Tube Investments of India Limited

Annual Report 2003-04

Learning is the way of life!

Contents

Values and Beliefs

- Adhere to ethical norms in all dealings with shareholders, employees, customers, suppliers, financial institutions and government.
- Provide value-for-money to customers through quality products and services.
- Treat our people with respect and concern; provide opportunities to learn, contribute and advance, recognise and reward initiative, innovativeness and creativity.
- Maintain:
  - An organisational climate conducive to trust, open communication and team spirit.
  - A style of operation befitting our size, but reflecting moderation and humility.
- Manage the environment effectively for harnessing opportunities.
- Discharge responsibilities to various sections of society and preserve the environment.
- Grow in an accelerated manner, consistent with values and beliefs, by continuous organisational renewal.

Cautionary Statement

Certain expectations and projections regarding future performance of the Company referenced in the Annual Report are 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, that could cause actual results to differ materially from those that may be indicated by such statements.

"The fundamental principle of economic activity is that no man you transact with will lose; then you shall not."

-Arthasastra

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When it comes to learning persistence, the most celebrated story in history narrows down to a spider.

King Robert the Bruce I. Crowned King of Scotland. Tried to free his country from the enemy.

After being defeated in battle, he sought refuge in a cave for three months. At this point, the lowest in his life, he contemplated leaving the country for good.

One day, while gazing aimlessly out of his cave, he watched a spider building a web at the cave's entrance. It fell time after time. Finally at the fourteenth attempt, it succeeded.

Inspired, Bruce ventured to fight again. He thundered to his men: "If at first you don't succeed, try and try again."

Despite being outnumbered ten to one, he rallied his army to win the celebrated Battle of Bannockburn in 1314.

What's this got to do with TI?

2003-4 was a challenging year for Tube Investments of India Ltd.

Flat market in one business. Increased competition in the other. Increase in raw material costs. Price-sensitive customers.

Surely, we could have excused ourselves with one line: 'Market conditions.'

However, as a company that has sought its inspiration from a simple philosophy – 'Learning is the way of life' – we didn't try and change the market environment. We changed ourselves.

By seeking inspiration from events, people, businesses and all those remarkable teachers that constitute life.

The result: a five per cent increase in our turnover and 80 per cent rise in our profit after tax in 2003-4 over the previous year.

Doing what one knows best

A river dolphin's means can be followed for narrowing one's focus and turning it into a competitive edge. It is almost blind and if this were not a handicap, it lives in muddy water. Despite this apparent handicap, it leverages on the one big advantage that it possesses: its sense of hearing which enables it to pick up vibrations in water. Amazingly, the river dolphin has transformed this singular gift into a competitive advantage. And, as a result, predates even the dreaded carnivorous piranha!

better than most!

A core competence is an unmistakable competitive edge at TI.

Over the recent past, even as TI was faced with the handicap of an inflationary raw material (steel) on one hand and a need for continuous cost reduction on the other, it leveraged that one characteristic that came naturally to it: the migration of its business from one level to another.

In doing so, the Company proactively moved out from high cost outsourcing of engineering products to reinforcing in-house production capacity.

The Company made timely alterations in shop floor layout, the creation of dedicated product lines and the introduction of line balancing equipment. Its bench wise planning optimised the capacity utilisation of its CDW precision tube line. These initiatives reduced material movement, shrank manufacturing lead-time and enhanced high process repeatability, liberating plant capacity.

Result: The engineering division increased its throughput by 40 per cent at a low incremental capital cost to coincide with a large improvement in orders and realisations in the automobiles industry.

If you can't change your environment,

Adaptability is something that we could learn from a penguin. For instance, penguins don't always live in the most favourable nesting habitats. Rather than struggle in changing their environments, their most effective counter-response is a change in their nest building. For instance, Rockhopper penguins build their nests on steep rocky areas. To get there, they hold both feet together and bounce from ledge to ledge (sometimes bouncing up to five feet). On the other hand, Magellanic penguins dig burrows under the ground to form huge 'cities' similar to gophers.

change your strategy!

An adaptability to change is probably the most valuably consistent TI response.

This is now more relevant than before. Over the last few years, consumer preferences have changed more frequently than in the past. Most industry observes have come to the conclusion that this trend is likely to be more permanent than was otherwise perceived. As a result, product lifecycles will keep shrinking all the time.

To address this mortality, TI strengthened its brand and evolved its portfolio through continuous introduction of new models.

- It introduced 61 new models in the last two years in its cycles business.
- It responded to the auto boom by increasingly manufacturing precision tubes for a range of automobiles.
- Recognising that increased product portfolio is critical in the doorframe business, TI started supplying doorframes to Maruti's 'Omni' model and also extended its doorframe business to the new MUV model 'Tavera' of General Motors.

Result: In 2003-4, new models accounted for 37 per cent of the revenue of Cycles division, auto sector accounted for 60 per cent of revenue of Engineering division and new product accounted for 4.5 per cent of revenue of Metal Forming division.

Convert every little lead

We could all learn a lesson or two from the reindeer. In the Arctic, the two resources in abundance are ice and moss. Both are of little use to inhabitants: ice for obvious reasons and moss because it is of little nutritional value. Try telling this to reindeer, who make their yearly journey across the icy terrain. As their principal survival strategy, they fill themselves with huge quantities of moss. For an interesting reason: moss contains a chemical that keeps their body warm and prevents their blood from freezing. So even if it does not provide for a wholesome meal, it keeps them alive to live into another summer.

into a resource!

A close acquaintance with the ground reality is TI's effective survival strategy.

Even as bicycle demand is sluggish, margins are declining and the market is more competitive than ever, the Company has utilised this scenario not to protect its competitiveness but strengthen it.

At TI, this is derived through a deeper understanding of the ground reality.

- The Company commissioned a cycle assembly plant at NOIDA to reduce logistic costs and moved closer to the biggest geographic segment of market. It also established a SKD unit in Durgapur in the East. These moves generated a faster market response and efficiently serviced the markets across the country.
- Equipped with the experience over the years, it has moved from a retrospective trend analysis to proactive product development. As a result, it has migrated from merely understanding customer needs to safe forecasting.
- TI also leveraged its market understanding to strengthen its dealer management. It rationalised inactive dealers, supplied only as much as the market could bear, and incentivised dealer performance. This improved trade profitability and working capital management.

Result: In cycles business, TI placed the right product at the right place at the right time, leading to accelerated offtake even as it rationalised receivables from 80 days of turnover in 2002-3 to 64 days of turnover in 2003-4 and generated supply chain savings of Rs. two cr in its cycles division.

Going any length to protect

Customer-serving companies could seek inspiration from turtles. How many know that they travel a distance of 4500 kms - against the current - to the tiny Ascension Island (17 kms wide) in the mid-Atlantic for an interesting reason: to protect their eggs that would otherwise have been preyed on the Brazilian mainland. Since the only predators on Ascension Island are frigate birds, both male and female turtles make the long voyage as a means of protecting their progeny.

customer interests!

The protection of customer interests is a longstanding TI tradition.

Take an instance. Even as the demands for its doorframes increased by almost 35 per cent, TI increased its volumes without compromising quality and delivery schedules. On the contrary, improved both. It enhanced Metal Forming capacity by 50 per cent with a new roll forming line and refurbishing its existing roll forming mill.

In a world becoming increasingly demanding, TI has reinforced this commitment through the efficient management of diverse variables, leading to the delivery of a consistent product at all times. Its quality standard was driven through TPM/TQM activity horizontally deployed across all functions and factories.

Its value-added services eliminated third party sub-assembly processing to enhance quality and shrink the logistics cycle. Its scaled production translated into just-in-time delivery. Its investment in sophisticated testing instruments in its engineering division increased product reliability in critical applications.

Result: TI continues to enjoy preference amongst its most demanding customers and has a higher market share in every line of its business in 2003-4.

The bigger the opportunity,

The Japanese carp (Koi) grows only two or three inches long if kept in a small fish bowl. But place it in a tank or small pond and it will extend to six to ten inches. Put it in a large pond and it may grow as long as a foot and a half. However, when placed in a huge lake, where it can easily stretch out, it has the potential to reach three feet.

the bigger the response!

The bigger the opportunity, the bigger is TI's response.

With the global business environment increasingly becoming borderless, TI has spread beyond national boundaries.

The Company increased its international tubes and strips presence right from the neighbouring SAARC countries to far east America, marked by a wider and deeper presence in quality respecting markets like USA, Europe, Indonesia, Thailand and Malaysia.

In cycles, it re-entered the international markets through exports to Africa under its own brand. To meet the exacting demand of its global customers, it prudently invested in a state-of-the-art painting plant at Ambattur equipped with all modern facilities including powder coating and lacquer, resulting in internationally benchmarked products.

Result: The Company's exports increased from Rs.35 cr in 2001-2 to Rs.83 cr in 2003-4. Also, it acquired almost 100 per cent of shareholding of TI Diamond Chain Limited whose annual exports is in excess of Rs. 50 cr.

A sensitive approach to

If people cut down all the eucalyptus trees, the koala would become extinct overnight. If zebras ceased to exist, so would African lions. If the 'busy bee' were erased from the face of the earth, bees and numerous plant species that depend on them for cross-pollination would gradually disappear as well.

stakeholder interests!

TI's code of conduct for sustainability does not just apply to its own existence but also to its various stakeholders.

Take shareholders, for instance. When the Company's market capitalisation declined to well below its intrinsic worth in 2002, the Company's management proactively offered to buyback at a 42 per cent premium and purchased 25 per cent of its equity capital in 2002-3. This singular move improved the Company's book value, earnings per share and market capitalisation (89 per cent from the buyback price to the share price as on 31 March, 2004). The Company reinforced this responsibility by recommending a liberal dividend payout of Rs 10 per share for 2003-4 and a 1:1 bonus.

Take the environment as another instance. TI strengthened its ISO 14001 certification at its various plants. TI's efforts to protect environment for succeeding generations include resource conservation covering steel, fuel and oil, material recycling, water harvesting, in house water source development, tree plantation and noise management.

TI fulfils its responsibility towards employees through a reward, responsibility and recognition approach. It enforced safety measures across its plants. It invested in skill development programmes to increase employee efficiencies.

Result: TI enjoys the reputation of a community-involved company engaged in responsible practices. As a result, its plants have enjoyed an interruption-free working over the years.

‘Learning is the way of life’ is not just a cosmetic line at TI, it is a driver of our existence

M A Alagappan
Chairman

The challenge for any organisation is to add to whatever has been created; to make better what is good; to make sustainable what is already attractive.

When conditions are favourable, this is relatively easy; to do this in a difficult environment is the challenge.

And so it was with Tube Investments of India Limited in 2003-4. Cycles business witnessed a sluggish market. A 30 per cent increase in the price of steel, the Company’s principal raw material, affected the Cycles, Engineering and the Metal Forming business - unmistakably a difficult market condition.

At TI, we interpreted this situation a little differently. We didn’t complain; we perceived a great opportunity to learn from these difficult market conditions in order to strengthen the business for the long-term. We are modestly pleased with having demonstrated the latter. In the face of a challenging industry environment, we reported a growth in our top line and bottomline by 5 per cent and 80 per cent respectively over the previous year.

A long-term response

At TI, we have never addressed growth from a view of ‘today’ but with a perspective of ‘tomorrow’ and ‘the day after’.

This long-term commitment was clearly marked in our corporate response in 2003-4. During the year under review, we strengthened our businesses with a view of the immediate and also of the distant by seeking inspiration from events, people, businesses and all those remarkable teachers that constitute life.

This response was dictated by the needs of an ever-dynamic business environment. It was inspired by the single most important paradigm change to have transpired over the last decade: a perceptible movement of manufacturing bases from the developed countries to developing ones like China and India on account of cost, quality and service competitiveness.

To respond to this ever-changing environment, we didn’t restructure our strategy; we altered our approach to business in a fundamental way in return for global competitiveness.

Increased exports presence

At TI, an increasing export presence was our most effective initiative. With a difference:

- While in the past we had shipped our tubes mainly to South East Asia, we are now more focused on sales in the quality demanding markets of USA and Europe, resulting in an increase in exports of tubes.
- While in the past, we would have reviewed our export exposure in line with the strength of the Indian Rupee; we are now committed to sustain our presence despite volatility in the value of our currency.
- While in the past we had shipped our cycle models to institutional buyers in different countries, we are more inclined now to export under our own brand in developing countries with a demographic profile similar to India’s, and earn a higher realisation.

Change in the mindset

Concurrent with its enhanced export coverage, we set out to strengthen our businesses through a number of initiatives:

- We redefined our product mix within our established businesses, consciously exiting low margin items and migrating towards value-added products.
- We redefined our customer mix by strengthening relationships with those capable of generating a higher throughput.
- We reinforced our quality commitment, migrating from local and national benchmarks to those championed by our brand-enhancing international customers, resulting in repeat and enhanced orders.
- We evolved from a 'make and sell' approach to a 'customise and market' strategy; we evolved from the manufacture of products to the creation of solutions.

Internal strengthening

We recognised the need for internal strengthening of each business with some path breaking initiatives.

- We strengthened our logistics management, both inward and outward to effectively service the market.
- We enhanced the capacity and productivity in priority product segments.
- We effectively de-linked the volume from quality and delivery standards.
- We enhanced the testing capabilities to improve the product reliability.
- We strengthened the product and process development through a thrust in R & D function.

Enhanced value

At TI, we never lose sight of one fact: that we are in business to enhance value – and value alone. While we continued to do so through the various operational initiatives as stated earlier, we also strengthened our balance sheet through loan replacement, disposal of non-operating assets, rationalisation of interest and other costs and improved realisation from investments. The buyback of 25 per cent of equity shares effectively enhanced the book value and earnings per share.

I am confident that these initiatives will help us plug the gap between our strong present and exciting future, helping us to grow not just for the moment but also sustainably across the future.

Learning is continuous and inevitable in the pursuit of growth.

Sincerely,

M A Alagappan
Chairman

Directors' profile

Mr. M A Alagappan, Chairman
Mr. M A Alagappan (60 years) is a commerce graduate and has undergone a course in Management Studies in the University of Aston in Birmingham, UK. He joined the Board in October1999. He is currently the Chairman of the Company. He is on the Board of various companies including Cholamandalam Investments & Finance Company Limited, Cholamandalam MS General Insurance Company Limited and International Flavours & Fragrances India Limited.

Mr. Adhiraj Sarin, Managing Director
Mr. Adhiraj Sarin (51 years) holds a Bachelors degree in Technology from IIT, Kanpur. He joined the Board in August 2002. He also holds the position of Managing Director in TI Diamond Chain Limited.

Mr. Amal Ganguli, Non-Executive Director
Mr. Amal Ganguli (64 years) is a Fellow of The Institute of Chartered Accountants of England & Wales and The Institute of Chartered Accountants of India. He joined the Board in June 2003. He was formerly the Chairman and Senior Partner, PriceWaterhouse Coopers, India. He is on the Board of various companies including Maruti Udyog Limited, Hughes Software Systems Ltd and Gillette India Ltd.

Dr. D Jayavarthanavelu, Non-Executive Director
Dr. D Jayavarthanavelu (63 years) is a graduate in Engineering. He also holds B.S. Textiles from Philadelphia College of Textiles and Science, USA. He joined the Board in August 1997. He is presently the Chairman and Managing Director of Lakshmi Machine Works Limited. He is also on the Board of various companies including Lakshmi Electrical Control Systems Limited and Lakshmi Mills Co. Limited.

Mr. M M Murugappan, Non-Executive Director
Mr. M M Murugappan (48 years) holds a Bachelors degree in Chemical Engineering. He is also a Master of Science in Chemical Engineering from the University of Michigan, USA. He joined the Board in March 2002. He is currently the Chairman of Carborundum Universal Limited. He is also on the Board of various companies including Mahindra & Mahindra Limited and Wendt India Limited.

Mr. M Narasimham, Non-Executive Director
Mr. M Narasimham (76 years) holds a Masters degree in Economics from the University of Cambridge. He joined the Board in April 1989. He was formerly the Governor, Reserve Bank of India. He is currently the Chairman, Court of Governors of Administrative Staff College of India.

Mr. Pradeep Mallick, Non-Executive Director
Mr. Pradeep Mallick (61 years) holds a Bachelors degree from IIT, Chennai and diploma in Business Management (UK). He is a Fellow of the Institution of Electrical Engineers, London. He joined the Board in June 2003. He was formerly the Managing Director of Wartsila India Limited. He is on the Board of various companies including Blue Star Limited and Tata Telecom Limited.

Mr. Ram V Tyagarajan, Non-Executive Director
Mr. Ram V Tyagarajan (53 years) is a Chemical Engineer. He also holds a Masters degree from the Sloan School of Management, Massachusetts, USA. He joined the Board in August 1997. He is presently the Chairman and Managing Director of Thiru Arooran Sugars Limited. He is also on the Board of various companies including Shree Ambika Sugars Limited and Terra Energy Limited.

Mr. R Srinivasan, Non-Executive Director
Mr. R Srinivasan (62 years) is a Graduate in Mechanical Engineering. He joined the Board in June 2004. He was formerly the Managing Director of Widia India Limited. He is on the Board of various companies including Sundaram Fastners Limited, TI Diamond Chain Limited and Cholamandalam MS General Insurance Company Limited.

Mr. Tapan Mitra, Non-Executive Director
Mr. Tapan Mitra (64 years) is a Fellow of Institute of Chartered Accountants of India and holds a Masters degree in Business Administration from the University of Geneva. He joined the Board in October 2000. He is currently a Member of West Bengal State Planning Board. He is also on the Board of Thermax Limited.

Corporate information

BOARD OF DIRECTORS

- M A Alagappan, *Chairman*
- Adhiraj Sarin, *Managing Director*
- Amal Ganguli
- D Jayavarthanavelu
- M M Murugappan
- M Narasimham
- Pradeep Mallick
- Ram V Tyagarajan
- R Srinivasan
- Tapan Mitra

COMPANY SECRETARY

S Suresh

REGISTERED OFFICE

'DARE HOUSE'
234, N S C Bose Road
Chennai 600 001

PLANTS

Cycles Division:
TI Cycles of India, Ambattur, Chennai
TI Cycles of India, Nashik
TI Cycles of India, NOIDA
TI Cycles of India, Durgapur
Engineering Division:
Tube Products of India, Main plant and EOU, Avadi, Chennai
Tube Products of India, Shirwal, Satara District
Tube Products of India, Mohali
TI Metal Forming Division:
TI Metal Forming, Nemilicherry, Chennai
TI Metal Forming, Bawal
TI Metal Forming, Halol

AUDITORS

FRASER & ROSS
Chartered Accountants

BANKERS

- Bank of America
- Bank of Baroda
- Standard Chartered Bank
- State Bank of India
- The Hongkong & Shanghai Banking Corporation Limited

10-Year Financials

Rupees in Crores

	94-95	95-96	96-97	97-98	98-99	99-00	00-01	01-02	02-03	03-04
OPERATING RESULTS										
Sales (including excise duty)	496.68	601.67	600.05	607.93	677.35	979.93	1090.02	1074.47	1197.13	1257.34
Profit before depn., interest & tax	62.49	71.09	64.53	60.21	65.69	92.80	104.09	98.53	105.82	147.39
Profit before interest & tax	52.66	57.83	48.37	40.52	43.46	63.22	70.50	70.72	77.65	117.79
Profit before tax (PBT)	31.02	32.26	24.11	17.44	21.50	41.34	50.91	55.34	62.45	105.30
Profit after tax (PAT)	27.32	27.96	21.45	16.01	21.08	32.84	36.16	36.27	45.89	82.49
Dividends	5.03	6.31	6.16	4.92	6.16	9.85	12.31	13.54	16.63	18.47
Dividend tax	-	-	0.62	0.49	0.65	1.08	1.26	-	2.13	2.37
Retained profits	22.29	21.65	14.67	10.60	14.27	21.91	22.59	22.73	27.13	61.65
SOURCES AND APPLICATION OF FUNDS										
Sources of funds:										
Share capital	16.67	24.62	24.62	24.62	24.62	24.62	24.62	24.62	18.47	18.47
Reserves & surplus	242.37	294.06	308.54	318.96	318.59	340.33	362.75	347.01	315.18	376.83
Net worth	259.04	318.68	333.16	343.58	343.21	364.95	387.37	371.63	333.65	395.30
Debt	119.53	114.50	150.98	145.09	137.73	181.16	174.27	174.25	262.20	215.64
Deferred tax liability	-	-	-	-	-	-	-	35.82	38.75	36.95
Funds employed	378.57	433.18	484.14	488.67	480.94	546.11	561.64	581.70	634.60	647.89
Application of funds:										
Gross fixed assets	173.51	209.35	259.12	310.55	368.30	391.68	419.06	418.72	406.08	432.30
Depreciation	64.65	75.46	85.88	102.65	124.06	139.02	164.41	175.46	180.75	206.65
Net fixed assets	108.86	133.89	173.24	207.90	244.23	252.66	254.65	243.26	225.33	225.66
Capital work-In-progress	12.83	52.27	60.34	35.38	5.01	6.68	9.85	2.14	2.93	13.66
Investments	83.85	123.06	91.11	83.16	52.68	66.21	58.58	97.13	174.55	204.17
Deferred tax asset	-	-	-	-	-	-	-	-	6.77	5.16
Gross current assets	285.99	263.12	278.00	283.83	288.18	393.48	392.41	412.17	449.78	440.77
Current liabilities & provisions	113.16	139.31	118.55	122.97	118.20	178.76	165.67	205.96	256.46	262.95
Net current assets	172.83	123.81	159.45	160.86	169.98	214.72	226.74	206.21	193.32	177.82
Deferred revenue expenditure	0.21	0.14	-	1.36	9.03	5.85	11.82	32.96	31.70	21.43
Net assets employed	378.57	433.18	484.14	488.67	480.94	546.11	561.64	581.70	634.60	647.89
RATIOS :										
ROCE (%) #	13.91	13.35	9.99	8.29	9.04	11.58	12.55	12.16	12.24	18.18
PBT to sales (%)	6.25	5.36	4.02	2.87	3.17	4.22	4.67	5.15	5.22	8.37
Return on net worth (%) (+)	10.80	8.94	6.55	4.75	6.41	9.27	9.75	10.71	15.20	22.06
Earnings per share (Rs.)	17.76	14.09	8.71	6.50	8.56	13.34	14.69	14.73	19.46	44.66
Dividend per share (Rs.)	3.20	3.20	2.50	2.00	2.50	4.00	5.00	5.50	9.00	10.00
Book value per share (Rs.)	164.44	157.63	133.05	136.80	133.64	143.83	150.58	137.55	163.46	202.39
Debt-equity ratio (%) @ (+)	47.26	36.60	46.08	43.07	41.85	51.15	47.00	51.45	86.83	57.68
Fixed assets turnover (times)	4.56	4.49	3.46	2.92	2.77	3.88	4.28	4.42	5.31	5.57
Net working capital turnover (times)	2.87	4.86	3.76	3.78	3.98	4.56	4.81	5.21	6.19	7.07

Return on capital employed (ROCE) is profit before interest and taxation divided by the capital employed at the end of the year.

@ Debt-equity ratio is total debt as a percentage of shareholders' funds.

