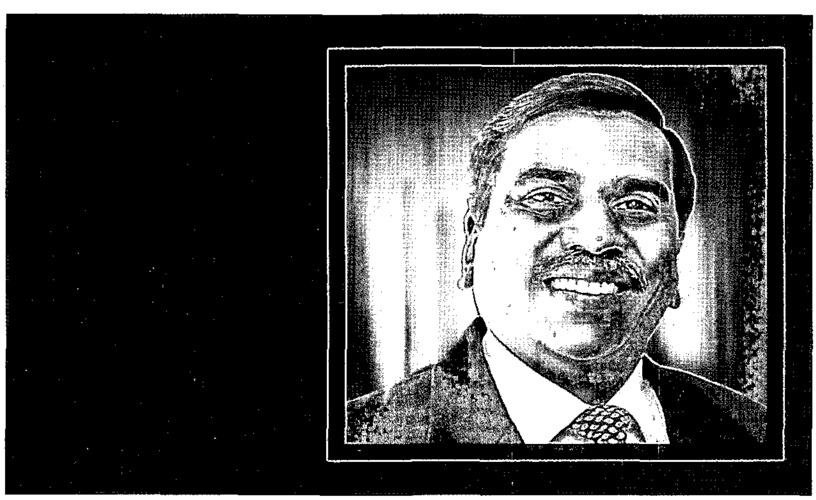
In these challenging times, TI could have waited to bide the weak industry sentiment. On the contrary, the Company responded to the challenges with timely initiatives and investments.



A RESOLVE TO TAKE THE CHALLENGES HEAD ON.

Dear Shareholders

The Chairman
highlights the initiatives
taken by the Company



India is the investment destination of the world. With a stable 8-9 per cent annual growth, burgeoning foreign exchange reserves and rising FDI inflows, India is the second fastest growing major economy.

Although, India's real GDP grew by nine per cent in 2007-08, it was a year marked by a challenging economic environment. The domestic economy witnessed high inflation, an appreciating rupee, a volatile capital market and a marginal industrial slowdown. The manufacturing sector grew 8.8 per cent vis-a-vis the strong 12 per cent growth reported in the previous year. The continued slowdown in the US economy and sub prime crisis impacted India. Soaring steel prices (21 per cent in 2007-08) and increasing oil prices continue to be a cause for concern.

Tube Investments, with a presence in the bicycle and auto component industries, was directly impacted. While the bicycle industry was stagnant, the auto component industry experienced a significant profitability squeeze on account of increasing steel prices and growing competition. In an industry where export contributes almost 20 per cent of the total turnover, a rupee appreciation of almost 13 per cent in 2007-08 thinned margins further.

TI is engaged in the midst of a challenging battle, a battle that requires us to be farsighted in our strategy and yet firm in our day-to-day decision making. So even as we reported lower profits, we reinforced our long-term sustainability through investments in technology upgradation that will lead to enhanced productivity, cost control, customer delivery, efficiency and environment friendliness. These investments will strengthen our domestic and international competitiveness.

Even though the present is a challenge, we believe the prospects of the Indian auto component industry will improve. This sector is forecast to grow from US$ 10 billion to US$40-45 billion by 2015 as global automobile manufacturers expect India to emerge as a manufacturing hub for auto components, ramping their outsourcing volumes and value from the country. To capitalise on these opportunities, TI is investing proactively in enhanced capacity, particularly in automobile chains and metal forming products.

At TI, to successfully counter competition, we recognise the significance of diversifying our product and customer base. In view of this, we leveraged our expertise in longstanding business to enter new areas and products. In the bicycle business we continue to focus on the specials category through the introduction of new high-end models and fitness products. In line with the changing retail landscape, we re-defined the bicycle shopping experience in India. We leveraged our strong BSA brand and extended it into specialised bicycle retail through our BSA Go stores. We are now exploring the possibility of leveraging our existing retail experience to extend it into a platform, centered around bicycles, fitness and leisure.