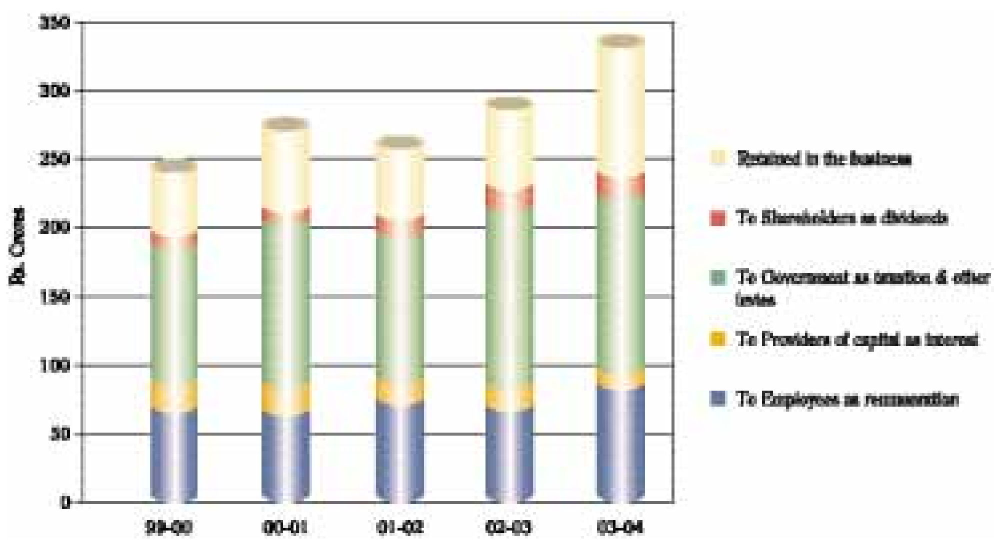
(+) Ratios have been computed after adjusting for the revaluation reserve and deferred revenue expenditure.

Value Added

Rupees in Crores

Particulars	1999-00	2000-01	2001-02	2002-03	2003-04
Turnover	979.93	1090.02	1074.47	1197.13	1257.34
Other income (including non recurring item)	13.67	12.91	5.74	15.48	51.74
Total income	993.60	1102.93	1080.21	1212.61	1309.08
Less : Cost of Materials & Services Brought in	744.02	829.75	820.46	925.23	975.28
Value added	249.58	273.18	259.75	287.38	333.80

Distribution of value added	Share	1999-00	Share	2000-01	Share	2001-02	Share	2002-03	Share	2003-04
To Employees as remuneration	27%	67.96	25%	68.63	29%	75.03	25%	71.00	26%	86.15
To Providers of capital as interest	9%	21.88	7%	19.59	6%	15.39	5%	15.20	4%	12.49
To Government as taxation & other levies	39%	98.40	43%	116.47	40%	105.25	45%	129.25	38%	125.44
To Shareholders as dividends	4%	9.85	5%	12.31	5%	13.54	6%	16.63	5%	18.47
Retained in the business										
Depreciation	12%	29.58	12%	33.59	11%	27.81	10%	28.17	9%	29.60
Profit	9%	21.91	8%	22.59	9%	22.73	9%	27.13	18%	61.65
		249.58		273.18		259.75		287.38		333.80



Profile

Tube Investments of India Limited is the flagship Company of the Rs. 5200 Cr Murugappa Group. It manufactures bicycles, steel tubes and strips and metal-formed products. The Company holds 99.68 per cent of equity in TI Diamond Chain Limited and also has an interest in the growing services sector through its investment in Cholamandalam Investment and Finance Company Ltd and Cholamandalam MS General Insurance Company Ltd.

It has 11 manufacturing/assembly units spread across the country. These plants are ably supported by marketing offices that act as an interface between customer requirements and the production team, leading to the development of customised products and strategies.

To enable it to manage its business efficiently, the Company has divided its business into three strategic divisions – cycles, engineering and metal forming.

- TI is India's second largest bicycle manufacturer with a market share of 30 per cent in 2003-4.
- TI's engineering division manufactures precision steel tubes and strips. TI is the market leader in the precision tubes business in India.
- TI's metal forming division makes doorframes for cars. The Company is the market leader with a near 65 per cent share in model-specific metal forming business.

The Company reported a turnover of Rs. 1257.34 cr (increase of 5 per cent over the previous year) and profit after tax of Rs. 82.49 cr (increase of 80 per cent over the previous year) in 2003-4. The Company's shares are listed on the National, Bombay and Madras stock exchanges within India and GDRs on the Luxembourg Stock Exchange. The market capitalisation of the Company was Rs. 349 cr as on 31 March, 2004.

Highlights, 2003-4

Corporate

- Profit Before Tax (PBT) of Rs. 105.30 cr crossing the milestone of Rs. 100 cr.
- A disposal of non-operating assets realising Rs. 12 cr.
- An investment increase in TI Diamond Chain Ltd from 49.9 per cent to 99.7 per cent through a stake buyout of the foreign collaborator and others.
- Realisation of Rs. 24.76 cr through renunciation of rights shares offered by the general insurance subsidiary of the Company.
- Highest dividend of 100 per cent recommended.
- Recommendation of bonus equity shares @ 1:1 ratio.
- Reduction in finance changes by 18 per cent over the previous year.

Cycles

- The commissioning of the NOIDA plant in June 2003, leading to the unit's production of 3.16 lac cycles in the first year.
- Achieved a marginal increase in volume and market share, despite a flat industry growth.
- The launch of 30 new models. Income from new models increased from 35 per cent in 2002-3 to 37 per cent.
- The opening of a SKD unit at Durgapur in January 2004.
- Commissioning of a state-of-the-art painting plant at Ambattur benchmarked with the international standards.

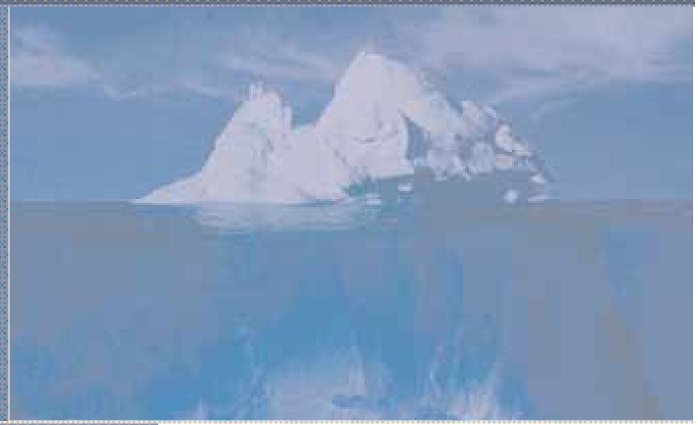
Engineering

- An increase in exports by 54 per cent to Rs. 81 cr.
- Exited the outsourcing arrangement of tubes and enhance the inhouse capacity and improved productivity.
- Installation of modern testing equipment to improve the reliability of tubes for safety critical applications.
- The receipt of accreditation for self-certification of boiler tubes for Shirwal plant apart from Avadi plant.

Metal forming

- Increase in volume by 41 per cent. The market share improved from 56 per cent in 2002-3 to 65 per cent.
- Commissioned supply of doorframes for Omni model of Maruti.
- Establishment of new plant in Halol, Gujarat, for the supply of doorframes to General Motors for its MUV ‘Tavera’ model.

Management discussion and analysis



CYCLES

Industry overview

India is the second largest manufacturer of bicycles in the world. Around 10 million bicycles (valued around Rs.1500 cr) are manufactured each year. The top four players in the industry cater to nearly 90 per cent of the demand.

Though brand plays a vital role, the industry is also price conscious as it serves, to a large extent, the lower income groups of the economy. Cycles can be classified into two segments – standards and specials.

- Standards account for nearly 60 per cent of the country's total bicycle off-take.
- Specials include mountain terrain bikes (MTB) and children's cycles, with much of the demand originating from urban India.

In 2003-4, the industry registered a 3 per cent drop in volume over the previous year. The segmentwise industry volume was as follows:

(units in lakhs)

Standards	57.9	56.3	-2.4
Specials	40.4	39.2	-3.1
Total	98.3	95.7	-2.7

Source: Company estimate

Cycles are used as a means of transport, load carriage and leisure. A visible industry trend is the increasing demand for different cycle variants. Newer varieties are now being manufactured - from basic to 21-gear models and other variants - in return for increasing value-addition. This includes products like exercisers found in clubs and gymnasiums that are not strictly bicycles, but possess similar technological inputs.

The distribution of cycles consists of components manufacturer, cycle manufacturer and dealers. Ludhiana has been the prime source of components for the cycle industry in India. Vendor bases have been established in other parts of the country also.

Improvement in standard of living of people below the poverty line, increase in disposable income and increased consciousness towards health and leisure constitute the drivers for the industry. Steep increase in steel price and shrinking availability of road space for cycles are matters of concern to the industry.

Operational review

Your Company continues to be the second largest player in the industry. The cycles division's turnover increased 4 per cent from Rs. 449.04 cr in 2002-3 to Rs. 466.93 cr in 2003-4 while profit before interest and tax (PBIT) increased 17 per cent from Rs. 20.42 cr to Rs. 23.90 cr in 2003-4. The PBIT includes Rs. 6.55 cr from sale of assets. The division contributed 40 per cent to total revenues of the Company.

A lion's way of succession planning

It's all in the mind. For instance, a lion readies to take over a leader's role from infancy. It develops hunting and leadership skills through play acting from a young age. The intensity of its tussle determines whether it will grow into one that will chase or kill.

Your Company countered competition challenge through supply chain management and having manufacturing locations close to the consuming markets.

The Company's plant in NOIDA, commissioned in June 2003 to cater to the northern markets, reached peak monthly output of 50,000 cycles within months of commissioning. As a result, your Company achieved a supply chain-induced savings target of Rs. 2 cr during the year. To address the eastern markets, the Company established a SKD unit at Durgapur in January 2004.

Conscious steps to link stock levels to actual sales resulted in lower stocks at the dealers' end and improved collection. The Company also introduced the concept of vendor-managed inventory at its Ambattur plant leading to just-in-time component delivery from vendors. The Company's state-of-the-art painting facility, which has been installed at Ambattur, will enable improvement in finishing quality to international standards.

During the course of 2003-4, 30 new models were introduced. Sales from new models accounted for a healthy 37 per cent of the total revenues, emphasising the importance of income replenishment. There was a continuous improvement in quality as well as dealer / customer service leading to marginal improvement in market share. As the price of inputs increased, a time lag between their absorption and corresponding increase in selling price pared margins.

Up to a few years ago, exports were generic in nature: they were made to international bicycle manufacturers who put their brands on the products outsourced from the Company. In view of the poor realisation in such an arrangement, the Company embarked on a conscious decision to step back from international market. The strategy now is to re-enter with our own brand after improving the design and quality capabilities. In line with this strategy, bicycle exports re-commenced in a small way and your Company focused on developing countries similar to India, where its products enjoy price and quality advantage.

To revive consumer interest in cycling and recapture the market from motorised two-wheelers, the cycles division organised events such as a cycling rally in Chennai.

ENGINEERING

Industry overview

TI's Engineering business comprises of precision steel tubes and steel strips manufacturing.

Precision steel tubes: Cold Drawn Welded (CDW) and Electric Resistant Welded (ERW) are the two primary precision tube categories used in automotive, boiler, cycles and general engineering applications. Of these, the major application is in the automobile sector.

Strips: This comprises narrow (below 350 mm) and wide (350 mm to 1000 mm) width categories and are used in the manufacture of automotive components, bearings, cycles, galvanising drums & barrels, fine blanking, stamping & chains and general engineering.

The market size of the precision steel tubes in India is estimated to be around 3.5 lakh tonnes per annum. There are four major players catering to more than 90 per cent of the industry requirement. TI is considered to be a pioneer in precision tube business in India. In strips, the size of our addressable market is estimated to be around 12 lakh tonnes per annum, marked by the presence of about 10 players, each with a regional focus.

The robust growth of the Indian automobile industry had contributed immensely to the prospects of this business. The evolution of the Indian manufacturing sector to match global expectations in terms of quality and cost has further improved the prospects of this business. Availability of steel in the right grade and quality as well as frequent and steep increases in price are the major concerns in this business. On the one side, the challenge is to procure quality steel coils of right specifications at the right price from the steel majors while on the other, the challenge is producing quality products to the exacting quality parameters in line with the strict supply schedules of automobile manufacturers.

Operational review

The turnover of the engineering division increased by 7 per cent from Rs. 611.53 cr in 2002-3 to Rs. 654.94 cr in 2003-4. Profit before interest and tax increased by 24 per cent from Rs. 43.48 cr to Rs. 53.70 cr in 2003-4. The engineering division contributed 55 per cent to total revenues of the Company.

Your Company invested in capacity augmentation of its principal product category and carried this out in less than a year. This capacity increase was across all units through capital expenditure on production equipment, installation of critical testing equipment, de-bottlenecking and plant re-layout.

Productivity was enhanced through a number of process technology improvements that comprised the following initiatives:

- Improved process capability and stringent process control in surface treatment.
- Tooling designs change.
- Detailed metallurgical study, which increased productivity in the heat treatment area thus enhancing product quality and consistency.
- The installation of new generation testing machines to improve the reliability of tubes in safety critical applications.

A dog's way of teamworking

Teamworking is the dog's credo. It establishes and maintains excellent social bonds between packs of members. In African wild dogs, bonding behaviour, such as licking and whining, occur frequently before a hunt. It is only through an active co-operation that dog teams bring down and kill prey larger than themselves.

As a result, the improvement in quality and reliability enabled some user-segments to shift from seamless tubes to welded tubes. The improvements in surface treatment and welding proved beneficial to customers. The Company's Shirwal plant attained the status of self-certification for IBR quality boiler tubes, the second plant after Avadi to do so.

In strips, the thrust was on new product development for power transmission chain assembly, fine blanking and other applications. A new product with unique metallurgical properties was developed for fine-blanking applications. The substitution of ordinary steel with high strength steel (developed for passenger cars) resulted in component weight reduction. Improvements on account of process re-engineering and metallurgical knowledge enabled cost rationalisation.

The Company reported Rs. 81.29 cr of tube and strip export (FOB), an increase of 54 per cent over the previous year. Steps were taken to establish strong customer relationship in identified international markets. The focus of the engineering division continues to be improved customer service through new product development, quality and timely delivery in line with customer requirement.

METAL FORMING

Industry overview

Car doorframes can be made either through a metal pressing process or through the roll forming of steel strips. TI manufactures of model-specific doorframes for automobile manufacturers through roll forming. There are only two major players in this industry, who cater to 80 per cent of the country's requirement. TI leads the market with a near 65 per cent share.

India is a large market where penetration is low. It is also a competitive sourcing destination. Therefore almost all global car manufacturers have established manufacturing base in India. The increasing penetration of passenger cars in India, increasing per capita income, migration from two wheelers to passenger cars, an increasing preference for a car for each family member have emerged as various demand drivers.

In turn, this growing demand fuels the buoyancy in the roll forming auto component business. Here too, the availability of quality steel and steep/ frequent price increases are causes of concern. Since this is a model-specific business, its fortunes are directly associated with the success of specific models.

Working together to store food

Teamworking resides at the heart of a number of staggering achievements. For instance, the acorn woodpecker drills small, neat holes in tree bark. Thereafter, it jams an acorn firmly into each. That's not all. Working together, birds belonging to a single breeding unit can store up to 50,000 acorns in one 'granary tree', creating a store of food to last through the winter.

Operational review

The turnover of the Company's metal forming division increased 43 per cent from Rs. 35.89 cr in 2002-3 to Rs. 51.43 cr in 2003-4 even as profit before interest and tax increased from Rs. 10.06 cr to Rs. 15.53 cr.

The business catered to the roll-formed doorframe requirements of Hyundai (Santro and Accent models) and Maruti (800CC and Omni). The turnover increase was attributable to the increased off-take of the customer's end product and increased capacity. Your Company focused on just-in-time delivery to rationalise inventories at the customer end.

As the roll-forming capacity levels were inadequate, capacity was added at the Chennai plant. Assembly equipment capacity for Hyundai doorframes was enhanced by 50 per cent and an imported roll forming line was commissioned to address Hyundai's growing demand. This enhancement was supported by product development and enhanced skill-led roll-forming quality commitment.

Your Company made a conscious effort in widening its customer base to de-risk its prospects. A new plant was commissioned at Halol (Gujarat) to supply doorframes to General Motors' 'Tavera' multi-utility vehicle. Opportunities to manufacture other value-added auto components are being evaluated. Through continuous TPM-TQM initiatives, the Company aims to achieve further improvement in quality parameters set by the customers.

RISK MANAGEMENT

The Company in its pursuit for growth and profitability has established over the years a process for assessment of opportunities and risks associated with the business. Risk is inevitable in business and risk management is all about risk reduction and avoidance. The Company believes that the risk management process would strengthen the decision-making, planning and implementation process. It also believes that proper risk assessment and management enhances the chances of success in strategy.

Business portfolio risk

Reliance on a single business / product might endanger prospective income streams. On the other hand, a diversification into unrelated areas could affect business focus.

The revenues of the Company are distributed across three businesses - cycles, engineering and metal forming in the ratio of 40 : 55 : 5 respectively. It would be interesting to study the demand pattern of each of these businesses:

How a seat otter crack a problem – literally!

There might be a few things to learn from how the sea otter solves a problem. It literally cracks them. One would assume that stones would be particularly useless for it. They aren't, for the sea otter learns to use stones as tools for cracking open shellfish. For instance, the sea otter lies on its back, breaks the hard shell of an abalone shellfish by hitting it against a rock collected from the sea bed.

- Cycle business: Depends on brand pull, strong dealer network, wide supply chain and product development.
- Engineering business: Depends on product development, metallurgical and steel processing knowledge, large volume manufacturing and original equipment manufacturer (OEM) sales.
- Metal forming business: Thrives on partnerships with auto majors in the product development, production schedules and inventory management.

Even though each of these diversified businesses requires different skills, metallurgical and steel processing knowledge represents the core competency. Over the years, TI has demonstrated that it possesses the experience to manage each of the business and the same is reflected in an increase in market share.

Raw material risk

Non-availability of base raw material or a continuous increase in its price could adversely affect operations and profitability.

India is one of the major producers of steel, the base raw material for the Company's diverse businesses. The global demand for steel is on the rise in the recent years, mainly on account of the surge in requirement in China. There has been a reduction in global capacity in the recent past. This creates an opportunity for export of steel from India, to some extent depriving the local requirement. This has resulted in a sharp price increase. The Company procured steel at a competitive price in view of its large volume. During the year under review, it was compelled to absorb a part of the price increase but mitigated much of the impact through its ability to migrate products towards value-addition.

Industry risk

The various businesses / industries relevant to the Company may cease to exist or remain attractive.

The industries relevant to the Company are cycles, automobiles, boilers and general engineering products. The bicycle industry is witnessing a sluggish trend in demand. The demand for bicycle is expected to improve on account of improvement in standard of living and increasing willingness on the part of the consumers to pay for value added features. The automobile industry is on upward swing, not only in India but also across the globe. India is also looked at as a major component source for the global market. This trend is expected to continue for the foreseeable future. The boiler and general engineering is also on the surge.

Technology obsolescence risk

Technology obsolescence could affect product strength, cost structure and competitive edge.

The technology used in the manufacture of cycles has not undergone any significant change over the last few years even though there have been improvements in terms of comfort, features and aesthetics. Computer aided design and development and use of newer materials have assumed importance leading to the creation of lighter bikes as in developed countries. The Company possesses the base technical capabilities to handle such a transformation.

The technologies used in the engineering and metal forming businesses continued to remain stable with no appreciable change. However, surface finish and welding quality standards have tightened and your Company continues to remain a pioneer in their absorption.

Geography risk

Excessive dependence on income from a specific geography may be a risk, especially if the economic, business and trading condition in that geographical area are soft.

The Company's revenue stream is spread reasonably wide across all the regions of the country. The Company is also spreading its manufacturing locations across the regions and has already commissioned a cycles plant at NOIDA to move closer to the Northern markets, where the demand for cycles is high. To further spread its risk, the Company is strategically focusing on increasing exports across all its divisions. The contribution of exports to overall revenues has increased from 5 per cent in 2002-3 to eight per cent in 2003-4.

Credit risk

The concentration of credit in a particular region or to a handful of customers and the inability of the Company to control its receivables could affect the management of its debtors.

Cycles business: The dealer network is large and distributed across all regions with an average receivable cycle of around 70 days. These dealers are selected on the basis of their financial strength and ability to remit funds on time. Besides, the Company rationalised the extent of risk through controlled deliveries to dealers in line with secondary sales.

Engineering and metal forming businesses: The Company's customers are large reputable organisations. Over the years, the Company rationalised the extent of its risk in this business through just-in-time supply and quick recovery. It improved its customer mix by ceasing relationships with poor paying customers and dealers.

Noxious defence by the striped skunk

When the going gets tough, the tough get going. For instance, when threatened, the striped skunk fluffs its fur, arches its back and lifts its tail. Should the aggressor remain, it stands on its front feet, rear feet in the air, and twists its body. It ejects a foul-smelling liquid over its head for up to 3m from two nozzle-like ducts protruding from its anus. The aggressor gets going!

Import risk

Cheaper imports could under-cut the Company's products in the market place.

Cycles business: In this business, the threat of low cost import is not as acute as was originally feared. For an interesting reason: India's cycle component manufacturers are as competitive as the Chinese. The probable procurement of components from China by cycle manufacturers in India could also acts as a deterrent to the import of cycles. Besides, the Indian cycle market is brand conscious and it is not easy for a new player to capture a market share without the support of a confidence-enhancing brand.

Engineering and metal forming businesses: Since the products are freight-sensitive, import accounts for a small portion of the business. On the other hand, auto customers are increasingly looking at India as an sourcing base on account of prompt delivery, quality, customised product development and low cost.

Internal control risk

The Company's growth and profitability could be adversely affected if internal processes and controls are not in place.

The Company is conscious of the importance of internal processes and controls. Its operating policies are evolved out of the experience over the years. A continuous effort is made to update operating manuals. A uniform delegation of authority and the standardisation of procedures across the manufacturing locations and regions have been done. The Company possesses a robust business planning and review mechanism. Its internal control system is commensurate with its size and nature of business and this is reviewed and improved periodically.

Human resources risk

Failure to recruit or to retain talented and skilled employees of the Company would adversely affect progress and growth of the Company.

Cycles business: Consequent to change in the business model from integrated manufacturing to distributed outsourcing, competencies that need enhancement include industrial design, brand management and supply chain management. The Company has used a dual approach that combines targeted talent acquisition with identification and development of internal capabilities and support in development of supplier's employees.

A pika's way of surviving the downturn

A challenge brings out a survivor's instinct. For instance, a pika that is found at high altitude relies on a talus - an area of piled, broken rocks fringed by alpine meadows and similar low grassy vegetation. This is what the pika does to survive a long winter: it gathers grasses, herbs and other greenery in a 'hay pile' near its burrow but with a special care to choose and store only those plants that decompose slowly, ensuring that the food survives the cold of the winter.

Engineering business: As new players enter the tubes manufacturing businesses, the principal challenge will be retention of critical skills. The Company has identified areas of vulnerability and is taking risk mitigation measures such as implementing enhanced product knowledge to field force, succession planning and retention focused compensation strategies.

Metal Forming business: As we explore opportunities to manufacture value added auto components, in addition to car doorframes, the Company has consolidated its roll forming and sheet metal welding skills base, through in-house training and focused recruitment. Further, to meet the exacting quality standards of customers, the Company has stepped up its efforts in training shop floor workers to achieve further improvement in quality.

In all our businesses, pay-for-performance has been a base strategy for driving LTS, aiming at higher productivity and a more flexible work culture.

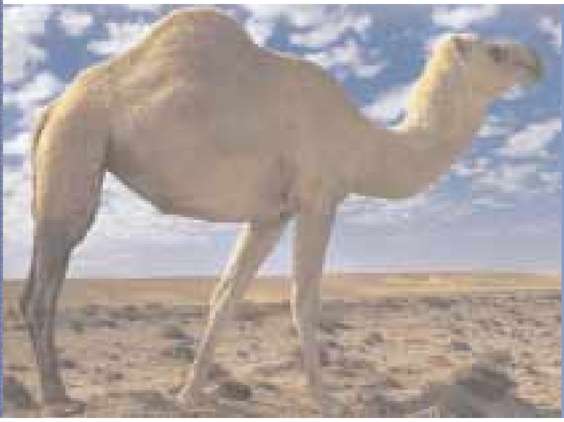
Exchange fluctuation risk

A fluctuation in foreign exchange rates could adversely affect profitability.

After a three-year gap, the export of cycles has begun in a small way. Import of cycle components is also marginal. In the engineering and the metal forming business, the import of steel constitutes a mere 3.85 per cent of total consumption. The revenues from exports in the engineering business increased from Rs. 52.89 cr to Rs. 81.29 cr in the year 2003-4. Apart from the above, the exposure to foreign exchange is in terms of borrowing in foreign currency, import of capital goods and payment of royalty to the overseas technology partner. The foreign exchange market is continuously monitored and steps are taken to de-risk the fluctuation in consultation with experts in the field.

FINANCIAL OVERVIEW

The Company's growth and performance in its businesses is reflected in the strong financials as enumerated as hereunder:

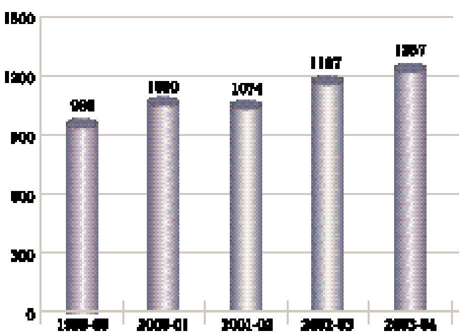


Learn from the camel on how to beat a difficult environment

How to survive a difficult environment is a lesson that one can learn from the camel. Its long lashes protect the eyes from the stinging, blinding, wind-blown sand. Its nostrils can be fully or partly closed by the muscular valves to keep out the sand. Besides, the camel can go without water for days. During this ordeal, a camel loses water from its body tissues equal to a quarter of its entire weight. The dehydrated animal can then drink at least 20 gallons to restore its body liquid level.

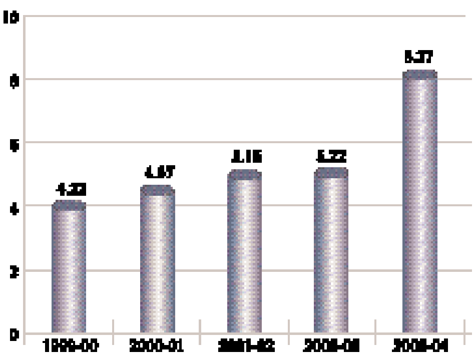
- Increase in sales from Rs. 980 cr in 1999-2000 to Rs. 1257 cr in 2003-4 at a CAGR of 6.4 per cent over five years.

Sales including excise (Rs. cr)



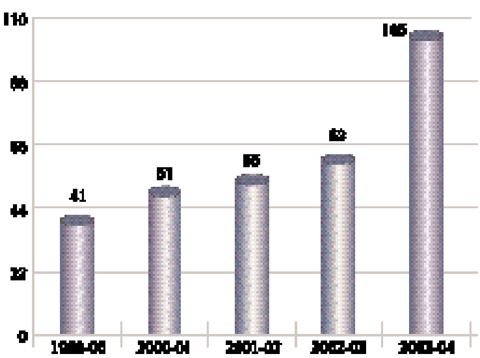
- Increase in PBT to sales ratio from 4.22 per cent in 1999-00 to 8.37 per cent in 2003-4.

PBT/Sales (percentage)



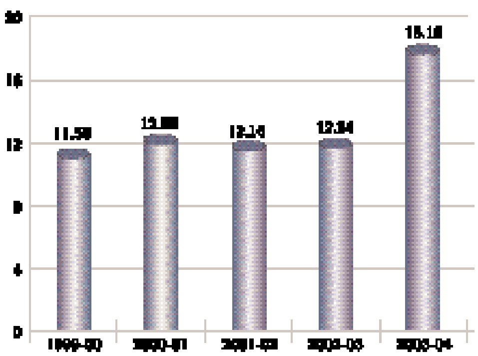
- Increase in PBT from Rs. 41 cr in 1999-2000 to Rs. 105 cr in 2003-4 at a CAGR of 26.3 per cent over five years.

Profit before tax (Rs. cr)



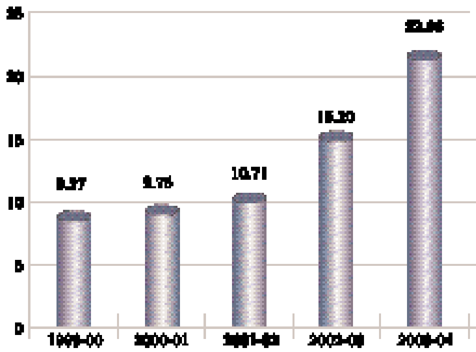
- A continuous increase in return on capital employed from 11.58 per cent in 1999-2000 to 18.18 per cent in 2003-4

Return on capital employed (percentage)



- An increase in return on net worth from 9.27 per cent in 1999-2000 to 22.06 per cent in 2003-4.

Return on net worth (percentage)



Financial management

Finance plays a supportive role to operational management. Financial strategies aim to maximise operating performance through support for decision making in procurement, product pricing, product mix, receivables and costs.

Surplus management

The Company follows a policy of matching short-term requirements with short-term sources and long-term requirements with long-term sources of funds. Short-term operational surpluses are invested in the liquid debt-based mutual funds, which ensure fund availability for working capital needs. The Company's long-term surplus was invested in the buy-back of its equity shares, long-term strategic investments, capital assets and loan repayment.

Investments

The Company's investments in quoted shares, units and government securities as on 31st March 2004 aggregated Rs. 68.39 cr (market value as on 31 March 2004 - Rs. 129.84 cr). The dividend income out of these listed securities is Rs. 6.96 cr.

The major constituent of unlisted securities is investment in Company's general insurance subsidiary. The Company earned an income of Rs. 24.76 cr through the renunciation of rights shares offered by the insurance subsidiary. The year 2003-4 was the first full year of operation of the insurance subsidiary. Despite being the last private player to enter the general insurance in India, it has achieved a gross written premium of Rs. 97 cr. The penetration level in the general insurance in India is very low and hence there is a scope for faster growth.

The other major constituent of the unlisted securities is investment in TI Diamond Chain Ltd, another subsidiary engaged primarily in manufacture of automotive chains. Out of the total investment of Rs. 54.62 cr, the investment in March 2004 was

A mix of the polar bear's competitive strategy

Speed and stillness can both be critical strategies in competitive strategy, depending on the situation. The polar bear successfully exploits both to prey on the seal or the occasional walrus. For one, the bear moves slowly, relying on its camouflaging white coat and 'freezing' if the seal causally looks up. Over the last 15-30 m it charges in at 55 kmph and takes the prey completely by surprise. The other strategy is to wait motionless next to a seal's breathing hole and grabs the prey as it surfaces.

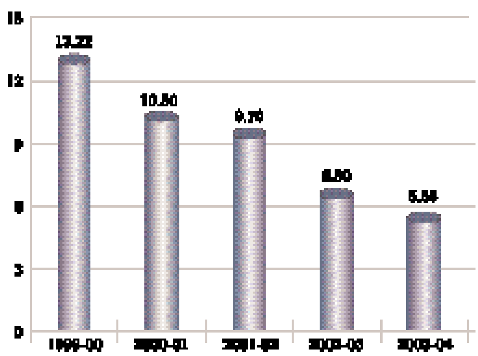
Rs. 32.04 cr. In 2003-4 this company had a turnover of Rs. 157.72 cr and a net profit of Rs. 7.72 cr.

Following the liquidation of Teeaye Investments Ltd, the Company's wholly owned investment subsidiary, a sum of Rs. 26.41 cr was realised against an initial investment of Rs. 24.32 cr, resulting in a surplus of Rs. 2.09 cr.

Financial engineering

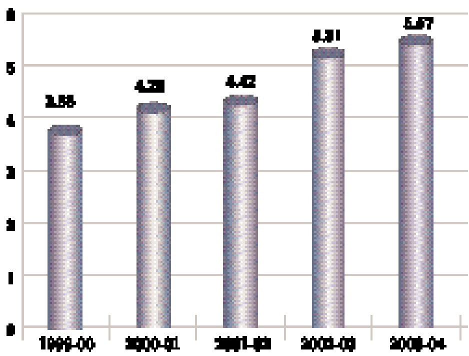
The Company substituted the rupee loan of 50 cr bearing an interest rate of 10 per cent with a 5.95 per cent foreign currency loan. A pre-closure charge of Rs. 3.75 cr has been charged-off in the current year. Apart from this, derivative tools were effectively used to reduce the average cost of borrowing to 5.68 per cent in 2003-4.

Average borrowing cost (percentage)



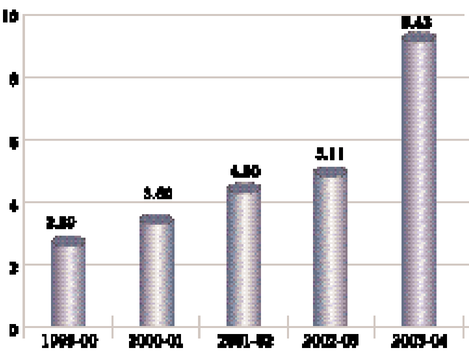
To strengthen its balance sheet, the Company disposed of non-performing assets, which generated a profit of Rs. 10.16 cr. The Company enhanced output through measures like de-bottlenecking, optimum asset utilisation and fresh capital investments.

Fixed assets turnover (times)



The Company repaid long term loans of Rs. 32.5 cr on schedule, improved its debt equity ratio from 86.83 per cent to 54.63 per cent and enhanced its interest cover from 5.11 to 9.43.

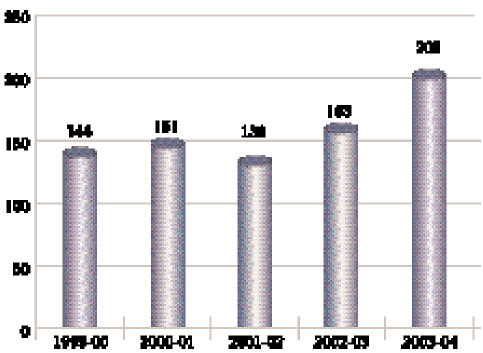
Interest coverage (times)



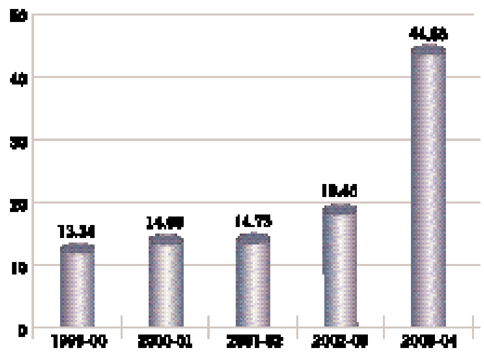
Equity - value enhancement

During the year under review, the Company reaped the benefit of its equity buy-back done in 2002-3. Book value per share increased from Rs. 163 in 2002-3 to Rs. 202 in 2003-4 while EPS strengthened from Rs. 19.46 to Rs. 44.66 during the period. The buyback had been made at Rs. 100 per share at a time when the Company's share price was around Rs. 70 per share. The investors responded positively to the buy back, resulting in an increase in the Company's share price (Rs. 177.55 as on 31 March 2004 in NSE).

Book value per share (Rs.)



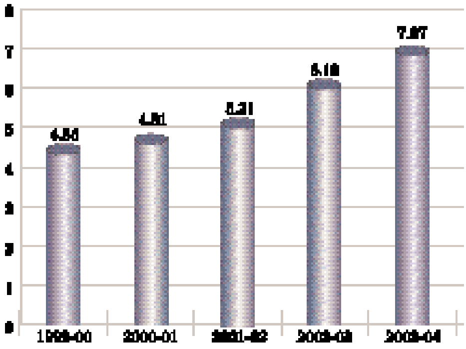
Earnings per share (Rs.)



Working capital management

Improved production planning, better logistics management (both inward and outward) and tight control on receivables ensured sizeable reduction in the gross current assets. For example, the Company consciously reduced the stock level at the market to create a pull and improved on receivables. As a result the debtors turnover ratio improved from 4.61 to 5.17.

Net working capital turnover (times)



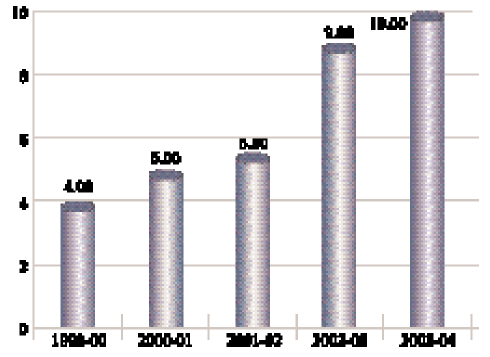
Corporate tax

The effective rate of tax has come down from 32.67 per cent to 21.84 per cent on account of higher tax shielded income like dividend income, profit on sale of assets / investments etc.

Dividend

The Company's dividend payout has been uninterrupted over the last 50 years. The management proposed a dividend of Rs. 10 per share for 2003-4, corresponding to a payout ratio of 25 per cent.

Dividend per share (Rs.)



FINANCIAL REPORTING

The Company has been conservative in the presentation of its accounts.

Debtors provisioning

Any overdue above one year's time is generally provided for. Provisioning is made in a manner that encourages collection of over dues.

Accelerated depreciation

The Company applied a higher rate of depreciation in the financial statements for select category of assets as compared to the rate specified in Schedule XIV of the Companies Act, 1956 for special tools and machineries for the doorframe project and furniture and fixtures.

On behalf of the Board

Chennai
9th June, 2004

M A Alagappan
Chairman

The giraffe technique of problem-solving

Giraffes feed on leaves and shoots of trees and shrubs. It is interesting to observe what a giraffe does when it encounters thorny trees like the acacia. It bites off individual shoots and bunches of leaves between the thorns with a 45 cm tongue. Thereafter, it pulls the leaves into its mouth and coats it with sticky saliva, which makes it safe to swallow. It pulls the smaller branches of the less thorny trees through lobed canine teeth, stripping them of their leaves.

Shareholder information

Registered office:

'DARE HOUSE', 234, NSC Bose Road, Chennai 600 001

Annual General Meeting

Day : Thursday

Date : 29th July, 2004

Time : 4.00 p.m.

Venue : T T K Auditorium, The Music Academy,
T T K Road, Royapettah, Chennai 600 014

Tentative financial calendar

Annual General Meeting – 29th July, 2004

Financial reporting for the first quarter ending June 30, 2004 – 29th July, 2004.

Financial reporting for the second quarter ending September 30, 2004 – 29th October, 2004.

Financial reporting for the third quarter ending December 31, 2004 – Last week of January, 2005.

Financial reporting for the year ending March 31, 2004 - April / May 2005

Book closure for dividend

Thursday, the 15th July, 2004 to Thursday, the 29th July, 2004 (both days inclusive)

Dividend

The Board of Directors has recommended the payment of a dividend of 100 per cent (Rs. 10 per equity share). The dividend on equity shares will be paid to those members whose names appear in the Register of Members as on 29th July, 2004 and the same will be paid on or before 5th August, 2004.

In respect of shares held in electronic form, the dividend will be paid on the basis of beneficial ownership as per details furnished by the depositories for this purpose.

Listing on stock exchanges and stock code

Equity shares

National Stock Exchange - TUBEINVEST

The Stock Exchange, Mumbai – 504973

Madras Stock Exchange – TIN

Global Depository Receipts

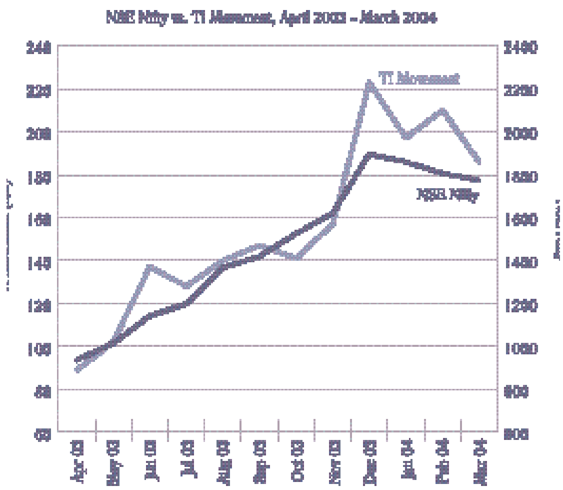
Luxembourg Stock Exchange

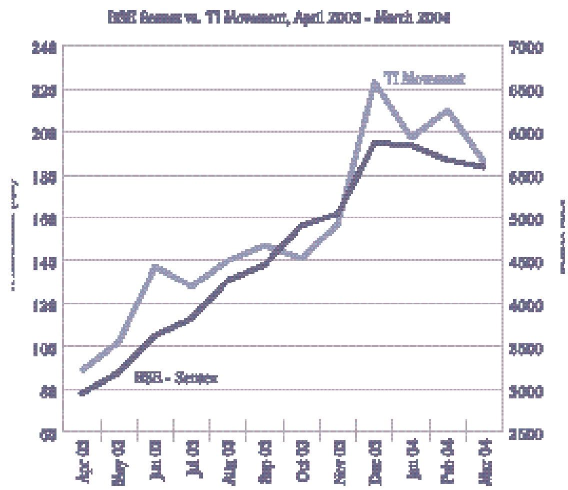
Listing fee for the year ended 31st March, 2004 has been paid to all the stock exchanges.

Market price data and comparison

Month	National Stock Exchange		Mumbai Stock Exchange	
	High Rs.	Low Rs.	High Rs.	Low Rs.
Apr-03	91.00	85.10	94.90	83.00
May-03	103.90	88.05	103.00	88.80
Jun-03	139.80	101.00	139.00	101.50
Jul-03	152.00	100.00	159.00	101.00
Aug-03	150.00	122.60	151.50	124.75
Sep-03	147.00	128.00	147.00	127.00
Oct-03	170.00	137.05	170.00	140.80
Nov-03	160.00	133.50	159.95	131.50
Dec-03	238.80	154.45	245.00	155.00
Jan-04	232.50	175.00	228.00	170.00
Feb-04	226.95	185.00	227.00	185.00
Mar-04	215.00	177.55	207.00	173.00

Performance comparison :





Registrar and share transfer agents

Karvy Computershare Private Ltd
"Karvy House" 46, Avenue 4, Street No.1
Banjara Hills, Hyderabad 500 034.
mailmanager@karvy.com
Phone Nos. 040-23312454 / 23320251/751
Fax : 040-23311968

Share transfer and investor service system

A committee of the Board constituted for this purpose approves share transfers in the physical form on fortnightly basis. The Board has also authorised Chairman / Managing Director to approve the transfers / transmissions.

Shareholding pattern as on 31st March, 2004

Category	No of shares held	% of shareholding
A Promoter's Holding	78,80,146	42.66
B Non-Promoter Holding		
1 Institutional Investors		
a) Mutual Funds and UTI	32,77,417	17.74
b) Banks, Financial Institutions, Insurance Companies	203,238	1.10
c) Foreign Institutional Investors	244,396	1.32
2 Others		
a) Private Corporate Bodies	15,36,380	8.32
b) Indian Public	34,39,769	18.62
c) NRI / OCB	59,053	0.32
d) Bank of New York (GDR holders' depository)	18,32,291	9.92
Grand Total	**1,84,72,690**	**100.00**

Distribution of shareholding as on 31st March, 2004

Category	No of holders	% to total	No of shares	% to total
1 – 500	12794	93.07	1564742	8.47
501 – 1000	481	3.50	349779	1.89
1001 – 2000	220	1.60	322160	1.74
2001 – 3000	57	0.41	141816	0.77
3001 – 4000	38	0.28	132851	0.72
4001 – 5000	31	0.23	142228	0.77
5001 – 10000	36	0.26	257949	1.40
above – 10,000	90	0.65	15561165	84.24
Total	**13747**	**100**	**18472690**	**100.00**

Nomination facility

The shareholders may avail of the nomination facility under Section 109A of the Companies Act, 1956. The nomination form (Form 2B) along with instructions will be provided to the members on request. In case the members wish to avail of this facility, they are requested to write to the Company's registrar M/s Karvy Computershare Pvt Ltd.

Dematerialisation of shares

The shares of the Company are compulsorily traded in dematerialised form. The code number allotted by National Securities Depository Limited (NSDL) and Central Depository Services (India) Ltd to Tube Investments of India Ltd is ISIN INE 149A01017.

GDR details

As at 31st March, 2004, 18,32,291 GDRs were outstanding representing an equal number of underlying equity shares.

Means of communication

The quarterly results are being published in the leading national English newspapers (The New Indian Express, The Economic Times and Business Standard) and in one vernacular (Tamil) newspaper (Dinamani). The quarterly results are also available on the Company's website www.tiindia.com

The Company's website also displays official press releases.

The date, time and venue of the last three annual general meetings are given below:

Year	Date	Time	Venue
2000-01	27.7.2001	4.00 p.m.	T T K Auditorium, Music Academy, T T K Road, Royapaeetah, Chennai 600 014.
2001-02	24.7.2002	4.00 p.m.	Same as above.
2002-03	28.7.2003	4.00 p.m.	Same as above.

List of promoters belonging to the Murugappa Group

1. EID Parry (India) Ltd., and its subsidiaries
2. Godavari Fertilisers and Chemicals Ltd
3. Parry Chemicals Ltd
4. Parry Engineering and Exports Ltd
5. Parry Agro Industries Ltd
6. New Ambadi Estates Pvt Ltd and its subsidiaries
7. Ambadi Enterprises Ltd and its subsidiaries
8. Carborundum Universal Ltd and its subsidiaries
9. Cholamandalam Investment and Finance Company Ltd and its subsidiaries
10. The Coromandel Engineering Company Ltd and its subsidiaries
11. AMM Arunachalam & Sons P Ltd
12. AMM Vellayan Sons P Ltd
13. MM Muthiah Sons P Ltd
14. Murugappa & Sons
15. Kadamane Estates Company
16. AMM Foundation
17. AMM Medical Foundation
18. AMM Educational Foundation
19. MM Muthiah Research Foundation
20. A R Lakshmi Achi Trust
21. Presmet Pvt Ltd
22. M V Murugappan and family
23. M V Subbiah and family
24. M A Alagappan and family
25. A Vellayan and family
26. M M Murugappan and family
27. M M Venkatachalam and family
28. A Venkatachalam and family
29. S Vellayan and family
30. Arun Alagappan and family
31. M A M Arunachalam and family
32. Any company / entity promoted by any of the above.

Family for this purpose includes the spouse, dependent children and parents.