In the engineering and metal forming businesses, which are highly auto component oriented, we have responded with a dual approach:

- We have strengthened our sectoral position through an extension into niche, customer-centric value-added products that require considerable customer service, traditionally our competitive strength. In view of this, we are targeting the manufacture of safety critical four-wheeler components and a higher contribution from value-added tubes and tubular components.
- We are progressively de-risking our business from an over-dependence on a few sectors through an extension into products with applications beyond the automobile industry. We have already started manufacturing roll forming sections for railway wagons; we are focusing on chain solutions in the power transmission sector, enhancing our presence in two rapidly growing industries.

At TI, we enjoy a robust foundation comprising strong processes oriented around TPM/TQM practices, our ability to efficiently service customers and above all, a motivated team. We continue to invest in the development of our people to enhance their technical and leadership skills. I am confident that our investments and initiatives will build on this foundation, generating sustainable growth and profitability.

I am pleased to welcome Mr. L Ramkumar, who joined us as Managing Director in February 2008. Mr. Ram V Tyagarajan stepped down from the Board in May 2008. I wish him well in his endeavours. Our Board of Directors continue to support us well in these challenging times with their suggestions and wise counsel. To them, I wish to express my sincere thanks and gratitude.

Finally to all of you shareholders, I am most grateful for the confidence and support given to TI.

Sincerely yours,

M M Murugappan

TI IS ENGAGED IN THE MIDST OF A CHALLENGING BATTLE, A BATTLE THAT REQUIRES US TO BE FARSIGHTED IN OUR STRATEGY AND YET FIRM IN OUR DAY-TO-DAY DECISION MAKING.

BIG CHALLENGE.
SMART MOVES.

Alexander the Great set out from Macedonia with the objective to create one boundary-less corporation. His odds: fatigue, logistics, poor communication, imprecise terrain knowledge and numerical disadvantage. Alexander's response: unprecedented integration of infantry, cavalry and engineers on the one hand with logistics, strategic innovation and intelligence on the other.

This strategy was best showcased when he set out to conquer Persia. An inadequate army, no navy, no money but a simple strategy: he resolved to make small coastal victories, control the ports and acquire scale. Once he had cut Persia off from its coast, he attacked the empire's centre with vigour – and eventually vanquished it.

And then after Persia it was another geography, another battle. But Alexander responded with a different approach, a different idea. And always won the day.

Challenge:

The bicycle industry in India is passing through a combination of diverse industry challenges, marked by stagnant overall growth, declining demand for standard bicycles, thin margins, rising steel and input costs as well as increasing imports.

TI's response:

The bicycles division grew revenues by 13 per cent and market share by 2.5 per cent in 2007-08, the industry challenges notwithstanding.

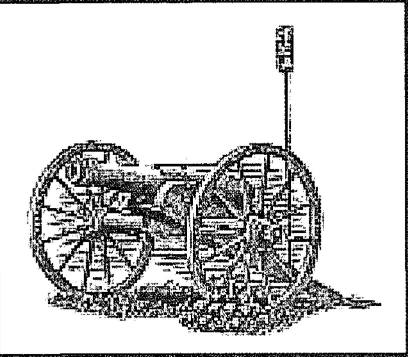
The Company responded to the industry reality through a combined strategy: a stronger leverage of its established presence as one of the largest manufacturers in India, an effective management of its popular brands (BSA and Hercules) to evolve the mindset from the product to the application (cycles to cycling) as well as a growing focus on the specials category.

Importantly, category-leading TI Cycles did not just focus on enhancing market share; it focused on innovating new market niches. Specifically, the Company created an avenue for leisure cycling, a concept popular in developed countries. Besides, the Company continued to introduce products that would appeal to youth and children.