Plant Locations:

TI Cycles of India
Post Bag No.5
Ambattur, Chennai 600 053.
Tel: (044) 5209 3434
Fax: (044) 5209 3345

TI Cycles of India
Plot No. E – 8, MIDC
Malegaon, Sinnar
Nashik Dist 422 103
Tel: (02551) 230472
Fax No. (02551) 230183

TI Cycles of India
A-32, Phase II Extn,
Hoisery Complex
Opp. NEPZ Dadri Road,
Gautam Budh Nagar, NOIDA 201 305
Tel : (0120) 2462201/ 203

TI Cycles of India
Jadavendrapanja
Avenue
Durgapur 713 211
West Bengal
Tel : (0343) 255 3522 / 255 3988

Tube Products of India
Avadi, Chennai 600 054
Tel: (044) 2638 4040
Fax : (044) 2638 4051

Tube Products of India - EOU
Avadi, Chennai 600 054
Tel: (044) 2638 3244
Fax : (044) 2638 3110

Tube Products of India
Shirwal Post,
Khandala Taluk
Satara Dist., Maharashtra 412 801
Tel : (02169) 244080
Fax: (02169) 244087

Tube Products of India
A-16 & 17,
Industrial Focal Point
Phase VI, SAS Nagar
Mohali, Punjab 160 051
Tel : (0172) 2675651, 2670231
Fax : (0172) 2679375

TI Metal Forming
Chennai – Tiruvallur High Road
Tiruninravur RS PO, Chennai 602 024
Tel (044) 2639 0194,
2639 0437, 2639 0504
Fax : (044) 2639 0634

TI Metal Forming
Bawal Plant
Plot Nos. 302 – 329,
Bawal Investate
Riwari District,
Haryana 123 501
Tel : (01284) 260707, 260708
Fax : (01284) 260426

TI Metal Forming
Plot No.501 – B & C
Halol Industrial Area / Estate
Block No. 32 & 34, Village Dunia
Tk Halol, Dist Pachmahals, Baroda
Tel : (02676) 224035

Compliance Officer

Mr. S Suresh
Company Secretary
'DARE HOUSE'
234, N S C Bose Road, Chennai 600 001
sureshs@tii.murugappa.com
Phone : (044) 2530 6711
Fax : (044) 5211 0404

Contact address:

For all matters relating to Annual Report:
Company Secretary
Tube Investments of India Ltd
'DARE HOUSE'
234, N S C Bose Road, Chennai 600 001
e-mail : sureshs@tii.murugappa.com
Tel : (044) 2530 6711
Fax: (044) 5211 0404

For all matters relating to investor services:
Karvy Computershare Pvt Ltd
'Karvy House'
46, Avenue 4, Street No.1
Banjara Hills,
Hyderabad 500 034
e-mail : mailmanager@karvy.com
Tel : (040) 2331 2454, 2332 0251/751
Fax: (040) 2331 1968

Report on Corporate Governance

Your Company believes that the fundamental objective of corporate governance is enhancement of long-term shareholder value, while keeping in view the interests of all stakeholders. Your Company's corporate governance practices emanate from its commitment towards discipline, willingness, transparency and fairness. Key elements in corporate governance are timely disclosure, establishment of internal controls and high standard of accounting fidelity, product and service quality.

Your Company also believes that the growth in shareholder value, as reflected in the financial performance of the Company, was possible because of the good practices followed over the years.

Board of Directors

The key to good corporate governance is the Board of Directors, which leads and controls the business. The Board of your Company provides leadership, strategic guidance and objective judgement. It exercises control over the Company, while remaining at all times accountable to all stakeholders. It comprises of excellent, professionally acclaimed non-executive Directors, who understand their role and impartially discharge their fiduciary responsibility towards the shareholders. Your Company's commitment to good governance practices allows the Board to effectively perform these functions. The role of the Chairman in ensuring good corporate governance is crucial. The Chairman ensures that timely and relevant information is made available to all Directors to enable them to contribute during meetings and discussions.

The Board consists of 10 members with knowledge and experience in different fields viz., engineering, manufacturing, finance, banking and business management. The Chairman, Mr. M A Alagappan, relinquished his executive position in the Company with effect from 31st March, 2004. The Chairman and Mr. M M Murugappan belong to the promoter group and Mr. Adhiraj Sarin is the Managing Director. The remaining Directors are independent non-executive Directors.

Thus, the effectiveness of the Board is strengthened by its structure and procedures followed.

The Board, in order to be effective, has constituted an Audit Committee, a Remuneration and Nomination Committee and an Investors' Grievance Committee.

Your Company has a well-established practice with regard to deciding the dates of meetings in advance and matters to be placed before the Board. The dates of the Board meeting for the entire calendar year are decided before the beginning of the year in consultation with members on their availability. The effectiveness of the Board is also attributable to the willingness of your Directors to allocate time and to contribute effectively at all meetings.

Apart from the statutory requirements, the role of the Board includes providing a strategic direction, business planning, periodic review of operations and considering proposals for diversification, de-risking, investment, divestment and business reorganisation. During the year, the Directors had a three-day session with the senior management to evolve the long-term strategy after thorough assessment and deliberation. The Board has complete access to all information available within the Company. Apart from the above, the information periodically placed before the Board includes status of statutory compliance, proceedings / minutes of all committee meetings, significant development(s) in human resources / industrial relation(s) and major capital expenditure.

There were 7 Board meetings during the financial year 2003-4. The dates of the Board meetings, details of attendance and the number of directorships / committee memberships held by them as on 31st March, 2004 are provided in the Table 1 of the annexure to this report.

Audit Committee

The audit committee of your Company plays an important role in ensuring good governance through proper reporting of financial performance and establishment and review of internal control procedures.

The Company has an independent audit committee. The Committee consists of 4 members, all being non-executive directors, with 3 of them being independent. Mr. D M Satwalekar, Chairman of the audit committee, resigned on 31st March, 2004. Mr. Tapan Mitra, also an independent Director was elected as Chairman with effect from 9th June, 2004. All the members of the Committee have excellent financial and accounting knowledge.

The role of the audit committee, in brief, is to review financial statements, internal controls, accounting policies and internal audit. The quarterly financial results are placed before the audit committee for its review, suggestions and recommendation(s) before taking the same to the Board. The Committee discusses the audit plan with statutory auditors. The internal audit plans are placed before the Committee for its review. The observations of internal auditors on operations of the various business units of the Company are presented to the Committee periodically for its guidance. The Committee also provides guidance on compliance of accounting standards and accounting policies. The statutory and internal auditors attend the audit committee meetings. The Committee also tracks the implementation of its guidelines / suggestions through review of action taken reports.

The Committee met 5 times during the year ended 31st March, 2004. The composition of the audit committee and the attendance of each member at these meetings are given in Table 2 of the annexure to this report.

Remuneration to Directors

The success of the organisation in achieving good performance and good governing practice depends on its ability to attract quality individuals as executive and non-executive directors.

The compensation to the executive directors comprises a fixed component and a performance incentive by way of commission. The compensation is determined, based on levels of responsibility and scales prevailing in the industry. The commission is also determined based on certain pre-agreed performance parameters. The executive directors are not paid sitting fees for any board / committee meetings attended by them. The terms of employment provide for termination of service by either party upon giving three months notice.

The compensation to the non-executive directors takes the form of commission on profits. Though the shareholders have approved payment of commission up to 1 per cent of the net profits of the Company for each year calculated as per the provisions of Companies Act, 1956, the actual commission paid to the Directors is restricted to a fixed sum. The sum is reviewed periodically taking into consideration various factors such as performance of the Company, time spent by the Directors for attending to the affairs and business of the Company and extent of responsibilities on Directors under general law and other relevant factors. Further, the aggregate commission paid to all non-executive directors is well within the limit of 1 per cent of the net profits as approved by the shareholders. The non-executive directors are also paid sitting fees as permitted by government regulations for all Board and Committee meetings attended by them.

The role of remuneration and nomination committee is to recommend to the Board the appointment / reappointment of the executive / non-executive Directors. The Committee has also been vested with the authority to determine the periodic increments in salary and annual incentive of the executive directors. The increments and commission of executive directors are determined on the basis of a balanced score card with its four components viz., company financials, company scorecard, strategic business unit score card and personal objectives being given appropriate weightage.

The members elect one amongst themselves as Chairman for each meeting. The Committee met 3 times during the year ended 31st March, 2004. The composition of Committee and the attendance of each member at these meetings are given in Table 3 of the annexure to this report.

The details of remuneration paid / provided for the year ended 31st March, 2004 to the executive directors are given in Table 4 of the annexure to this report. The details of remuneration paid / provided to non-executive directors are given in Table 5 of the annexure to this report.

Dissemination of information

Your Company is conscious of the importance of timely and proper dissemination of adequate information. A press release is given along with the publication of the quarterly / annual results explaining the business environment and performance. This is being provided to enable the investing community to understand the financial results in a better and more meaningful manner. The press release includes non-financial aspects such as development of new products, change in market share, price movement of raw materials and generally the business condition. The quarterly and audited financial results are normally published in Business Standard, The Economic Times, The New Indian Express and Dinamani. Press releases are given to all major dailies. The financial results and the press releases are also posted on the Company's website i.e., www.tiindia.com. The Company's commitment to transparency is reflected from the information-rich annual report, investors meets, periodic press releases and updation of the Company's website.

Investors' service

The Company promptly attends to investors' queries and grievances. In order to provide timely services, the power to approve transfer of shares has been delegated by the Board to the shares and debentures committee. The Board has also authorised the Chairman/Managing Director to approve the transfers/transmissions. Share transfer requests are processed within 15 days from the date of receipt. Karvy Computershare Private Limited, Hyderabad is the Company's share transfer agent and depository registrar.

The Shareholders'/Investors' Grievance Committee was constituted to specifically focus on investor service levels. This Committee has prescribed norms for attending to the investors' services and these norms are being reviewed periodically.

Mr. M M Murugappan, a non-executive Director is the Chairman of the Shareholders/Investors' Grievance Committee. The members of the committee are in regular and close communication with each other and attend to the investors' complaints/grievance periodically. The Committee met twice during the year ended 31st March, 2004. The composition of the Committee and their attendance at the above meetings are given in Table 6 of the annexure to this report.

The Company received 98 queries/grievances during the year ended 31st March, 2004 and all of them were resolved to the satisfaction of the investors. There were no queries to be replied/sorted out as at 31st March, 2004. There were no transfers pending as at 31st March, 2004.

Compliance

The Company has complied with all the mandatory requirements of corporate governance norms as enumerated in clause 49 of the listing agreement with the stock exchanges.

As regards non-mandatory requirements, the Company has a Remuneration and Nomination Committee as detailed earlier. A half-yearly newsletter from the Managing Director highlighting the significant achievements during the six months was sent to all the shareholders of the Company enclosing the financial results for the half-year ended 30th September, 2003.

Disclosures

Related party transactions during the year have been disclosed as a part of the accounts as required under AS 18 issued by the Institute of Chartered Accountants of India.

There have been no instances of non-compliance by the Company or penalty or strictures imposed on the Company by the stock exchange or SEBI or any statutory authority on any matter related to capital markets during the last three years.

Management discussion and analysis report

A management discussion and analysis report highlighting individual businesses has been included in the annual report.

General shareholders information

A separate section has been annexed to the annual report furnishing various details viz., AGM time and venue, share price movement, distribution of shareholding, location of factories etc.

On behalf of the Board

Chennai
9th June, 2004

M A Alagappan
Chairman

Annexure to the Corporate Governance Report

(a) Board meeting dates and attendance

The Board of Directors met seven times during the financial year 2003-4. The dates of the Board meetings were 2nd June, 2003, 28th July, 2003, 27th October, 2003, 29th November, 2003, 31st January, 2004, 19th February, 2004 and 23rd March, 2004.

The attendance of each Director at the meetings, the last annual general meeting and number of other directorships / committee memberships held by them as on 31st March, 2004 are as follows:

Table 1

Sl. No	Name of Director	Board meetings attended (no of meetings held)	Number of Directorships (a) (out of which as Chairman)	No of committee memberships(b) (out of which as Chairman)	Attendance at last AGM
1.	Mr. M A Alagappan	7 (7)	10(3)	10(4)	Present
2.	Mr. Adhiraj Sarin	7 (7)	4	1	Present
3.	Mr. Amal Ganguli (c)	5 (7)	9	8(2)	Not Present
4.	Dr. D Jayavarthanavelu	3 (7)	11(9)	2	Present
5.	Mr. M M Murugappan	6 (7)	14(4)	6(2)	Not Present
6.	Mr. M Narasimham	3 (7)	1	1	Not Present
7.	Mr. Pradeep Mallick (d)	6 (7)	6	9(1)	Present
8.	Mr. Ram V Tyagarajan	3 (7)	8(2)	6(2)	Not Present
9.	Mr. D M Satwalekar (e)	6 (7)	9	8(3)	Present
10.	Mr. Tapan Mitra	6 (7)	3	4(1)	Present
11.	Mr. R Srinivasan (f)	N.A.	11(1)	7(4)	N.A.

(a) Excludes foreign companies, private limited companies, alternate directorship and companies registered under Section 25 of the Companies Act, 1956.

(b) Includes only membership in Audit, Remuneration and Investors' Grievance Committee.

(c) Mr. Amal Ganguli was appointed as Director on 2nd June, 2003.

(d) Mr. Pradeep Mallick was appointed as Director on 2nd June, 2003.

(e) Mr. D M Satwalekar resigned from the Board on 31st March, 2004.

(f) Mr. R Srinivasan was appointed as Director on 9th June, 2004.

(b) Composition of Audit Committee and attendance

The Committee met five times during the year ended 31st March, 2004.The composition of the audit committee and the attendance of each member at these meetings are as follows:

Table 2

Mr. M M Murugappan	4 (5)
Mr. Pradeep Mallick (a)	4 (5)
Mr. D M Satwalekar (b)	5 (5)
Mr. Tapan Mitra	5 (5)
Mr. R Srinivasan (c)	N.A.

(a) Mr. Pradeep Mallick was appointed as a member on 2nd June 2003.

(b) Mr. D M Satwalekar ceased to be a member on 31st March, 2004.

(c) Mr. R Srinivasan was appointed as a member on 9th June, 2004.

(c) Composition of Remuneration and Nomination Committee and attendance

The Committee met three times during the year ended 31st March, 2004. The composition of the remuneration and nomination committee and the attendance of each member at these meetings are as follows:

Table 3

Mr. Amal Ganguli (a)	1 (3)
Mr. M Narasimham	2 (3)
Mr. D M Satwalekar (b)	3 (3)
Mr. Tapan Mitra	3 (3)

(a) Mr. Amal Ganguli was appointed as a member on 2nd June 2003.

(b) Mr. D M Satwalekar ceased to be a member on 31st March, 2004.

(d) Remuneration of Executive Directors

The details of remuneration paid / provided to the executive directors are as follows:

Table 4

(Amount in Rs.)

Mr. M A Alagappan	25,80,000	25,80,000(b)	19,23,000	9,40,976	80,23,976
Mr. Adhiraj Sarin	24,00,000	24,00,000 (b)	17,78,775	16,50,875	82,29,650

(a) Commission will be paid after the adoption of accounts by the shareholders at the annual general meeting.

(b) Provisional and subject to determination by remuneration and nomination committee. The actual commission will be determined by the Board/Remuneration and Nomination Committee.

(e) Remuneration of Non-executive Directors

The details of commission/sitting fees provided/paid to non-executive directors for the year ended 31st March, 2004 are as follows:

Table 5

(Amount in Rs.)

Mr. Amal Ganguli	1,24,932	30,000	1,54,932
Dr. D Jayavarthanavelu	1,50,000	15,000	1,65,000
Mr. M M Murugappan	1,50,000	85,000	2,35,000
Mr. M Narasimham	1,50,000	25,000	1,75,000
Mr. Pradeep Mallick	1,24,932	50,000	1,74,932
Mr. Ram V Tyagarajan	1,50,000	15,000	1,65,000
Mr. D M Satwalekar	1,50,000	70,000	2,20,000
Mr. Tapan Mitra	1,50,000	70,000	2,20,000

(a) Provisional and subject to determination by the Board. Commission will be paid after the adoption of accounts by the shareholders at the annual general meeting.

(f) Composition of Investors' Grievance Committee and attendance

The Committee met twice during the year ended 31st March, 2004. The composition of the shareholders'/investors' grievance committee and their attendance at the above meetings are as follows:

Table 6

Mr. M A Alagappan	2 (2)
Mr. M M Murugappan	2 (2)
Mr. Adhiraj Sarin	2 (2)

On behalf of the Board

Chennai
9th June, 2004

M A Alagappan
Chairman

Certificate on Corporate Governance

To the Members of Tube Investments of India Limited

We have examined the compliance of conditions of corporate governance by Tube Investments of India Limited, for the year ended on 31st March 2004, as stipulated in Clause 49 of the Listing Agreement of the said company with stock exchanges.

The compliance of conditions of corporate governance is the responsibility of the management. Our examination was limited to procedures and implementation thereof, adopted by the company for ensuring the compliance of the conditions of Corporate Governance. It is neither an audit nor an expression of opinion on the financial statements of the company.

In our opinion and to the best of our information and according to the explanations given to us, we certify that the company has complied with the conditions of Corporate Governance as stipulated in the above mentioned Listing Agreement.

We state that no investor grievance is pending for a period exceeding one month against the Company as per the records maintained by the Investors' Grievance Committee.

We further state that such compliance is neither an assurance as to the future viability of the Company nor the efficiency or effectiveness with which the management has conducted the affairs of the Company.

For **Fraser & Ross**
Chartered Accountants

Chennai
9th June, 2004

Geetha Suryanarayanan
Partner
Membership No. 29519

Directors' Report

Dear Shareholders,

Your Directors have pleasure in presenting the performance of the Company for the year ended 31st March, 2004. Your Company has achieved a turnover of Rs. 1,257.34 cr against 1,197.13 cr for the previous year. The profit before tax was at Rs. 105.30 cr. This is a milestone in itself. This includes an income of Rs. 24.76 cr from renunciation of rights-shares offered by the Company's general insurance subsidiary. The profit after tax was at Rs. 82.49 cr, an increase of 80 per cent over the previous year.

Financial Highlights

Rs. in crores

Gross sales including excise duty / income from operations	**1,257.34**	**1,197.13**
Less : Excise duty	100.26	110.56
Net sales including processing charges	1,157.08	1,086.57
Profit before depreciation and interest	**122.63**	**105.82**
Less: Interest	12.49	15.20
Depreciation	29.60	28.17
Profit before tax and non-recurring item	**80.54**	**62.45**
Add: Non-recurring item	24.76	–
Profit before tax	105.30	62.45
Less: Provision for tax	22.81	16.56
Profit after tax	**82.49**	**45.89**
Add: Surplus brought forward	53.26	42.12
Profit available for appropriation	135.75	88.01
Less:		
Transfer to general reserve	25.00	16.00
Dividend – Proposed 100% (last year 90%)	18.47	16.62
Tax on dividend distribution	2.37	2.13
Balance carried to balance sheet	89.91	53.26

Dividend

Yours Directors are happy to recommend a dividend of 100 per cent (Rs. 10 per equity share of Rs. 10 each) for the year.

Bonus shares

The Directors have recommended the issue of 1 (one) bonus equity share of Rs. 10 for every 1 (one) equity share of Rs. 10 held on the record date. The members' approval is sought at the ensuing annual general meeting to give effect to the above.

Review of the Year

India has emerged as one of the fastest growing economies in the world. The growth in GDP during 2003-4 is estimated at 8.5 per cent as compared to the growth rate of 4.0 per cent during previous year. This was made possible by the impressive contribution from agriculture, manufacturing and service sectors. The year witnessed a good monsoon, except in the peninsular part of India, interest rates were stable and the Rupee emerged stronger. Inflation was under control and external account position was comfortable as reflected in the substantial increase in foreign exchange reserves and strengthening of Rupee.

The demand for bicycles improved in the rural and semi-urban markets during the second half of the year. The urban demand too showed signs of recovery only towards the end of the year. As a result, the overall market demand for bicycle was marginally lower than last year. Despite the decline in market demand, your Company improved its sales, though marginally. The Company streamlined stock level in the market and improved its sales, production planning and collections/receivables. The Company also improved its market position in regions hitherto dominated by competition. The new cycle plant at NOIDA, commissioned in June 2003 exceeded the planned capacity utilisation. The strategy of locating manufacturing facilities close to the markets and developing a local vendor base enabled better cost management and improved the distribution. The Company recommenced export of cycles during the year under its own brand.

The engineering business witnessed a surge in demand from the prime user industry viz., auto sector. The price of steel continued to increase and posed a major challenge to the profitability of the business. The increased focus on quality and drive for enhanced operational efficiency resulted in growth in turnover and profitability. The Company discontinued outsourcing of products and focussed on enhancement of its in-house capacity and productivity to meet the increased demand. The full benefit of these measures would be derived in the coming years. Strategic initiatives were taken to further optimise the product mix and increasingly move towards value added products. There was a quantum improvement in exports from Rs. 55.89 cr to Rs. 88.88 cr.

The metal forming business also benefited from the surge in demand from the auto sector. The off-take of doorframes by Hyundai Motor India Ltd., as well as Maruti Udyog Ltd., increased significantly. Our ability to ramp up the operations while adhering to the stringent quality parameters contributed to the increase in turnover and profitability. The supply of doorframes for Omni model of Maruti has stabilised. The Company has commissioned a manufacturing facility at Halol in Gujarat for supply of doorframes to General Motors.

Management Discussion and Analysis

A Management Discussion and Analysis Report, highlighting the performance of individual businesses forms part of the annual report.

Long-term Planning

The Board, along with the senior management, has evolved a long-term strategy for growth and profitability of the Company taking into account the opportunities/aspirations, core competencies and availability of resources. These are translated into annual business plans and are reviewed periodically.

Thrust on Research & Development (R&D)

In order to achieve growth in a sustainable manner and create new value propositions for customers, a Corporate R&D team has been constituted. The strategic objective of this team is to use technology as an enabler to create value in existing lines of businesses and to identify research areas. This team is engaged in identifying projects and is developing evaluation matrices to facilitate prioritisation. The team has established linkages with leading technical institutions, test houses and R&D departments of key customers. The Company has plans to increase capital investment in R&D for development of new product concepts and improve on manufacturing processes and quality.

Directors

Mr. D M Satwalekar resigned from the Board with effect from 31st March, 2004 in view of his other commitments. The Board wishes to place on record its grateful appreciation of the services rendered by Mr. D M Satwalekar as Director of the Company and as Chairman/member of the various Committees.

Mr. M A Alagappan in view of his other commitments relinquished his executive position with effect from 31st March, 2004 and continues as non-executive Chairman of the Board. The Board wishes to place on record its grateful appreciation of the services rendered by Mr. M A Alagappan as 'Executive Chairman'.

Messrs. M M Murugappan, Tapan Mitra and M Narasimham retire by rotation at the ensuing annual general meeting and are eligible for re-appointment. Mr. M Narasimham has expressed his desire not to seek re-election in view of his health and age. The Board wishes to place on record its grateful appreciation of the services rendered by him as Director of the Company since 1989.

Mr. R Srinivasan was appointed as an additional Director with effect from 9th June, 2004. The appointment of Mr. R Srinivasan as regular Director is being placed before the shareholders for their approval at the ensuing annual general meeting.

Corporate Governance

Your Directors reaffirm their commitment to high standards of corporate governance A report on corporate governance practiced by the Company along with a certificate from the statutory auditors has been included in the annual report.

Human Resources

In order to meet the ever-growing expectations of customers on products and services, your Company took the initiative of mapping skills of existing shop floor employees in all the units. Based on this, steps have been taken to upgrade skills of the employees in a bid for continuous improvement in the journey towards excellence.

At the managerial level a lot of thrust has been given to leadership identification and development. Our product leadership position has further demanded that we enhance our competencies in certain areas like logistics, industrial design, brand management, manufacturing engineering and metal forming.

Your Company has remained a preferred employer in the manufacturing sector amongst premier management and engineering institutes. Whilst attrition per se has been less than industry average at a company level, the functions of IT, sales and marketing have called for increased attention.

Your Company's ability to combine business imperatives with people needs ensured that industrial relations remained cordial.

Safety, Health & Environment

Your Company attaches high importance to safety, health and environment (SHE). All the businesses continue to show improvement on all parameters over the previous year. Safety audit is a regular feature for continuous improvement.

Your Company is conscious of the need for environmental protection, pollution control and conservation of natural resources. These factors play a key role in all business processes and strategies. Conservation and recycling of water has been a priority. Conservation of energy is continuously monitored and improved upon. Elimination / reduction of wastage is a key element in cost saving and improving competitiveness of all businesses.

Cycles manufacturing units at Ambattur & Nashik, tube manufacturing unit at Mohali & EOU plant at Avadi and metal forming unit at Chennai are ISO 14001 certified. These units continually comply with the requirements of internal audits and routine surveillance audits. Tube manufacturing plant at Avadi has embarked on ISO 14001 journey.

Social Commitment

Your Company believes in its responsibility as a good corporate citizen towards society at large, especially to the local community and the less privileged. Your Company contributes a sum out of its profits for these benevolent social causes to AMM Foundation and Shri AMM Murugappa Chettiar Research Centre (MCRC).

M/s. AMM Foundation, a charitable trust established in 1953, is a philanthropic organisation involved in the fields of education and healthcare. This foundation runs one polytechnic and four schools besides four hospitals. All five educational institutions managed by this foundation have ushered in a new era in the field of education with an affordable fee structure, IT-based curriculum, modern teaching methods and good infrastructure. Similarly, the hospitals under this foundation are a shining example of commitment, technology and talent in health care.

MCRC is a non-profit research organisation established in 1977 and having its ideologies centred on developing technologies and their dissemination especially for rural application, which would better the living standards of population in villages. The Centre is also executing consultancy work and research projects in the area of photo synthesis, energy production, energy analysis in social systems, fisheries development, pollution control, innovative methods in education and communication, waste land development, environmental education etc.

Subsidiaries

Cholamandalam MS General Insurance Company Ltd (CGMS) had the first full year of operations and has achieved a Gross Written Premium of Rs. 97 cr (previous year Rs. 14.8 cr) on 3 lakh policies approximately. The contribution of commercial segment was around 52 per cent and the retail/personal segment contributed to 48 per cent. The market share of CGMS increased to 4.3 per cent amongst the private players as against 0.13 per cent in the previous year.

TI Diamond Chain Ltd (TIDC), a company engaged in the manufacture of automotive, industrial and agriculture chains became a subsidiary company in March '04. TIDC was established in the year 1961 as a joint venture between your Company and Diamond Chain Company, USA (at present a unit of Amsted Industries Inc., USA). In 2003-4, TIDC has achieved a turnover of Rs. 157.72 cr with exports aggregating to Rs. 50.35 cr. The profit after tax was Rs. 7.72 cr.

The members voluntary liquidation of Teeaye Investments Limited, which commenced last year has completed. The final meeting under Section 497 of the Companies Act, 1956 was held on 7th April, 2004. Upon completion of liquidation, a sum of Rs. 26.41 cr was paid to the Company being the net of value assets realised over the liabilities repaid.

The Company has applied to the Central Government under Section 212 (8) of the Companies Act, 1956 seeking an exemption from attaching a copy of the Balance Sheet, Profit and Loss Account of the subsidiary companies along with the report of the Board of Directors and that of the auditors' thereon, required to be attached under Section 212 (1) of the Act, with the Company's accounts and the said approval is awaited. Accordingly, the said documents are not being attached with the Balance Sheet of the Company. A gist of the financial performance of the subsidiaries is contained in the report. The Company will make available these documents / details upon request by any member of the Company or it's subsidiaries interested in obtaining the same.

Auditors

Messrs. Fraser & Ross, Chartered Accountants retire at the ensuing annual general meeting and are eligible for reappointment.

Cost Auditors

Messrs. S Sankaranarayanan and V Kalyanaraman have been appointed as cost auditors for cycles and tubes respectively for the financial year ending 31st March, 2005.

Annexures

The other information required to be furnished in the Directors' Report under provisions of Section 217 of the Companies Act, 1956 relating to conservation of energy, technology absorption, foreign exchange earning and outgo, particulars of employees and Directors' Responsibility Statement are annexed and form part of this report.

General

The Directors thank the customers, vendors, financial institutions, banks and investors for their continued support to your Company's growth. The Directors record their special appreciation to all employees for their efforts towards achieving this performance.

On behalf of the Board

Chennai
9th June, 2004

M A Alagappan
Chairman

DIRECTORS' RESPONSIBILITY STATEMENT

(pursuant to Section 217(2AA) of the Companies Act, 1956)

Pursuant to Section 217(2AA) of the Companies Act, 1956, the Directors to the best of their knowledge and belief confirm that :

- in the preparation of the Profit & Loss Account for the financial year ended 31st March, 2004 and the Balance Sheet as at that date ("financial statements") applicable accounting standards have been followed
- appropriate accounting policies have been selected and applied consistently and such judgments and estimates that are reasonable and prudent have been made so as to give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profit of the Company for that period.
- 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. (To ensure this, the Company has established internal control systems, consistent with its size and nature of operations. In weighing the assurance provided by any such system of internal controls its inherent limitations should be recognised. These systems are reviewed and updated on an ongoing basis. Periodic internal audits are conducted to provide reasonable assurance of compliance with these systems. The Audit Committee meets at regular intervals to review the internal audit function.)
- the financial statements have been prepared on a going concern basis
- the financial statements have been audited by Messrs. Fraser & Ross, the statutory auditors and their report is appended thereto.

On behalf of the Board

Chennai
9th June, 2004

M A Alagappan
Chairman

Annexure to Directors' Report

Information under Section 217(1)(e) of the Companies Act, 1956 read with Companies (Disclosure of particulars in the report of Board of Directors) Rules, 1988 and forming part of Directors' Report.

Power & Fuel Consumption		
1 Electricity		
(a) Purchased		
Units (Kwh)	1,95,97,209	1,64,64,619
Total Amount (Rs.)	10,05,47,091	9,03,27,186
Rate/Unit (Rs.)	5.13	5.49
(b) Own Generation through Diesel Generator		
Units (Kwh)	3,50,919	6,54,559
Units per litre of Diesel Oil (Kwh)	1.56	2.71
Cost per unit	7.34	6.47
(c) Own Generation through Furnace Oil Generator		
Units (Kwh)	2,23,77,076	2,09,65,606
Units per litre of Furnace Oil (Kwh)	4.07	3.94
Cost per unit	2.51	2.64
(d) Own generation through windmills (units)	10,41,367	16,48,290
2 Furnace Oil		
Quantity (Kilo litres)	5492	5327
Total Amount (Rs.)	5,61,96,748	5,53,45,174
Average Rate / Kilo litre (Rs.)	10,232	10,389
Consumption per unit of Production (Kwh per tonne)		
A. Strips & Tubes	192	196
B. Metal Form	862	991

Conservation of Energy

The energy conservation measures implemented during the year include optimisation of hot water generators, installation of new dip phosphating plants, streamlining the electrical distribution system, installation of variable speed drives, use of vapour absorption cooling system, provision of efficient lighting systems etc. Saving in energy consumption was also achieved on account of improvement in yield factor, increase in through-put capacity and overall improvement of equipment load factor. TI Cycles of India, Ambattur received the National Award for Energy Excellence from CII and Excellence Award from Enfuse for the year 2003.

Research and Development (R & D)

The Government recognised R & D Centre at Tube Products of India, Avadi continues to carry out its efforts for enhancing quality and productivity. Efforts were initiated for value engineering like tool life improvement, cost reduction etc.

Expenditure on R & D

	(Rs. in crores)
Capital Expenditure	0.47
Recurring	1.91
Total	1.96
Total R&D expenditure	
As a % of total turnover	0.15%

Technology absorption, adaptation and innovation

In tubes, improvements were made in manufacturing process technology to increase productivity and improve quality. Metallurgical studies enabled increase in productivity in the heat treatment area apart from delivering consistent quality. New generation testing equipment were installed to improve reliability of tubes used for safety critical applications. The absorption of technical know-how relating to manufacture of high precision tubes is in progress. In tubes and strips, product innovation enabled customers to use new products, resulting in cost savings and improved quality at their end. In metal forming, the capacity of doorframe assembly equipment in Chennai plant was enhanced by 50 per cent and one more imported roll forming line was commissioned. The technology for manufacture of doorframes imported during 1996 and 1998 is yielding benefit to the Company.

Foreign Exchange Earnings and Outgo

	Rs. in crores
i) Foreign Exchange Earnings (CIF Value)	88.87
ii) Foreign Exchange Outgo	54.35

On behalf of the Board

Chennai
9th June, 2004

M A Alagappan
Chairman

Information under Section 217 (2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975 and forming part of the Directors' Report for the year ended 31st March, 2004.

Name	Designation	Gross remuneration (Rs.)	Qualification &Experience (years in brackets)	Date of Commencement of Employment	Age	Last Employer	Last Designation
Hari G	President -TI Cycles	3,155,359	M.Tech. Fulbright Fellowship in Mgt. (22)	30.09.1996	44	TI Diamond Chain Ltd	Vice President
Shiva Prasad G	President - TPI	2,548,684	B.E.Elec (33)	26.10.1976	56	Shriram Refrigeration	Engineer (Maint)
Employed for part of the year							
K Chandrasekaran	General Manager (Group Corporate Communication)	12,77,792	B.A - English (26)	16.07.2001	53	Hyundai Motor India Ltd	Sr. Corporate Manager
Muthukumar Thanu	Vice President - HR	18,94,923	M.A.(Social Works) (20)	14.07.2003	46	Bharati Infotel Ltd	Vice President (HR)
S Rajappa	General Manager (Personnel)	1,902,382	B.Com., BGL, PGD, PM.IR.LW (36)	27.08.1997	55	SRF Limited	General Manager (ER)

1. Remuneration includes Salary, Allowances and Taxable Value of Perquisites and Company's Provident, Gratuity & Super Annuation Funds. Payments made under Voluntary Retirement have not been considered being a one time payment.
2. Nature of employment : The above employees were wholetime employees of the Company during the year ended 31st March, 2004 and the nature of their employment was contractual.
3. Conditions of employment provide for termination of service by either party upon giving 3 months notice.
4. None of the above employees is related to the Directors of the Company.
5. No employee of the Company is covered by the provisions of Section 217(2A)(a)(iii)

On behalf of the Board

Chennai
9th June, 2004

M A Alagappan
Chairman

Auditors' Report

To the Members of Tube Investments of India Limited

1. We have audited the attached Balance Sheet of Tube Investments of India Limited as at 31st March 2004 the Profit and Loss Account and also the Cash Flow Statement for the year ended on that date annexed thereto. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

2. We conducted our audit in accordance with Auditing Standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

3. As required by the Companies (Auditor's Report) Order, 2003 issued by the Central Government of India in terms of sub-section (4A) of Section 227 of the Companies Act, 1956, we enclose in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.

4. Further to our comments in the Annexure referred to in Paragraph 3 above, we report that:

(i) We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit;

(ii) In our opinion, proper books of account as required by law have been kept by the company so far as appears from our examination of those books;

(iii) The Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report are in agreement with the books of account;

(iv) In our opinion, the Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report comply with the accounting standards referred to in sub-section (3C) of Section 211 of the Companies Act, 1956;

(v) On the basis of written representations received from the directors, as on 31st March 2004, and taken on record by the Board of Directors, we report that none of the directors are disqualified as on 31st March 2004 from being appointed as a director in terms of clause (g) of sub-section (1) of Section 274 of the Companies Act, 1956;

(vi) In our opinion and to the best of our information and according to the explanations given to us, the said accounts give the information required by the Companies Act, 1956 in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:

(a) in the case of the Balance Sheet, of the state of affairs of the Company as at 31st March, 2004;

(b) in the case of the Profit and Loss Account, of the profit for the year ended on that date, and

(c) in the case of the Cash Flow Statement, of the cash flows for the year ended on that date.

For **Fraser & Ross**
Chartered Accountants

Chennai
9th June, 2004

Geetha Suryanarayanan
Partner
Membership No. 29519

Annexure to Auditors' Report

Annexure referred to in Paragraph 3 of our report of even date.

1. In respect of fixed assets:

   (a) The Company has maintained proper records showing full particulars including quantitative details and situation of fixed assets.

   (b) The fixed assets were physically verified in a phased manner by the management in accordance with a programme of verification which, in our opinion, is reasonable having regard to the size of the Company and the nature of its assets. According to the information and explanations given to us, no material discrepancies were noticed on such verification.

   (c) The Company has not sold / disposed off any significant portion of fixed assets during the year.

2. In respect of its inventories:

   (a) As explained to us, inventories were physically verified by the management at reasonable intervals.

   (b) In our opinion and according to the information and explanations given to us, the procedures of physical verification of inventories followed by the management were reasonable and adequate in relation to the size of the Company and the nature of its business.

   (c) In our opinion and according to the information and explanations given to us, the Company has maintained proper records of its inventory. The discrepancies noticed on physical verification between physical stock and book records were not material.

3. According to the information and explanations given to us, the Company has neither granted nor taken any loans, secured or unsecured to / from companies, firms or other parties covered in the register maintained under Section 301 of the Companies Act, 1956.

4. In our opinion and according to the information and explanations given to us, there are adequate internal control procedures commensurate with the size of the Company and nature of its business with regard to the purchases of inventory, fixed assets and with regard to the sale of goods. During the course of our audit, we have not observed any continuing failure to correct major weaknesses in internal controls.

5. a) According to the information and explanations given to us, we are of the opinion that the transactions that need to be entered into the register maintained under Section 301 of the Companies Act, 1956 have been so entered.

   b) In our opinion and according to the information and explanations given to us, the transactions made in pursuance of contracts or arrangements entered in the register maintained under Section 301 of the Companies Act, 1956 and exceeding the value of rupees five lakhs in respect of each party during the year have been made at prices which are reasonable having regard to prevailing market prices at the relevant time.

6. The Company has not accepted any deposits from the public during the year.

7. In our opinion, the Company has an internal audit system commensurate with the size and nature of the Company's business.

8. We have broadly reviewed the cost records maintained by the Company for bicycle, power generation and tubes, pursuant to the Rules made by the Central Government for the maintenance of cost records under section 209 (1)(d) of the Companies Act, 1956 and are of the opinion that prima facie the prescribed accounts and records have been made and maintained.

9. Statutory and other dues:

   a) According to the information and explanations given to us, the Company has been regular in depositing undisputed statutory dues including Provident Fund, Employee's State Insurance, Income Tax, Sales Tax, Wealth tax, Customs

Duty, Excise Duty, Cess and other statutory dues applicable to it with the appropriate authorities during the year.

b) According to the information and explanations given to us, no undisputed amounts payable in respect of Income Tax, Sales Tax, Wealth Tax, Customs Duty, Excise Duty and Cess were in arrears, as at 31st March 2004 for a period of more than six months from the date they became payable.

c) According to the information and explanations given to us, there are no dues of sales tax, income tax, customs duty, wealth tax, excise duty and cess which have not been deposited on account of any dispute except for

   i) the income tax dues referred to in Note No.1 (b) of Schedule 18 and

   ii) sales tax dues of Rs. 0.46 crores not deposited on account of stay of collection of demand obtained from various appellate authorities.

10. The Company does not have any accumulated losses at the end of the year. The Company has not incurred cash losses during the current and the immediately preceding financial year.

11. According to the information and explanations given to us by the management, the Company has not defaulted in repayment of dues to banks or debenture holders.

12. According to the information and explanations given to us and based on our examination of documents and records, we are of the opinion that no loans or advances have been granted by the Company on the basis of security by way of pledge of shares, debentures and other securities.

13. In our opinion, the Company is not a chit fund or a nidhi / mutual benefit fund / society. Therefore, the provisions of clause 4(xiii) of the Companies (Auditor's Report) Order, 2003 are not applicable to the Company.

14. In our opinion, the Company is not dealing in or trading in shares, securities, debentures and other investments. Accordingly, the provisions of clause 4(xiv) of the Companies (Auditor's Report) Order, 2003 are not applicable to the Company.

15. In our opinion and according to the information and explanations given to us the Company has not given any guarantee for loans taken by others from Banks and Financial Institutions during the year.

16. In our opinion, the term loans have been applied for the purpose for which they were raised.

17. According to the information and explanations given to us and on an overall examination of the balance sheet of the Company, we report that no funds raised on short-term basis have been used for long-term investment. No long-term funds have been used to finance short- term assets except permanent working capital.

18. The Company has not made preferential allotment of shares to parties and companies covered in the register maintained under section 301 of the Act.

19. The company has created securities in respect of debentures issued in earlier years.

20. The company has not raised any money by public issues during the year.

21. According to the information and explanations given to us, no fraud on or by the company was noticed or reported during the course of our audit.

For **Fraser & Ross**

Chartered Accountants

Chennai

9th June, 2004

Geetha Suryanarayanan

Partner

Membership No. 29519

Balance Sheet

as at 31st March, 2004

	Schedule	31.03.2004		31.03.2003	
		Rupees in Crores			
I. SOURCES OF FUNDS					
1. Shareholders' Funds					
(a) Share Capital	**1**	18.47		18.47	
(b) Reserves and Surplus	**2**	376.83		315.18	
			395.30		333.65
2. Loan Funds					
(a) Secured Loans	**3**	195.71		195.53	
(b) Unsecured Loans	**4**	19.93		66.67	
			215.64		262.20
3. Deferred Tax Liability			36.95		38.75
			647.89		**634.60**
II. APPLICATION OF FUNDS					
1. Fixed Assets	**5**				
Gross Block		432.30		406.08	
Less : Depreciation		206.65		180.75	
(a) Net Block		225.65		225.33	
(b) Capital Work-in-Progress at Cost		13.66		2.93	
			239.31		228.26
2. Investments	**6**		204.17		174.55
3. Deferred Tax Asset			5.16		6.77
4. Current Assets, Loans and Advances					
(a) Inventories	**7**	105.47		97.11	
(b) Sundry Debtors	**8**	243.03		259.41	
(c) Cash and Bank Balances	**9**	35.91		31.14	
(d) Loans and Advances	**10**	56.36		62.12	
			440.77		449.78
Less: Current Liabilities and Provisions	**11**		262.95		256.46
Net Current Assets			**177.82**		**193.32**
5. Deferred Revenue Expenditure	**12**		21.43		31.70
			647.89		**634.60**
Significant Accounting Policies	**17**				
Notes on Accounts	**18**				

This is the Balance Sheet referred to in our Report of even date

For **Fraser & Ross**
Chartered Accountants

Geetha Suryanarayanan
Partner

On behalf of the Board

M A Alagappan
Chairman

Chennai
9th June, 2004

S Suresh
Company Secretary

K Balasubramanian
Chief Financial Officer

Adhiraj Sarin
Managing Director

Profit and Loss Account

for the year ended 31st March, 2004

Rupees in Crores

	Schedule	2003-04	2002-03
Income			
Sales and Processing charges		1257.34	1197.13
Less : Excise duty on sales		100.26	110.56
Net Sales and Processing charges		1157.08	1086.57
Other Income	**13**	26.98	15.48
		1184.06	**1102.05**
Expenditure			
Raw Material Consumed		727.62	657.54
(Accretion)/Decretion to Stock	**14**	4.33	(0.94)
Employee Cost	**15**	86.15	71.00
Other Costs	**16**	243.33	268.63
Depreciation		29.60	28.17
Interest on - Fixed Loan		4.93	8.96
- Others		7.56	6.24
		12.49	15.20
		1103.52	**1039.60**
Profit before Tax before non recurring item		**80.54**	**62.45**
Non recurring item - Refer note 5 of Schedule 18		24.76	–
Profit Before Tax		**105.30**	**62.45**
Provision for Taxation - Current Tax		23.00	20.40
- Deferred Tax (net)		(0.19)	(3.84)
		22.81	16.56
Profit After Tax		**82.49**	**45.89**
Add : Unappropriated Profit from Previous Year		53.26	42.12
Profit Available for Appropriation		**135.75**	**88.01**
Transfers to :			
General Reserve		25.00	16.00
Dividend Proposed - Final @ 100% (Previous year 90%)		18.47	16.62
Dividend Tax thereon		2.37	2.13
		45.84	34.75
Balance carried over to Balance Sheet		**89.91**	**53.26**
Earnings per Share of Rs. 10/- each (Basic / Diluted)- Rs. per share		**44.66**	**19.46**
Significant Accounting Policies	**17**		
Notes on Accounts	**18**		

This is the Profit and Loss Account referred to in our Report of even date

For **Fraser & Ross**
Chartered Accountants

Geetha Suryanarayanan
Partner

On behalf of the Board

M A Alagappan
Chairman

Chennai
9th June, 2004

S Suresh
Company Secretary

K Balasubramanian
Chief Financial Officer

Adhiraj Sarin
Managing Director

Cash Flow Statement

for the year ended 31st March, 2004

Rupees in Crores

	2003-04	2002-03
A. Cash flow from operating activities		
Net Profit Before Tax	**105.30**	**62.45**
Adjustments for :		
Depreciation	29.60	28.17
Interest and finance charges	12.49	15.20
(Profit) / Loss on sale of assets	(10.16)	(1.48)
Provision for doubtful debts and advances	2.38	4.07
Bad debts written off	0.46	–
(Profit) / Loss on sale of investments	20.40	(0.63)
Assets written off	–	4.18
Provision no longer required for investments / doubtful debts	(0.41)	(0.16)
Interest received	(0.94)	(1.13)
Dividend income	(29.12)	(9.07)
Deferred revenue expenditure - payment during the year	(2.31)	(10.81)
Deferred revenue expenditure - charge during the year	12.58	12.07
Operating profit before working capital changes	**140.27**	**102.86**
Adjustments for :		
Trade and other receivables	18.29	(32.50)
Inventories	(8.80)	(12.32)
Trade payables	6.33	43.86
Cash generated from operations	**156.09**	**101.90**
Direct taxes paid	(22.49)	(22.51)
Cash flow from operating activities	**133.60**	**79.39**
B. Cash flow from investing activities		
Purchase of fixed assets (Including capital work in progress)	(42.29)	(19.58)
Sale of fixed assets	12.24	6.60
Purchase of investments	(53.55)	(88.85)
Sale of investments	3.82	8.45
Dividend received	29.12	8.13
Interest received	1.56	0.76
Net cash used in investing activities	**(49.10)**	**(84.49)**
C. Cash flow from financing activities		
Borrowings	82.44	108.06
Repayments on borrowings	(129.00)	(20.14)
Dividends paid	(18.75)	(13.48)
Interest paid	(14.42)	(13.85)
Buyback of Shares	–	(61.50)
Net cash used in financing activities	**(79.73)**	**(0.91)**
Net increase in cash and cash equivalents	**4.77**	**(6.01)**
Cash and cash equivalents at the beginning of the year	**31.14**	**37.15**
Cash and cash equivalents as at end of the year	**35.91**	**31.14**

This is the Cash Flow Statement referred to in our Report of even date

For **Fraser & Ross**
Chartered Accountants

Geetha Suryanarayanan
Partner

On behalf of the Board

M A Alagappan
Chairman

Chennai
9th June, 2004

S Suresh
Company Secretary

K Balasubramanian
Chief Financial Officer

Adhiraj Sarin
Managing Director

Rupees in Crores

SCHEDULE 1

	31.03.2004	31.03.2003
SHARE CAPITAL		
Authorised		
3,40,00,000 Equity Shares of Rs.10 each	34.00	34.00
Issued, Subscribed and Paid-up		
2,46,23,076 Equity Shares of Rs.10 each fully paid up	24.62	24.62
Of the above 10,78,910 shares were issued for consideration other than cash and 88,39,102 shares were issued as bonus shares by capitalisation of reserves.		
Less: Shares bought back		
61,50,386 shares of Rs. 10 each have been bought back at a price of Rs. 100 per share from the shareholders pursuant to the offer for buy-back of shares.	6.15	6.15
1,84,72,690 Equity Shares of Rs. 10 each fully paid up	**18.47**	**18.47**

SCHEDULE 2

RESERVES AND SURPLUS	31.03.2003	Additions	Deductions	31.03.2004
Capital Reserve	0.27	–	–	0.27
Securities Premium	139.69	–	–	139.69
Capital Redemption Reserve	6.15	–	–	6.15
Debenture Redemption Reserve	15.41	–	–	15.41
General Reserve	100.40	25.00	–	125.40
	261.92	**25.00**	**–**	**286.92**
Profit & Loss Account balance	53.26			89.91
Total Reserves	**315.18**			**376.83**

SCHEDULE 3

SECURED LOANS	31.03.2004	31.03.2003
Non convertible debentures (Privately Placed)		
(i) 12.15 % Debentures	–	12.50
(ii) 11.90 % Debentures	–	20.00
(iii) 6.40 % Debentures	40.00	40.00
	40.00	72.50
Loans and Advances from		
Banks		
Foreign currency term loan	61.03	11.03
Rupee term Loan	–	50.00
Cash credit and other borrowings	94.26	61.58
Others	0.42	0.42
	195.71	**195.53**

(1) The debentures are redeemable at par on the following basis:
6.40 % Debentures in December 2005, with a put and call option in December 2004.