TI capitalised on the evolving Indian retail landscape. In a country where cycles are usually marketed through dingy overcrowded shops, TI re-defined the bicycle shopping experience. It introduced the BSA Go concept, a one-stop premium store for all bicycling and fitness equipment requirements - BSA and Hercules brands of bicycles and BSA fitness equipment - promoting cycling as a health and lifestyle option. These stores introduced an element of the experiential, encouraging customers to ride bikes. This differentiated and forward-looking retail initiative translated into higher trade volumes.

Going ahead, TI will reinforce its sectoral presence through an extension into the high-end electric bike segment and an entry into speciality retail.

HIGH AMBITION. GRASSROOTS UNDERSTANDING.



When Zahiruddin Mohammed Babur intended to extend his presence from Kabul to the prosperous destination of India, his principal handicap was numerical. His army was estimated at a third of that of Ibrahim Lodhi, the ruler of the large Delhi Sultanate. Lodhi possessed more than 1000 war elephants compared with Babur's 15-20 field artillery pieces. Besides, Lodhi enjoyed a deep terrain knowledge and logistical support; Babur was accompanied by all the attending disadvantages of an insurgent.

Whatever Babur lacked, he made up with a superior understanding of ground realities around which lay the foundation of the most powerful empire in India for centuries. He established a defensive position in Panipat. He collected 700 wagons from the country side, tied them with raw hide, arranged them in a line, and created occasional gaps between wagons through which the cavalry could charge or artillery would fire. Then on the far left, he laid trees along a ravine to protect his flank from encirclement. And then Babur set out to surprise his larger adversary. He used gunpowder weapons, used for the first time in India. The intended benefit: heavy enemy losses. Unintended benefit: they scared Lodhi's elephants into trampling his own army.

Challenge:

Over the years, the steel content in automotives has remained steadily high – from 500 kg in an entry-level passenger car to five tonnes in a medium duty commercial vehicle. As a result, a steep rise in HR steel price by 21 per cent in 2007-08 impacted the auto component industry in general and TI, where raw material costs accounted for 80 per cent of the total variable costs, in particular.

TI's response:

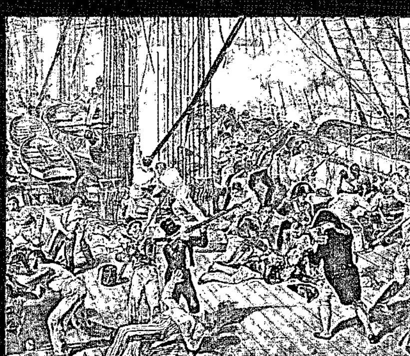
For a development completely external to the Company, TI responded with a singularly inward productivity management perspective.

The Company made significant plant investments directed at technology upgradation with the objective to enhance long-term productivity. It invested around Rs. 28 crores in tube mill and slitter modernization. It integrated the main tubes plant with the international business plant (both at Avadi) to enhance asset utilisation and productivity.

It focused on quality control to improve quality and reduce defects. It invested in a state-of-the-art scanning electron microscope that reinforced failure analysis and associated laboratory investigation. Its focused cost control programme reduced in-plant costs.

The Company also recognises its need to reduce its dependence on steel through prudent material substitution without compromising overall product quality. Besides, it is also exploring entry into markets that make it easier to recover raw material cost increases through higher realisations from customers.

COMMON PROBLEMS. TACTICAL SOLUTIONS.



The face-off between the British Royal Navy and the combined French and Spanish navies was not just going to be another battle. It would decide the master of trade routes; it would decide who would rule the world.

However, the odds were loaded against the British. Their size (27 ships) was smaller than the adversary's 33 ships when they engaged at the Battle of Trafalgar. Except for a strategic brainwave. Admiral Lord Horatio Nelson, commander of British Royal Navy, introduced a method of naval engagement that was different from the conventional *maneuver* of lining up parallel to the enemy and blasting the guns. He proposed allocating all his ships into three columns. These would approach the adversary from the perpendicular, breaking through the Franco-Spanish line of ships and then engaging the enemy in single combat.

The Franco-Spanish fleet was confused by the English strategy. 18 French and Spanish ships struck their colours in surrender. The English lost none.