(2) Privately placed debentures and term Loans are secured by a pari-passu first charge on the immovable (excluding properties situated in the city of Chennai) and movable properties of the Company, excluding current assets of the Company.

(3) Cash credit from banks, which includes foreign currency borrowing of Rs. 78.12 Cr. (Previous year Rs. 7.74 Cr.) is secured by a first charge on inventories and book debts and pari-passu second charge on immovable properties (excluding properties situated in the city of Chennai).

(4) Rupee term loan of Rs. 50 Cr. bearing an interest rate of 10% has been substituted with a 5.95% foreign currency term loan.

(5) Other term loan is secured by a charge on immovable properties situated in the city of Mohali.

Rupees in Crores

	31.03.2004	31.03.2003
SCHEDULE 4		
UNSECURED LOANS		
Loans and advances from Subsidiary		
- Teeaye Investments Ltd.	–	14.50
Short Term Loans and Advances from Bank	–	12.00
Other Loans & Advances		
- Foreign Currency loan	0.74	4.74
- Sales Tax Deferral	19.19	15.43
- Commercial Paper	–	20.00
Maximum amount outstanding during the year Rs. 45 Cr. (Previous year Rs. 85 Cr.)		
	19.93	**66.67**
Repayable within one year	0.74	51.24

SCHEDULE 5

FIXED ASSETS

	Land (Freehold)	Buildings	Plant & Machinery	Railway Siding	Furniture & Fixtures	Vehicles	31.03.2004	31.03.2003
Gross Block at cost								
As at 31.03.2003	8.60	62.04	322.18	0.15	8.43	4.68	406.08	418.72
Additions	0.86	0.62	28.41	0.06	0.74	0.87	31.56	18.83
Disposals	0.01	0.27	3.08	–	1.61	0.37	5.34	31.47
As at 31.03.2004	**9.45**	**62.39**	**347.51**	**0.21**	**7.56**	**5.18**	**432.30**	**406.08**
Depreciation								
As at 31.03.2003	–	14.67	159.42	0.04	5.58	1.04	180.75	175.46
Additions	–	1.96	26.32	0.02	0.84	0.46	29.60	28.17
Disposals	–	0.07	2.42	–	1.04	0.17	3.70	22.88
As at 31.03.2004	**–**	**16.56**	**183.32**	**0.06**	**5.38**	**1.33**	**206.65**	**180.75**
Net Block as at 31.03.2004	**9.45**	**45.83**	**164.19**	**0.15**	**2.18**	**3.85**	**225.65**	**225.33**
Net Block as at 31.03.2003	**8.60**	**47.37**	**162.76**	**0.11**	**2.85**	**3.64**	**225.33**	

Disposals include Plant & Machinery held for sale of the written down value of Rs. Nil (Previous year Rs. 4.06 Cr.) transferred to inventories.

SCHEDULE 6

INVESTMENTS

	Nominal Value (Rs.)/ Unit	Number 31.03.2003	Number Additions	Number Deletions	Number 31.03.2004	Value (Rupees in Crores) 31.03.2003	Value (Rupees in Crores) Additions	Value (Rupees in Crores) Deletions	Value (Rupees in Crores) 31.03.2004
Investments - Long Term (At Cost)									
Government of India Securities		–	–	–	–	0.10	–	0.01	0.09
Trade Investments									
Equity Shares (Fully paid) - Unquoted									
Subsidiary Companies :									
TI Diamond Chain Ltd.	10	3060240	3051400	–	6111640	22.58	32.04	–	54.62
Teeaye Investments Ltd.	10	24320000	–	24320000	–	24.32	–	24.32	–
Cholamandalam MS General Insurance Co. Ltd.	10	78750000	–	–	78750000	78.75	–	–	78.75
Others :									
Murugappa Management Services Ltd.	100	22315	–	–	22315	0.22	–	–	0.22
TI Cycles of India Co-op Canteen Ltd.	5	50	–	–	50	–	–	–	–
(Shares-Cost - Rs.250)									
Non-Trade Investments									
Preference Shares (Fully paid) - Unquoted									
New Ambadi Estates (P) Ltd.	100	200000	–	–	200000	2.00	–	–	2.00
Equity Shares (Fully paid) - Unquoted									
Indo Oceanic Shipping Co. Ltd. (Cost Re. 1)	10	50000	–	–	50000	–	–	–	–
Bombay Mercantile Co-op. Ltd.	10	500	–	–	500	–	–	–	–
Parry Engineering & Exports Ltd.	10	127365	–	–	127365	0.04	–	–	0.04
Cholamandalam Factoring Ltd.	10	6500	–	–	6500	0.01	–	–	0.01
MEL Systems & Services Ltd.	10	50000	–	–	50000	0.05	–	–	0.05
Total - Unquoted						**128.07**	**32.04**	**24.33**	**135.78**

SCHEDULE 6 (Contd.)

	Nominal	Number				Value (Rupees in Crores)			
	Value (Rs.)/ Unit	31.03.2003	Additions	Deletions	31.03.2004	31.03.2003	Additions	Deletions	31.03.2004
Non-Trade Investments									
Equity Shares (Fully paid) - Quoted									
Carborundum Universal Ltd	10	200	–	–	200	–	–	–	–
ICICI Bank Ltd.	10	11250	–	–	11250	0.03	–	–	0.03
Parrys Confectionery Ltd.	10	131747	–	–	131747	0.88	–	–	0.88
Kartik Investments Trust Ltd.	10	29240	–	–	29240	0.03	–	–	0.03
Cholamandalam Investment & Finance Co. Ltd.	10	7506717	4787755	–	12294472	37.11	16.76	–	53.87
Coromandel Engg. Co. Ltd.	10	42919	–	–	42919	0.04	–	–	0.04
Parry Agro Industries Ltd.	10	181431	–	–	181431	1.34	–	–	1.34
Mahindra and Mahindra Ltd.	10	1000000	–	–	1000000	6.93	–	–	6.93
Others									
Units									
GIC Fortune - 94	10	500000	–	–	500000	0.50	–	–	0.50
Chola Liquid Plan	10	–	3703043	–	3703043	–	4.75	–	4.75
Grindlays Floating Rate Fund	10	408	–	408	–	–	–	–	–
Chola Dividend Institutional Plan	10	9494	–	9494	–	0.01	–	0.01	–
Chola Triple Ace Bonus Plan #	10	601744	–	601744	–	–	–	–	–
HDFC Liquid Fund	10	2535	–	–	2535	0.01	–	–	0.01
UTI Master Gain	10	3200	–	900	2300	0.01	–	–	0.01
Total - Quoted						**46.89**	**21.51**	**0.01**	**68.39**
Total Long term						**174.96**	**53.55**	**24.34**	**204.17**
Less : Provision for diminution						0.41	–	0.41	–
Net Investments						**174.55**	**53.55**	**23.93**	**204.17**

	Cost	Market Value
Quoted	68.39	129.84
Unquoted	135.78	
Total	**204.17**	

Bonus units allotted during the previous year

Rupees in Crores

SCHEDULE 7

	31.03.2004	31.03.2003
INVENTORIES (at lower of cost and net realisable value)		
Raw Materials	56.47	41.99
Work - in - Process	20.25	17.58
Finished Goods	20.32	27.32
Stores and Spare Parts	5.71	6.82
Materials - in - transit	2.59	2.83
Fixed Assets held for sale	0.13	0.57
	105.47	**97.11**

SCHEDULE 8

SUNDRY DEBTORS (Unsecured)	**31.03.2004**	**31.03.2003**
Outstanding for over six months		
Considered good	5.99	11.75
Considered doubtful	7.41	6.29
	13.40	18.04
Others Considered good	237.04	247.66
	250.44	265.70
Less : Provision for doubtful debts	7.41	6.29
	243.03	**259.41**

SCHEDULE 9

CASH AND BANK BALANCES	**31.03.2004**	**31.03.2003**
Cash and cheques on hand	0.08	0.13
With Scheduled Banks		
- Current Account	35.48	30.66
- Dividend Account	0.35	0.35
	35.83	31.01
	35.91	**31.14**

Rupees in Crores

	31.03.2004		31.03.2003	
SCHEDULE 10				
LOANS AND ADVANCES				
Advances recoverable in cash or in kind or for value to be received				
Secured - considered good		–		2.98
Unsecured - considered good		30.56		29.84
Due from Subsidiaries				
TI Diamond Ltd. ($)		1.36		–
Cholamandalam MS General Insurance Company Ltd. (%)		0.03		0.46
Due from Officer (*)		–		0.44
Sundry deposits		5.32		5.97
Balance with Customs and Central Excise authorities		4.06		6.99
Advance Tax paid	109.52		86.90	
Less : Provision for Taxation	94.49		71.46	
		15.03		15.44
		56.36		**62.12**
$ Maximum amount due at any time during the year		2.37		–
% Maximum amount due at any time during the year		0.46		0.46
* Maximum amount due at any time during the year		0.44		0.44

SCHEDULE 11

CURRENT LIABILITIES AND PROVISIONS	31.03.2004		31.03.2003	
Current Liabilities				
Sundry Creditors				
- Due to Small Scale Industrial Units #	32.08		6.00	
- Others	139.71		138.04	
		171.79		144.04
Interest accrued but not due		1.25		3.18
Other liabilities		68.10		78.62
Due to Subsidiary company - Teeaye Investments Ltd.		–		10.96
Due to Directors		0.61		0.52
Unclaimed Dividends		0.35		0.35
Unclaimed Deposits		–		0.02
Unclaimed Debentures		0.01		0.02
		242.11		237.71
Provisions				
Dividend - Proposed - Final	18.47		16.62	
Dividend Tax	2.37		2.13	
		20.84		18.75
		262.95		**256.46**
# Refer Note 3 of Schedule 18				
Amount to be credited to Investor Education and Protection Fund towards:				
Unpaid Dividends, Unpaid Matured Deposits & Unpaid Matured Debentures		NIL		NIL

SCHEDULE 12

DEFERRED REVENUE EXPENDITURE

		During the year		
	31.03.2003	Incurred	Amortised	31.03.2004
Voluntary Retirement Scheme	28.99	2.31	10.19	21.11
ERP Expenses	2.47	–	2.15	0.32
Others	0.24	–	0.24	–
	31.70	**2.31**	**12.58**	**21.43**

Rupees in Crores

SCHEDULE 13

OTHER INCOME	2003-04	2002-03
Dividend (*)		
– Trade	0.15	1.33
– Non Trade	6.96	7.63
– Others	22.01	0.11
	29.12	9.07
Interest income *	0.94	1.13
Royalty income	0.62	0.64
Profit / (Loss) on sale of assets (net)	10.16	1.48
Profit / (Loss) on sale of investments (net)		
– Trade	2.09	–
– Others	(22.49)	(2.98)
Less: Transfer from Investment Fluctuation Reserve	–	3.61
	(20.40)	0.63
Exchange fluctuation on loans	3.20	–
Miscellaneous Income (&)	3.34	2.53
	26.98	15.48
* Includes Tax deducted at source - Interest	0.13	–
* Includes Tax deducted at source - Dividend	–	0.94
& Includes provision no longer required for diminution in value of investments written back and doubtful debts	0.41	0.16

SCHEDULE 14

(ACCRETION) / DECRETION TO STOCK	2003-04	2002-03
Commencing Stock		
Work-in-Process	17.58	19.90
Finished Stock	27.32	24.06
	44.90	43.96
Closing Stock		
Work-in-Process	20.25	17.58
Finished Stock	20.32	27.32
	40.57	44.90
	4.33	**(0.94)**

SCHEDULE 15

EMPLOYEE COST *	2003-04	2002-03
Salaries, Wages and Bonus	49.02	44.96
Contribution to Provident and Other Funds #	20.31	10.33
Welfare Expenses	6.63	6.02
Charge under Voluntary Retirement Scheme	10.19	9.69
	86.15	**71.00**
* Net of recoveries from other companies	0.05	0.04
# Refer note 6 of Schedule 18		

Rupees in Crores

SCHEDULE 16

OTHER COSTS

	2003-04	2002-03
Consumption of Stores and Spares	44.96	39.08
Freight and Carriage inwards	8.07	9.68
Sub contract charges	7.71	39.74
Power and Fuel	35.25	35.21
Rent	2.91	1.73
Rates and Taxes	11.38	13.06
Insurance	1.81	1.65
Repairs to Buildings	0.42	1.16
Repairs to Machinery	12.69	12.80
Travel and Conveyance	7.28	6.17
Printing, Stationery and Communication	3.93	4.57
Freight, Delivery and Shipping Charges	42.46	37.82
Discounts / Incentives on sales	21.03	19.85
Advertisement and Publicity	15.02	16.19
Bad debts /advances written off	1.72	2.60
Less : Provision released	1.26	2.60
	0.46	–
Provision for doubtful debts	2.38	4.07
Auditors' remuneration	0.16	0.14
Directors' remuneration (Including Managing Director's remuneration)	1.78	1.21
General Manufacturing, Selling & Administrative expenses	23.63	24.50
	243.33	**268.63**
Power and fuel includes Stores consumed	19.90	20.28
Power and fuel is net of Windmill generated power	0.57	0.78
Director’s remuneration includes sitting fees	0.04	0.03

SCHEDULE 17

I. SIGNIFICANT ACCOUNTING POLICIES

1. The accounts are prepared on accrual basis under the historical cost convention in accordance with Indian Generally Accepted Accounting Principles (GAAP) comprising the mandatory accounting standards issued by the Institute of Chartered Accountants of India and the provisions of the Companies Act, 1956.

2. **Fixed Assets and Depreciation**

   a. All assets are stated at cost (net of CENVAT wherever applicable).

   b. Borrowing costs are capitalised as part of qualifying fixed assets. Other borrowing costs are expensed.

   c. Fixed Assets taken on financial leases, prior to 1st April, 2001, are not capitalised and lease rentals are absorbed in the Profit and Loss Account.

   d. Exchange differences arising out of foreign currency loans utilised for fixed assets are adjusted in the cost of the relevant asset.

   e. Depreciation on assets, other than special tools and special purpose machines used in Door Frame projects and Furniture and Fixtures, is provided under Straight Line method at the rates specified under Schedule XIV of the Companies Act, 1956. Special tools and special purpose machines used in Door Frame projects are depreciated over four years and Furniture and Fixtures are depreciated over five years, on the basis of the management’s evaluation of the useful life of the assets, which results in depreciation being charged at rates higher than those specified under Schedule XIV of the Companies Act, 1956.

   f. Individual assets whose actual cost does not exceed Rs. 5000/- are fully depreciated.

   g. Based on technical opinion windmill is considered as a continuous process plant and depreciation is provided at the rate applicable thereto.

   h. Fixed assets held for sale are valued at lower of cost or net realisable value

SCHEDULE 17 (Contd.)

3. Investments- Long Term
Investments are stated at cost. Diminution in the value of investments, other than temporary, is provided for.

4. Inventories

a. Raw materials, stores and spare parts are valued at lower of weighted average cost and net realisable value. Cost includes freight, taxes and duties and is net of credit under CENVAT scheme.

b. Work-in-Process, finished goods and scrap held for disposal are valued at lower of cost and net realisable value. Cost includes all direct costs and applicable production overheads to bring the goods to the present location and condition.

5. Revenue Recognition

a. All income and expenses are accounted for on accrual basis.

b. Sales are inclusive of excise duty. Export sales are accounted at CIF Value.

c. Export benefits are accounted for on accrual basis.

d. Dividend Income on Investments is accounted for when the right to receive the payment is established.

e. Non-recurring revenue expenditure incurred during the year is charged to Profit and Loss account.

6. Retirement Benefits

a. The Group Gratuity Scheme with Life Insurance Corporation of India covers liability towards Gratuity in respect of eligible employees and annual contribution as advised by them, based on actuarial principles as at balance sheet, is remitted.

b. Contributions to Superannuation Scheme in respect of the employees are covered by the defined contribution scheme.

c. Monthly contributions to recognised Provident Funds are considered in the accounts.

d. Leave encashment benefit on retirement to eligible employees is actuarially ascertained as at balance sheet and provided for.

7. Foreign Currency Transactions
Foreign currency assets and liabilities covered by forward contracts/derivatives are stated at the contracted rates, while those not covered by contracts are restated at rates prevailing at the Balance Sheet date. Exchange differences arising on foreign currency transactions are recognised under appropriate heads at the rates prevailing on the date of the transaction, other than those relating to fixed assets.

8. Research and Development
Revenue expenditure incurred on research and development is absorbed when incurred. Capital expenditure incurred on research and development is depreciated as per Schedule XIV of the Companies Act, 1956 under straight-line method.

9. Income Tax
Income Tax comprises of the current tax provision and the net change in the deferred tax asset or liability during the year. Deferred tax assets and deferred tax liabilities are recognised for the future tax consequences of timing differences between the carrying values of the assets and liabilities and their respective tax bases using enacted or substantially enacted tax rates. Deferred tax assets are recognised only if there is a virtual certainty that they can be realised.

10. Deferred Revenue Expenditure

a) Payment of compensation to employees under Voluntary Retirement Scheme is amortised over a period of five years commencing from the year of payment.

b) Non-recurring revenue expenditure incurred in earlier years yielding benefit beyond the accounting year is amortised over the period during which the benefit is expected to endure.

SCHEDULE 18

NOTES ON ACCOUNTS

A. Balance Sheet

Rupees in Crores

1. Contingent Liabilities

	2003-04	**2002-03**
a) Estimated amount of contracts remaining to be executed on capital account and not provided for (including capital commitment)	38.54	5.81
b) Disputed Income-tax demand under appeal pending before various appellate authorities. These amounts are fully deposited except for Rs. 8.30 Cr., of which Rs. 8.05 Cr. being demands received subsequent to the balance sheet date. The management is of the opinion that these demands are not sustainable.	23.13	13.57

SCHEDULE 18 (Contd.)

2. **Investments**

   a. Teeaye Investments, a 100% subsidiary went into members' voluntary liquidation in 2002-03 and the liquidation formalities have been completed during the year.

   b. TI Diamond Chain Limited has become a subsidiary in March 2004 and share holding in the company stands increased to 99.68% from 49.91%.

3. Dues to Small Scale Industrial Undertaking Units of Rs. 32.08 Cr. (Previous year Rs.6.00 Cr.) are on the basis of such parties having been identified from available information. The name wise details as on 31.03.2004 to parties exceeding 30 days (but within the normal credit period) are given below:

   Nithya Industries, Sai Industries, Vishalakshi Industries, Sri Vasa Enterprises, Ortey Engineering, H.K. Wire Products (P) Ltd., Jayant Packaging P Ltd, R K M Industries, Shree Hanuman Industries , Concord Coatings, Exact Enterprises, Prime Industrial Screens, Ghaison International, Govind Rubber Ltd, Harjit & Co, Vinaayakram Plastics., J V M Enterprises, Karam Chand Rubber Industries P Ltd, Kun-Chem Pre treatments Pvt.Ltd, Mahalakshmi Industries , S.R.Cycle Industries, Precision Engg Tools & Comp, Popular Printers, Piyush Automobiles, Rachna Industries, Swarn & Company, Iravati Industries, Shant Seekar Enterprises, Sovereign Industries, Wasthick Trading Company , Tushar Engineers, Techrome Corporation, Futuro Components (P) Ltd, Sainsons, A.R. Industries, Vishivkarma Industries P Ltd, Watson Engineering Works, Western Pressed Components, Western Rubber Products, Ravi Industries, Thirumala Press Components P Ltd, Rajindra Engineers (India), Dewan Enterprises Ltd, Raghavendra Enter Prises, Sri Ram Cold Forgings, S.L.S. Packaging, United Industries, Eagle Plastic Industries, Joginder Singh Tejvinder Singh, Gaurav Industrial Corpn., Indshox (P) Ltd., B.B. Brothers, Sivasakthi Offset Printers, Jagdish Industries, Margo Fastners, Surindera Cycles Ltd, Arihant Corporation, Dee Pee Engineering, Screen-Tech, Meenakshi Engineering Works, Meenakshi Sewing Mart, Shree Balaji Plastic Industries, Jiwan Udyog, Srinivasa Cartons & Containers (P) Ltd., Rothman Cycles {P} Ltd., Jyothi Enterprises, Ason Industries, Cute Cycles (P) Ltd., Amrit Metal Industries, Sood Industries., Five Star Coating Chemicals (I) P.Ltd., Partap Engineers, Sunder Sham Industries, S.V.L Enterprises, Satya Industries (P) Ltd, We Will Engineering Industries, Hartex Rubber Limited, Tushar Bikes, Flying Stag Bikes Pvt. Ltd., Acey Engineering Industries, Sree Avudaiyar Industries, Rolex Cycles Pvt Ltd, S.P. Engineers & Fabricators, Super Packaging, Fit Right Engineers, Maha Classic Paints, Karam Chand Chains Ltd., P.C. Chadha & Co.,Libra Steels, Durano Process, K.V.Kapoor Industries., Tara Packaging Industries., Copper Semis Ltd., Classic Cartons, Premium Coatings & Chemicals (P) Ltd., Auto Cables Industries, Primus Engineering Ind., Margo Polypack., Masco Cycle Industries (Regd.), Vijay Wheels (P) Ltd., Push-Kar Cycle Products, Om Shivam Cycle's, Ace Industrial Gases (P) Ltd, T R B Engineers, Immanuel Industries., Kayson Cycles, Appu International, Tvashta Engineering P. Ltd., Cascy Forge Products, Man Singh & Sons, Gearcase India, D.S.K.Paper Tubes & Containers, Young Industrial Corporation, Viruthyaa Enterprises, Sun Mig Industries, Margo (Export) International, K.Cone Products, Update Prints (India), Kay Klassics, Prominent Forgings P Ltd, G.C.Enterprises, Ridemaster Rims Pvt Ltd, Belmaks Metal Works, Jenrus Metal Industries Pvt.Ltd, Braze And Weld Products, Nilaks Nova Private Limited, Cyclecomps, Amrit Industries, Chandigarh Ispat, Barani Enterprises Private Ltd, Sigma Industries, Gobind Cycles (Private) Limited, G.G Cycle Industries, Prince Industrial Corporation, Vishivkarma Bikes, Kanwal Engineering Works, Tushar Engineers, S.S Pressings, Hyderabad Ammonia & Chemicals Pvt. Ltd, Matharoo & Matharoo Inc, D.B.Engineering Pvt. Ltd, Bst Sayona Web Controls Ltd, Itl Industries Ltd, Pugalia Wollen Felt Mills Pvt. Ltd, K.Dhandapani & Co Ltd, Premier Felt Manufacturing Co, Mekuba Petroleum India Pvt. Ltd, Precitech Industries, Phoenix Rubbers, Tpm Engineers, Deccan Pneumatics & Hydraulics, Arun Engineers, Elangovan Electrical Services, Technofour Control Systems, Amalgamated Engineers Pvt. Ltd, Anti Corrosive Equipment, Floport Valves Pvt. Ltd, Eskent Tools Pvt. Ltd, Continental Thermal Engineers, Consel India Marketing Services , Chor Chem.

B. Profit & Loss Account

4. Pursuant to the Accounting standard - AS 26 regarding accounting of intangible assets coming into force on 1st April, 2003, certain non-recurring revenue expenditure incurred during the year and yielding benefit beyond the accounting year, which were hitherto amortised are being charged to the profit and loss account. Consequently the profit is lower by Rs. 0.68 Cr.

5. Non recurring item represent Rs.24.76 Cr. being the premium realised on the renunciation of rights to subscribe 2,77,20,000 equity shares of Rs. 10 each in Cholamandalam MS General Insurance Company Limited.

6. Additional contribution of Rs. 14.04 Cr. was made to Life Insurance Corporation of India for past services arising from the change over of the superannuation scheme from the defined benefit scheme to defined contribution scheme with effect from 1st August, 2003.

7. General Manufacturing, Selling and Administration expenses include:

   (a) Contribution to A M M Murugappa Chettiar Research Centre Rs.0.20 Cr.(Previous year Rs. 0.16 Cr.)

   (b) Contribution to A M M Foundation Rs.0.39 Cr. (Previous year Rs. 0.33 Cr.)

   (c) Write down of Fixed assets on retirement from active use – Rs Nil (Previous year Rs 4.18 Cr.)

SCHEDULE 18 (Contd.)

Rupees in Crores

8. Deferred tax movement

Nature - (Asset)/Liability	01.04.2003	Deferred Tax For the year	31.03.2004
Timing differences on account of			
Depreciation	37.85	(0.90)	36.95
Deferred Revenue Expenses	0.90	(1.01)	(0.11)
Doubtful debts/advances	(2.16)	(0.21)	(2.37)
Others	(0.92)	(0.17)	(1.09)
Loss under Capital Gains	(3.69)	2.10	(1.59)
Total	**31.98**	**(0.19)**	**31.79**

9. Payment to Auditors

	2003-04	2002-03
Audit fees	0.09	0.08
Tax audit and other certification	0.05	0.04
Expenses	0.02	0.02
Total	**0.16**	**0.14**

10. (a) Consumption of raw materials

	%	2003-04	%	2002-03
Imported	4.28	33.08	3.53	24.71
Indigenous	95.72	739.03	96.47	676.10
	100.00	772.11	100.00	700.81

Scrap sales of Rs. 44.49 Cr. (Previous year Rs. 43.27 Cr.) have been deducted from consumption of Raw Materials.

(b) Consumption of stores and spares

	%	2003-04	%	2002-03
Imported	0.99	0.64	1.16	0.69
Indigenous	99.01	64.22	98.84	58.67
	100.00	64.86	100.00	59.36

11. Value of imports on CIF basis

	2003-04	2002-03
1. Raw materials	34.70	20.84
2. Stores and Spare Parts	1.17	0.73
3. Capital Goods	9.99	1.13
	45.86	**22.70**

12. Earnings in foreign exchange

	2003-04	2002-03
FOB Value of Exports	82.65	52.89

SCHEDULE 18 (Contd.)

Rupees in Crores

13. Amount remitted in foreign currency on account of dividend payment to Non Resident shareholder

	2003-04	2002-03
Dividend –Rs. in Crores	0.005	0.003
Number of non-resident shareholders	1	1
Number of shares held	5670	5670
Year for which dividend remitted	2002-03	2001-2002
Final	2002-03	2001-2002

14. Expenditure in foreign currency

	2003-04	2002-03
1. Travel	0.45	0.40
2. Technical know-how	0.30	0.13
3. Interest on Foreign Currency Loans	0.31	0.51
4. Royalty	0.87	0.51
5. Others	1.81	1.03
Total	**3.74**	**2.58**

15. Directors' remuneration

	2003-04	2002-03
a) Managing Directors' Remuneration		
Salaries & Allowances	0.42	0.31
PF, Gratuity & Superannuation	0.08	0.07
Perquisites	0.09	0.10
	0.59	**0.48**
Commission	0.24	0.21
	0.83	**0.69**
b) Executive Chairman's Remuneration		
Salaries & Allowances	0.45	0.13
PF, Gratuity & Superannuation	0.08	0.03
Perquisites	0.01	0.02
	0.54	**0.18**
Commission	0.26	0.20
	0.80	**0.38**
c) Commission to Non-Whole time directors	0.11	0.11
d) Directors' sitting fees	0.04	0.03
Directors' remuneration	**1.78**	**1.21**
Profit after tax as per Profit and Loss Account	**82.49**	**45.89**
Add: Provision for taxation	22.81	16.56
Director's remuneration	1.78	1.21
Loss on sale of investments	20.40	–
Less: Profit on sale of Investments	–	0.63
Profit on sale of assets as per books	9.87	2.49
Non-recurring item	24.76	–
Profit as per Section 349 of the Companies Act, 1956	**92.85**	**60.54**
Commission at 1% thereof	**0.93**	**0.61**
Commission to Managing Directors restricted to	0.24	0.21
Commission to Executive Chairman - restricted to	0.26	0.20
Commission to Non-Whole time Directors - restricted to	0.11	0.11
Total Commission	**0.61**	**0.52**

SCHEDULE 18 (Contd.)

16. Quantitative Particulars

I. Capacities, Production, Turnover and Stocks **Rupees in Crores**

Class of goods	Unit	Installed Capacity	Production	Opening stock	Closing stock	Turnover (Net of excise) Quantity	Value
Cycles/components	Nos.	5590000	2933808	57133	73334	2917607	466.93
		(4540000)	(2918463)	(42854)	(57133)	(2904184)	(443.42)
ERW/CDW tubes	Tons	126850	97510	5041	2348	100203	392.88
		(116550)	(122978)	(3297)	(5041)	(121234)	(411.24)
Cold Rolled strips	Tons	100120	89239	228	283	89184	245.28
		(100120)	(77004)	(365)	(228)	(77141)	(189.48)
Metal Formed Products	Tons	5391	2963	40	43	2960	51.42
		(3826)	(2103)	(6)	(40)	(2069)	(35.88)
Bicycle lamps (*)	Nos.	–	–	–	–	–	–
			(185371)	(4000)		(189371)	(5.62)
Conversion charges							0.57
							(0.93)
Total							**1157.08**
							(1086.57)

*The company discontinued manufacture of bicycle lamps w.e.f. 30th September, 2002.

Figures in brackets are for previous year.

Installed capacity is as certified by the management

Turnover & Production is exclusive of captive and inter-unit transfers

Turnover and Production includes 55192 cycles (Previous year Nil) traded.

II. Consumption of Raw Materials

	Unit	Quantity		Value	
		31.03.2004	**31.03.2003**	**31.03.2004**	**31.03.2003**
Steel	Lakh Tons	2.46	2.65	456.57	399.08
Rims	Lakh Nos.	66.21	63.70	35.56	30.96
Tyres	Lakh Nos.	58.80	59.84	27.46	25.11
Cycle tubes	Lakh Nos.	58.76	57.73	10.43	9.78
Leather top	Lakh Nos.	30.21	23.46	16.35	12.76
Brass	Lakh Gross.	14.14	10.38	2.72	1.66
Chains	Lakh Nos.	39.53	37.98	8.26	7.05
Frames/Forks/Mudgaurds	Lakh Nos.	28.79	29.18	74.65	69.25
Bicycle components and others				140.11	145.16
Total				772.11	700.81

The quantitative details of bicycle components and others, being too numerous are not listed.

17. Segment Reporting

The company's operations are organised into three major divisions - Cycles, Engineering (Steel Strips, Precision Steel Tubes), and Metal Forming. Accordingly, the divisions comprise the primary basis of segmental information. Secondary segmental reporting is performed based on geographical location of customers.

The generally accepted accounting principles used in the preparation of the financial statements are applied to record revenue and expenditure in individual segments.

Inter segment transfer

Segment revenue and segment results include transfers between business segments. Such transfers are accounted for at a competitive market price and such transfers are eliminated in the consolidation.

Segment Financials

(A) Primary Segment Analysis

Rupees in Crores

	CYCLES/ COMPONENTS		ENGINEERING		METAL FORMING		ELIMINATIONS		CONSOLIDATED TOTAL	
	Current Year	Previous Year	Current Year	Previous Year	Current Year	Previous Year	Current Year	Previous Year	Current Year	Previous Year
REVENUE										
External sales	466.93	449.04	638.72	601.64	51.43	35.89	–	–	1157.08	1086.57
Inter-segment sales	–	–	16.22	9.89	–	–	(16.22)	(9.89)	–	–
Total Revenue	**466.93**	**449.04**	**654.94**	**611.53**	**51.43**	**35.89**	**(16.22)**	**(9.89)**	**1157.08**	**1086.57**
Unallocated Corporate expenses	–	–	–	–	–	–	–	–	(8.82)	(6.01)
RESULT										
Operating profit	17.35	19.52	53.34	43.44	15.55	10.06	–	–	77.42	67.01
Profit/(loss) on sale of assets	6.55	0.90	0.36	0.04	(0.02)	–	–	–	6.89	0.94
Net Operating profit	**23.90**	**20.42**	**53.70**	**43.48**	**15.53**	**10.06**	**–**	**–**	**84.31**	**67.95**
Dividend income	–	–	–	–	–	–	–	–	29.12	9.07
Interest expense	–	–	–	–	–	–	–	–	(12.49)	(15.20)
Income taxes	-	–	–	–	–	–	–	–	(22.81)	(16.56)
Profit/(Loss) on sale of investments	–	–	–	–	–	–	–	–	(20.40)	0.63
Non recurring item	–	–	–	–	–	–	–	–	24.76	–
Net profit	**23.90**	**20.42**	**53.70**	**43.48**	**15.53**	**10.06**	**–**	**–**	**82.49**	**45.89**
OTHER INFORMATION										
Segment assets	221.49	204.39	390.50	414.27	47.04	40.24	(1.89)	(1.12)	657.14	657.78
Unallocated corporate assets	–	–	–	–	–	–	–	–	253.70	233.28
Total assets	**221.49**	**204.39**	**390.50**	**414.27**	**47.04**	**40.24**	**(1.89)**	**(1.12)**	**910.84**	**891.06**
Segment liabilities	82.81	68.73	144.49	146.87	8.89	5.14	(1.89)	(1.12)	234.30	219.62
Unallocated corporate liabilities	–	–	–	–	–	–	–	–	28.65	36.84
Capital expenditure	14.41	4.99	18.40	8.68	5.65	1.45	–	–	38.46	15.12
Unallocated corporate capital expenditure	–	–	–	–	–	–	–	–	3.83	4.46
Depreciation	3.96	4.25	19.93	18.95	3.39	2.98	–	–	27.28	26.18
Unallocated corporate depreciation	–	–	–	–	–	–	–	–	2.32	1.99
Non-cash expenses other than depreciation - Segments	6.76	6.73	3.00	2.35	0.42	0.56	–	–	10.18	9.64

(B) Secondary segment

The Company has exported cycles, precision tubes and strips from its locations in India, and has no manufacturing base outside India. Sales revenue by geographical market is given as under:

Market	2003-04	2002-03
Europe	2.51	2.52
North America	26.18	16.07
India	1068.21	1030.59
Rest of the World	60.18	37.39
TOTAL	**1157.08**	**1086.57**

SCHEDULE 18 (Contd.)

18. Disclosure in respect of Related Parties pursuant to Accounting Standard 18:

a) List of Related Parties

I. **Subsidiaries**

Cholamandalam MS General Insurance Company Ltd
TI Diamond Chain Ltd.

TI Diamond Chain Limited which was hitherto a Joint venture company has become a subsidiary in March 2004.

II. **Associates**

Cholamandalam Investment & Finance Company Ltd

III. **Key Management Personnel (KMP) and Enterprise in which Key Management Personnel holds substantial interest**

Mr M A Alagappan – Key Management Personnel
Mr A Sarin – Key Management Personnel
Presmet Private Ltd – Enterprise in which Key Management Personnel holds substantial interest.

b) During the year the following transactions were carried out with related parties in the ordinary course of business:
(Details of remuneration to Key Management Personnel are given in Note 15)

Rupees in Crores

	2003-04	**2002-03**
1) Sales		
Subsidiaries	18.11	13.27
2) Services and other income		
Subsidiaries	2.24	1.40
Associates	0.23	0.40
3) Purchase of Goods and Services		
Subsidiaries	0.95	0.18
Associates	0.36	0.34
4) Receipt of dividend		
Subsidiaries	0.15	1.33
Associates	6.15	7.44
5) Sale of Fixed Assets		
Subsidiaries	0.04	0.11
6) Purchase of Fixed Assets		
Subsidiaries	0.01	0.02
7) Purchase of Investments		
Subsidiaries	–	10.96
8) Equity contribution		
Subsidiaries	32.04	76.30
Associates	16.76	–
9) Loans from		
Subsidiaries	–	14.50
10) Outstanding balances as at 31st March		
Amounts Receivable		
Subsidiaries	5.84	6.08
Associates	–	0.04
Enterprise in which KMP holds substantial interest	0.03	0.03
Amounts Payable		
Subsidiaries	–	25.40
Associates	0.05	0.04

SCHEDULE 18 (Contd.)

19. For the purpose of computing the earnings per share the net profit after tax has been used as the numerator and the weighted average numbers of shares outstanding has been considered, as the denominator.

	Year ended 31-03-2004	Year ended 31-03-2003
Profit after Taxation –Rs. in Crores	82.49	45.89
Weighted Average number of shares	1,84,72,690	2,35,78,353
Earnings per share (Basic and Diluted) – Rs	44.66	19.46
Face value per share – Rs	10	10

20. Figures for the previous year have been re-grouped wherever necessary.

Signatures to Schedules 1 to 18

For **Fraser & Ross**
Chartered Accountants

Geetha Suryanarayanan
Partner

On behalf of the Board

M A Alagappan
Chairman

Chennai
9th June, 2004

S Suresh
Company Secretary

K Balasubramanian
Chief Financial Officer

Adhiraj Sarin
Managing Director

Balance Sheet Abstract and Company's General Business Profile

Additional Information as required Under Part IV of Schedule VI of the Companies Act, 1956.

I. Registration Details

Registration No.	02905	State Code	18
Balance Sheet as on	31-03-2004		

II. Capital Raised During the Year (Amount in Rs. thousands)

Public Issue	NIL	Rights Issue	NIL
Bonus Issue	NIL	Private Placement	NIL

III. Position of Mobilisation and Deployment of Funds (Amount in Rs. thousands)

Total Liabilities	6478901	Total Assets	6478901
Sources of Funds			
Paid up Capital	184727	Reserves & Surplus	3768324
Secured Loans	1957071	Unsecured Loans	199255
Deferred Tax Liability	369524		
Application of Funds			
Net Fixed Assets	2393107	Investments	2041727
Net Current Assets	1778221	Misc. Expenditure	214294
Deferred Tax Asset	51552		

IV. Performance of the Company (Amount in Rs. thousands)

Turnover (including Other income)	11570764	Total Expenditure	1040788
Profit/(Loss) before Tax	10529976	Profit/(Loss) after Tax	824929
Earning per share in Rs.	44.66	Dividend Rate(%)	100%

V. Generic Names of Three Principal Products/services of the Company (As per Monetary Terms)

Item Code No. (ITC Code)	Product Description
721119 00	Cold Rolled Steel Strips
730690 01	ERW / CDW Tubes
871200 01	Bicycles

On behalf of the Board

M A Alagappan
Chairman

Chennai
9th June, 2004

S Suresh
Company Secretary

K Balasubramanian
Chief Financial Officer

Adhiraj Sarin
Managing Director

Section 212

Statement of Holding Company's Interest in Subsidary Companies
(Pursuant to Section 212 of the Companies Act, 1956)

Rupees in Crores

1. Name of the Subsidiary	**TI Diamond Chain Limited**	**Cholamandalm MS General Insurance Company Ltd**
2. The financial year of the company ended on	31.3.2004	31.3.2004
3. Number of a) equity shares each fully paid in the subsidiary company held by Tube Investments of India Ltd on the above date	6,111,640 Rs.10 each	78,750,000 Rs.10 each
b) Preference shares each fully paid in the subsidiary company held by Tube Investments of India Ltd on the above date	–	–
4. The net aggregate of profits less losses and reserves of the subsidiary company so far as it concerns the Holding Company:		
i) dealt with in the accounts of Tube Investments of India Ltd by way of dividends on the shares held in the subsidiaries: a. for the subsidiary's financial year ended on 31.3.2004	–	–
b. for the previous financial years of the subsidiary since it became subsidiary of Tube Investments of India Ltd	–	–
ii) not dealt with in the accounts of Tube Investments of India Ltd. a. for the subsidiary's financial year ended on 31.3.2004	3.86	(3.41)
b. for the previous financial years of the subsidiary since it became subsidiary of Tube Investments of India Ltd	53.67	(5.13)

On behalf of the Board

M A Alagappan
Chairman

Chennai
9th June, 2004

S Suresh
Company Secretary

K Balasubramanian
Chief Financial Officer

Adhiraj Sarin
Managing Director

Subsidiary Companies Financial Summary

Rupees in Crores

Name of the Subsidiary	**TI Diamond Chain Limited**	**Cholamandalm MS General Insurance Company Ltd**
1. Capital	6.13	141.96
2. Reserves & Surplus (adjusted for debit balance in P & L Account, where applicable	59.52	(9.25)
3. Total Assets (Fixed Assets + Current Assets + Misc. Expenditure not written off)	113.59	26.30
4. Total Liabilities (Debts + Current Liabilities + Deferred Tax Liability)	61.69	64.40
5. Investments	13.75	170.81
6. Total Income (including excise duty, where applicable)	180.07	23.83
7. Profit before Tax	10.32	(6.15)
8. Provision for Tax	2.59	–
9. Profit after Tax	7.73	(6.15)
10. Proposed Dividend and Tax thereon	1.73	–

Auditors' Report

on Consolidated Accounts

Auditors' Report to the Board of Directors of Tube Investments of India Limited on the Consolidated Financial Statements of Tube Investments of India Limited and its Subsidiaries and its Associate.

We have audited the attached Consolidated Balance Sheet of Tube Investments of India Limited and its subsidiaries, TI Diamond Chain Limited and Cholamandalam MS General Insurance Company Limited and its Associate, Cholamandalam Investment and Finance Company Limited as at 31st March 2004 and also the Consolidated Profit and Loss Account and the consolidated cash flow statement for the year ended on that date annexed thereto. These financial statements are the responsibility of Tube Investments of India Limited's management and have been prepared by the management on the basis of separate financial statements and other financial information regarding components. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in India. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes, examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

We did not audit the financial statements of certain subsidiaries and associate whose financial statements reflect total assets of Rs.1949.18 crores as at 31.3.2004, the total revenues of Rs. 448.07 crores and cash flows amounting to Rs. 4.97 crores for the year then ended. These financial statements and other financial information have been audited by other auditors whose reports have been furnished to us, and our opinion, is based solely on the report of the other auditors.

We report that the consolidated financial statements have been prepared by Tube Investments of India Limited's management. in accordance with the requirements of Accounting Standard (AS) 21, Consolidated Financial Statements, Accounting Standard (AS) 23, Accounting for Investments in Associates in Consolidated Financial Statements, and Accounting Standard (AS) 27, Financial Reporting of interests in Joint Ventures, issued by the Institute of Chartered Accountants of India.

Based on our audit and on consideration of reports of other auditors on separate financial statements and on the other financial information of the components, and to the best of our information and according to the explanations given to us, we are of the opinion that the attached consolidated financial statements give a true and fair view in conformity with the accounting principles generally accepted in India:

(a) In the case of Consolidated Balance Sheet, the state of affairs of Tube Investments of India Limited and its subsidiaries and associate as at 31st March 2004; and

(b) In the case of Consolidated Profit and Loss Account, of the profit for the year ended on that date; and

(c) In the case of Consolidated Cash Flow Statement, of the cash flows for the year ended on that date.

For **Fraser & Ross**
Chartered Accountants

Geetha Suryanarayanan
Partner
Membership No. 29519

Chennai
9th June, 2004

Consolidated Balance Sheet

as at 31st March, 2004

Rupees in Crores

	Schedule	31.03.2004	31.03.2003
I. SOURCES OF FUNDS			
1. Shareholders' Funds			
(a) Share Capital	1	18.47	18.47
(b) Reserves and Surplus	2	388.48	343.83
		406.95	362.30
(c) Capital Reserve on Consolidation			
Associates		30.05	24.42
Subsidiary		5.16	–
Less: Goodwill on Consolidation			
Subsidiary		(1.77)	(1.77)
Joint Venture		–	(1.95)
		33.44	20.70
2. Minority Interest		59.28	25.47
3. Loan Funds			
(a) Secured Loans	3	219.94	211.74
(b) Unsecured Loans	4	19.93	68.29
		239.87	280.03
4. Deferred Tax Liability		47.23	44.03
		786.77	**732.53**
II. APPLICATION OF FUNDS			
1. Fixed Assets	5		
Gross Block		538.41	412.89
Less : Depreciation		255.05	181.68
(a) Net Block		283.36	231.21
Add: Share in Joint Venture		–	26.54
		283.36	257.75
(b) Capital Work-in-Progress at cost		14.14	2.99
		297.50	**260.74**
2. Deferred Tax Asset		5.16	6.77
3. Investments	6	294.81	233.25
4. Current Assets, Loans and Advances			
(a) Inventories	7	120.87	105.09
(b) Sundry Debtors	8	263.88	272.07
(c) Cash and Bank Balances	9	47.08	35.91
(d) Loans and Advances	10	75.92	70.63
		507.75	483.70
Less: Current Liabilities and Provisions	11	345.56	287.39
Net Current Assets		**162.19**	**196.31**
5. Deferred Revenue Expenditure	12	27.11	35.46
		786.77	**732.53**
Significant Accounting Policies	17		
Notes on Accounts	18		

This is the Consolidated Balance Sheet referred to in our Report of even date

For **Fraser & Ross**
Chartered Accountants

Geetha Suryanarayanan
Partner

On behalf of the Board

M A Alagappan
Chairman

Chennai
9th June, 2004

S Suresh
Company Secretary

K Balasubramanian
Chief Financial Officer

Adhiraj Sarin
Managing Director

Consolidated Profit and Loss Account

for the year ended 31st March, 2004

Rupees in Crores

	Schedule	2003-04	2002-03
Income			
Sales and Services		1257.34	1197.13
Less : Excise duty		(100.26)	(110.56)
Add: Sales - Share in Joint Venture		78.72	65.94
Sales and Services (Net)		1235.80	1152.51
Premiums earned (Net)		23.17	0.93
Other Income	**13**	36.15	27.86
Add: Other income - Share in Joint Venture		3.59	3.07
		1298.71	**1184.37**
Expenditure			
Raw Material Consumed		727.62	657.15
Raw Materials Consumed - Share of Joint Venture		34.64	26.20
(Accretion)/Decretion to Stock	**14**	4.06	1.59
Claims incurred		–	0.61
Employee Cost	**15**	107.15	85.68
Other Costs	**16**	303.39	299.67
Depreciation		32.15	29.05
Depreciation-Share in Joint Venture		3.06	2.86
Interest Fixed		4.93	8.96
Interest Others		7.56	6.24
Interest - Share in Joint Venture		0.82	2.07
Pre-operative and Preliminary Expenses Written Off		–	2.80
		1225.38	**1122.88**
Profit before Tax before non recurring item		**73.33**	**61.49**
Non recurring item - Refer note 3 of Schedule 18		24.76	–
Profit before Tax		**98.09**	**61.49**
Less: Provision for Taxation - Current Tax		23.00	20.41
- Deferred Tax (net)		(0.19)	(3.83)
Add: Share of Joint Venture		1.29	0.53
		24.10	17.11
Profit after Tax		**73.99**	**44.38**
Add : Share of Associates Profit/(Loss)		14.98	2.65
Minority Interest in Net Income		2.74	0.19
Net Profit after Tax		**91.71**	**47.22**
Add: Unappropriated Profit from Previous year		53.26	42.12
Profit available for appropriation		**144.97**	**89.34**
Transfers to :			
General Reserve		25.00	16.00
Dividend Proposed - Final @ 100% (Previous year 90%)		18.47	16.63
Dividend Tax thereon		2.37	2.13
		45.84	34.76
Balance carried over to Balance Sheet		**99.13**	**54.58**
Earnings per Share of Rs. 10/- each (Basic / Diluted)- Rs. per share		**49.66**	**20.03**
Significant Accounting Policies	**17**		
Notes on Accounts	**18**		

This is the Consolidated Profit and Loss Account referred to in our Report of even date

For **Fraser & Ross**
Chartered Accountants

Geetha Suryanarayanan
Partner

On behalf of the Board

M A Alagappan
Chairman

Chennai
9th June, 2004

S Suresh
Company Secretary

K Balasubramanian
Chief Financial Officer

Adhiraj Sarin
Managing Director

Consolidated Cash Flow Statement

for the year ended 31st March, 2004

Rupees in Crores

	2003-04	2002-03
A. Cash Flow from operating Activities		
Profit before Tax	98.09	61.49
Add: Share of profit in Joint Venture credited to General reserve	3.86	–
Net Profit Before Tax	**101.95**	**61.49**
Adjustments for :		
Depreciation	38.29	31.95
Interest and finance charges	14.13	17.26
(Profit) / Loss on sale of assets	(10.40)	(1.21)
Provision for doubtful debts and advances	2.70	4.33
Pre-operative Expenses of previous year Written off / bad debts written off	0.64	1.77
Others	21.91	–
(Profit) / Loss on sale of investments	12.18	(0.63)
Assets written off	–	4.18
Provision no longer required for investments / doubtful debts	(0.41)	(0.16)
Interest received	(8.37)	(2.95)
Dividend income	(24.12)	(9.47)
Deferred revenue expenditure - payment during the year	(2.74)	(14.61)
Deferred revenue expenditure - charge during the year	14.87	13.17
Operating profit before working capital changes	**160.63**	**105.12**
Adjustments for :		
Trade and other receivables	15.73	(36.00)
Inventories	(8.31)	(10.54)
Trade payables	25.23	61.66
Cash generated from operations	**193.28**	**120.24**
Direct taxes paid	(24.29)	(23.04)
Cash flow from operating activities	**168.99**	**97.20**
B. Cash flow from investing activities		
Purchase of fixed assets (Including capital work in progress)	(51.36)	(28.37)
Sale of fixed assets	13.66	6.70
Purchase of investments	(1949.44)	(1246.78)
Sale of investments	1843.91	1136.53
Dividend received	30.27	8.53
Interest received	9.38	2.58
Net cash used in investing activities	**(103.58)**	**(120.81)**
C. Cash flow from financing activities		
Borrowings	106.92	117.48
Repayments on borrowings	(164.03)	(27.74)
Dividends paid	(19.10)	(14.85)
Interest paid	(16.43)	(16.23)
Buyback of Shares	–	(61.50)
Issue of Shares	36.96	23.75
Net cash used in financing activities	**(55.68)**	**20.91**
Net increase in cash and cash equivalents	**9.73**	**(2.70)**
Cash and cash equivalents at the beginning of the year	**37.35**	**38.61**
Cash and cash equivalents as at end of the year	**47.08**	**35.91**

This is the Consolidated Cash Flow Statement referred to in our Report of even date

For **Fraser & Ross**
Chartered Accountants

Geetha Suryanarayanan
Partner

On behalf of the Board

M A Alagappan
Chairman

Chennai
9th June, 2004

S Suresh
Company Secretary

K Balasubramanian
Chief Financial Officer

Adhiraj Sarin
Managing Director

Rupees in Crores

	31.03.2004	31.03.2003
SCHEDULE 1		
SHARE CAPITAL		
Authorised		
3,40,00,000 Equity Shares of Rs.10 each	34.00	34.00
Issued, Subscribed and Paid-up		
1,84,72,690 Equity Shares of Rs.10 each (Previous year 1,84,72,690)	18.47	18.47
	18.47	**18.47**

SCHEDULE 2

RESERVES AND SURPLUS	31.03.2004	31.03.2003
Capital Reserve		
As per last Balance Sheet	0.42	0.26
Securities Premium		
As per last Balance Sheet	166.46	195.04
Less: Adjustment on buyback	–	(55.35)
	166.46	139.69
Capital Redemption Reserve		
As per last Balance Sheet	6.15	6.15
Debenture Redemption Reserve		
As per last Balance Sheet	15.41	15.41
General Reserve		
As per last Balance Sheet	116.03	90.56
Less: Transfer to Capital redemption reserve	–	(6.15)
Add: Transfer from Profit and Loss Account	25.77	16.00
	141.80	100.41
Balance in Profit and Loss Account		
Balance in Profit and Loss Account	108.34	54.58
Add: Share in Joint Venture	–	25.11
	108.34	79.69
Adjustments on consolidation		
Elimination of cross holding	(59.26)	(3.68)
Transfer to Minority Interest	1.21	0.59
Share of reserves in Associates	7.95	5.31
	388.48	**343.83**

SCHEDULE 3

SECURED LOANS	31.03.2004	31.03.2003
(a) Debentures	40.00	72.50
(b) Term Loans from:		
- Foreign currency loan	61.03	11.03
- Banks	–	50.00
- Others	0.42	–
(c) Cash Credit and other borrowings	118.49	61.58
Add : Share in Joint Venture	–	16.63
	219.94	**211.74**

Schedules

forming part of Consolidated Balance Sheet

Rupees in Crores

	31.03.2004	31.03.2003
SCHEDULE 4		
UNSECURED LOANS		
(a) Commercial Paper	–	20.00
(b) Sales tax deferral	19.19	15.43
(c) From Banks		
- Short term	0.74	16.74
- Other than Short term	–	0.42
	0.74	17.16
(d) Loans and advances from subsidiary in liquidation	–	14.50
Add : Share in Joint Venture	–	1.20
	19.93	**68.29**

SCHEDULE 5

FIXED ASSETS

	Land (Freehold)	Buildings	Plant & Machinery	Railway Siding	Computer Software	Improvement to Premises	Furniture & Fixtures	Vehicles	31.03.2004	31.03.2003
Gross Block at cost										
As at 31.03.2003	9.50	75.97	402.57	0.15	1.36	1.19	10.19	5.48	506.41	418.96
Additions	0.86	0.69	35.05	0.06	0.60	0.28	1.44	1.06	40.04	25.40
Disposals	0.01	0.27	5.02	-	-	0.10	2.15	0.49	8.04	31.47
As at 31.03.2004	**10.35**	**76.39**	**432.60**	**0.21**	**1.96**	**1.37**	**9.48**	**6.05**	**538.41**	**412.89**
Depreciation										
As at 31.03.2003	-	17.46	196.20	0.04	0.21	0.14	6.67	1.20	221.92	175.47
Additions	-	2.37	32.97	0.02	0.56	0.68	1.07	0.62	38.29	29.09
Disposals	-	0.07	3.58	-	-	0.05	1.26	0.20	5.16	22.88
As at 31.03.2004	**-**	**19.76**	**225.59**	**0.06**	**0.77**	**0.77**	**6.48**	**1.62**	**255.05**	**181.68**
Net Block as at 31.03.2004	**10.35**	**56.63**	**207.01**	**0.15**	**1.19**	**0.60**	**3.00**	**4.43**	**283.36**	**231.21**

Disposals include Plant & Machinery held for sale of the written down value of Rs. Nil (Previous year Rs. 4.06 Cr.) transferred to inventories

SCHEDULE 6

INVESTMENTS - Long Term (At Cost)	**31.03.2004**	**31.03.2003**
QUOTED (Fully Paid):		
Trade - Equity Shares		
Associates	100.70	69.48
Others	11.06	9.26
Government Securities	117.34	81.92
Investments in Bonds /Securities	0.13	21.46
Investments in Mutual Funds - Short term	–	5.60
Trade-Others	59.01	0.52
	288.24	**188.24**
UNQUOTED (Fully Paid) :		
Trade - Equity Shares		
Subsidiaries	–	22.55
Joint Venture	–	17.57
Others	0.22	0.22
Non-Trade - Equity Shares	3.26	–
Others	0.10	0.10
Non-Trade - Others	3.00	2.00
Add: Share of joint venture	–	2.98
	6.58	**45.42**
Less: Provision for dimunition in Investment value	(0.01)	(0.41)
	294.81	**233.25**
Market Value of Quoted Investments as at 31-03-2004	322.85	138.91

Rupees in Crores

SCHEDULE 7

INVENTORIES	31.03.2004	31.03.2003
Raw Materials	59.39	42.80
Work-in-Process	24.73	16.77
Finished Goods	25.80	26.94
Materials in transit	2.65	3.21
	112.57	89.72
Consumable Stores and Spare Parts	8.17	6.82
Fixed assets held for sale	0.13	0.57
Add : Share in Joint Venture	–	7.98
	120.87	**105.09**

SCHEDULE 8

SUNDRY DEBTORS (Unsecured)	**31.03.2004**	**31.03.2003**
Outstanding for over six months		
Considered good	6.04	11.75
Considered doubtful	8.46	6.29
	14.50	18.04
Others Considered good	257.84	247.66
	272.34	265.70
Less : Provision for doubtful debts	8.46	6.29
	263.88	259.41
Add : Share in Joint Venture	–	12.66
	263.88	**272.07**

SCHEDULE 9

CASH AND BANK BALANCES	**31.03.2004**	**31.03.2003**
Cash and Cheques on hand	6.24	1.89
With Scheduled Banks		
Current Account	40.49	32.24
Dividend Account	0.35	0.35
Add : Share in Joint Venture	–	1.43
	47.08	**35.91**

Rupees in Crores

SCHEDULE 10

LOANS AND ADVANCES

	31.03.2004		31.03.2003	
Advances recoverable in cash or in kind or for value to be received				
Secured	–		2.98	
Unsecured	47.45		32.15	
Due from officer	–		0.44	
Sundry deposits	7.09		6.65	
Balance with Customs and Central Excise authorities	5.08		6.99	
		59.62		49.21
Advance Tax paid	113.69		86.90	
Less : Provision for Taxation	97.39		71.69	
		16.30		15.21
Add : Share in Joint Venture				6.21
		75.92		**70.63**

SCHEDULE 11

CURRENT LIABILITIES AND PROVISIONS	31.03.2004		31.03.2003	
Sundry Creditors				
- Due to Small Scale Industrial Units	34.62		6.00	
- Others	216.05		138.05	
	250.67		144.05	
Interest accrued but not due	1.25		3.18	
Due to Directors	0.66		0.52	
Due to Subsidiary company - Teeaye Investments Ltd.	–		10.96	
Unclaimed Dividends	0.35		0.35	
Unclaimed Deposits	–		0.02	
Unclaimed Debentures	0.01		0.02	
		252.94		159.10
Other Liabilities		70.05		97.11
Dividend - Proposed - Final		22.57		18.76
Add : Share in Joint Venture		–		12.42
		345.56		**287.39**

SCHEDULE 12

DEFERRED REVENUE EXPENDITURE

		During the year		
	31.03.2003	Incurred	Amortised	31.03.2004
Voluntary Retirement Scheme	36.34	2.74	12.29	26.79
ERP Expenses	2.47	–	2.15	0.32
Technical Knowhow	0.19	–	0.19	–
Others	0.24	–	0.24	–
	39.24	**2.74**	**14.87**	**27.11**

Rupees in Crores

	2003-04	2002-03
SCHEDULE 13		
OTHER INCOME		
Interest and Dividend income	31.25	11.90
Profit/(Loss) on sale of assets (net)	10.16	1.48
Profit/(Loss) on sale of investments (net)	(12.19)	9.83
Royalty Income	0.62	0.64
Exchange fluctuation on loans	3.34	1.77
Miscellaneous income	2.97	2.24
	36.15	**27.86**

SCHEDULE 14

(ACCRETION)/DECRETION TO STOCK	2003-04	2002-03
Commencing Stock		
Work-in-process	17.58	19.47
Finished Goods	27.32	23.68
	44.90	43.15
Closing Stock		
Work-in-process	20.25	16.77
Finished Goods	20.32	26.94
	40.57	43.71
Add : Share in Joint Venture	(0.27)	2.15
	4.06	**1.59**

SCHEDULE 15

EMPLOYEE COST	2003-04	2002-03
Salaries, Wages, Bonus	59.35	49.38
Contribution to Provident and Other Funds	20.31	10.33
Welfare Expenses	6.63	6.02
Charge under Voluntary Retirement Scheme	10.19	9.69
Add : Share in Joint Venture	10.67	10.26
	107.15	**85.68**

SCHEDULE 16

OTHER COSTS	2003-04	2002-03
Consumption of Stores and Spares	44.96	39.08
Freight and Carriage inwards	8.07	9.68
Sub contract charges	7.71	39.74
Power and Fuel	35.63	35.32
Rent	2.66	2.09
Rates and Taxes	12.70	13.07
Insurance	1.15	1.47
Repairs to Buildings	0.42	1.49
Repairs to Machinery	12.98	12.80
Travel and Conveyance	9.23	7.06
Printing, Stationery and Communication	5.85	4.84
Freight, Delivery and Shipping Charges	42.46	37.82
Discounts / Incentives on sales	21.03	19.85
Advertisement and Publicity	17.81	18.91
Bad debts /advances written off	1.72	2.60
Less : Provision released	1.26	2.60
	0.46	–
Provision for doubtful debts	2.38	4.07
Auditors' Remuneration	0.24	0.17
Directors' remuneration (Including Managing Director's remuneration)	1.78	1.21
General Manufacturing, Selling & Administrative expenses	47.56	27.66
Share of other costs - Joint Venture	28.31	23.34
	303.39	**299.67**

SCHEDULE 17

I. STATEMENT OF ACCOUNTING POLICIES

Basis of Consolidation

a. **Basis of preparation**

The consolidation financial statements are prepared in accordance with Accounting Standard 21 on Consolidated Financial Statements issued by the Institute of Chartered Accountants of India.

b. **Principles of Consolidation**

The consolidated financial statements comprise the financial statements of Tube Investments of India Limited and the following companies:

Company	Relationship	Country of Incorporation	Proportion of ownership
Cholamandalam MS General Insurance Company Limited	Subsidiary	India	55.47 %
TI Diamond Chain Limited	Subsidiary	India	99.68 %
Cholamandalam Investment and Finance Company Limited	Associate	India	48.60 %

Consequent on the joint venture agreement with Mitsui Sumitomo Insurance Company Ltd., Japan, Cholamandalam MS General Insurance Company Limited though became a Joint Venture continued to be a subsidiary and accordingly the financials of this company has been consolidated as a subsidiary for the purpose of consistency and implementing the limited revision to Accounting Standard - 27 – Financial Reporting of Interests in Joint Ventures during the year.

TI Diamond Chain Limited which was hitherto a Joint venture company has become a subsidiary in March 2004. The profit and loss account of this company is consolidated as per Accounting Standard - 27 – Financial Reporting of Interests in Joint Ventures whereas the balance sheet is consolidated as subsidiary as per Accounting standard AS 21 - Consolidated Financial Statements.

The accounting policies followed by the holding Company and the Subsidiary – TI Diamond Chain Limited are similar.

The accounting policies on Depreciation of the Joint Venture – Cholamandalam MS General Insurance Company Limited differ from that of the holding company and consequently the profit is lower by Rs. 1.38 Cr. This being not significant no adjustment has been made. Certain other accounting policies of the Joint Venture and the Associate differ, since they are in a business that is distinct from the holding company and function under different regulatory environment. The accounting policies followed by the subsidiaries are disclosed in its financial statements.

Significant Accounting Policies

1. **Fixed Assets and Depreciation**

a. All assets are stated at cost (net of CENVAT wherever applicable).

b. Borrowing costs are capitalised as part of qualifying fixed assets. Other borrowing costs are expensed.

c. Fixed Assets taken on financial leases, prior to 1st April, 2001, are not capitalised and lease rentals are absorbed in the Profit and Loss Account.

d. Exchange differences arising out of foreign currency loans utilised for Fixed Assets are adjusted in the cost of the relevant asset.

e. Depreciation on assets other than special tools and special purpose machines used in Door Frame projects and Furniture and Fixtures is provided under Straight Line method at the rates specified under Schedule XIV of the Companies Act, 1956. Special tools and special purpose machines used in Door Frame projects are depreciated over four years and Furniture and Fixtures are depreciated over five years, on the basis of the management's evaluation of the useful life of the assets, which results in depreciation being charged at rates higher than those specified under Schedule XIV of the Companies Act, 1956.

f. Individual assets whose actual cost does not exceed Rs. 5000/- are fully depreciated.

g. Based on technical opinion windmill is considered as a continuous process plant and depreciation is provided at the rate applicable thereto.

h. Depreciation on fixed assets for the Joint Venture are provided based on the Straight Line Method (SLM) at the rates and the manner prescribed in the Schedule XIV of the Companies Act, 1956 except the following based on the management's assessment of the estimated useful life of these assets.

	Estimated useful life
Information Technology Equipment	3 years
Computer Software	3 years
Vehicles	5 Years
Office Equipment	4 Years
Electrical Fittings	4 Years
Improvement to premises	5 years
(Leasehold and own)	Primarily lease period or 5 years whichever is lower

2. **Investments**
   a. Investments are stated at cost. Diminution in the value of investments, other than temporary, is provided for.
   b. Equities and Derivative Instruments of Subsidiary -
   Listed and Actively Traded - Stated at lowest of the last quoted closing price. The change in the value is credited to the "Fair Value Change Account".
   Unlisted and Not Actively Traded - Stated at their cost of acquisition less provision for diminution in the value.

3. **Inventories**
   a. Raw materials, stores, and spare parts are valued at lower of weighted average cost and net realisable value. Cost includes freight, taxes and duties and is net of credit under CENVAT scheme.
   b. Work-in-Process, finished goods and scrap held for disposal are valued at lower of cost and net realisable value. Cost includes all direct costs and applicable production overheads to bring the goods to the present location and condition.
   c. Fixed assets held for sale are included in the Inventories at lower of cost or net realisable value in accordance with relevant accounting standard.

4. **Revenue Recognition**
   a. All income and expenses are accounted for on accrual basis.
   b. Sales are inclusive of excise duty. Export sales are accounted at CIF Value.
   c. Export benefits are accounted for on accrual basis.
   d. Dividend Income on Investments is accounted for when the right to receive the payment is established.
   e. Premium is recognised as income over the contract period or the period of risk, whichever is appropriate, after adjusting for unexpired risk and premium deficiency, if any. Any cancellations or changes in premium are accounted for in the period in which they occur.
   f. Reserve for unexpired risk, representing that part of the premium written amount that is attributable and to be allocated to the subsequent accounting period(s), is calculated principally on "Day Basis" subject to a minimum of 50 percent of the net premium written during the preceding twelve months in the case of Fire, Marine and Miscellaneous business. In case of long term policies, the unexpired risk reserve is created based on actuarial valuations.
   g. Reinsurance premium ceded is accounted in the year of commencement of risk.
   h. Commission on reinsurance ceded is recognised as income on ceding of reinsurance premium.
   i. Estimated liability for outstanding claims in respect of direct business is provided based on claims reported after adjusting claims recoverable from re-insurers / co-insurers.
   j. Estimated liability for claims incurred but not reported (IBNR) and claims incurred but not enough reported (IBNER) is based on available statistical data and is as certified by the Appointed Actuary.
   k. Non-recurring revenue expenditure incurred during the year is charged to Profit and Loss account.

5. **Retirement Benefits**
   a. The Group Gratuity Scheme with Life Insurance Corporation of India covers liability towards Gratuity in respect of eligible employees and annual contribution as advised by them, based on actuarial principles, is remitted.
   b. Contributions to Superannuation Scheme in respect of the employees are covered by the defined contribution scheme.
   c. Monthly contributions to recognised Provident Funds are considered in the accounts.
   d. Leave encashment benefit on retirement to eligible employees is actuarially ascertained and provided for. In the case of the subsidiary company it is provided on actual basis.

6. **Foreign Currency Transactions**

   Foreign currency assets and liabilities covered by forward contracts/derivatives are stated at the contracted rates, while those not covered by contracts are restated at rates prevailing at the Balance Sheet date. Exchange differences arising on foreign currency transactions are recognised under appropriate heads at the rates prevailing on the date of the transaction, other than those relating to fixed assets.

7. **Research and Development**

   Revenue expenditure incurred on research and development is absorbed when incurred. Capital Expenditure incurred on research and development is depreciated as per Schedule XIV of the Companies Act, 1956 under straight-line method.

8. **Income Tax**

   Income Tax comprises of the current tax provision and the net change in the deferred tax asset or liability during the year. Deferred tax assets and deferred tax liabilities are recognised for the future tax consequences of timing differences between the carrying values of the assets and liabilities and their respective tax bases using enacted or substantially enacted tax rates. Deferred tax assets are recognised only if there is a virtual certainty that they can be realised.

9. **Deferred Revenue Expenditure**

   a) Payment of compensation to employees under Voluntary Retirement Scheme is amortised over a period of five years commencing from the year of payment.

   b) Non-recurring revenue expenditure incurred in earlier years yielding benefit beyond the accounting year is amortised over the period during which the benefit is expected to endure.

SCHEDULE 18

NOTES ON ACCOUNTS

Balance Sheet

Rupees in Crores

1. **Contingent Liabilities**	**2003-04**	**2002-03**
a) Estimated amount of contracts remaining to be executed on capital account and not provided for (including capital commitments)	41.38	7.04
b) Disputed Income-tax demand under appeal pending before various appellate authorities. These amounts are fully deposited except for Rs. 8.30 Cr., of which Rs. 8.05 Cr. being demands received subsequent to the balance sheet date. The management is of the opinion that these demands are not sustainable.	25.39	15.39

2. **Investments**

   Teeaye Investments, a 100% subsidiary went into members' voluntary liquidation in 2002-3 and the liquidation formalities have been completed during the year.

Profit & Loss Account

3. Non recurring item represent Rs.24.76 Cr. being the premium realised on the renunciation of rights to subscribe 2,77,20,000 equity shares of Rs. 10 each in Cholamandalam MS General Insurance Company Limited.

4. Additional contribution of Rs. 14.04 Cr. was made to Life Insurance Corporation of India for past services arising from the change over of the superannuation scheme from the defined benefit scheme to defined contribution scheme with effect from 1st August, 2003.

5. For the purpose of computing the earnings per share the net profit after tax has been used as the numerator and the weighted average numbers of shares outstanding has been considered, as the denominator.

	Year ended 31-03-2004	**Year ended 31-03-2003**
Profit after Taxation	91.71	47.22
Weighted Average number of shares	1,84,72,690	2,35,78,353
Earnings per share (Basic and Diluted) – Rs	49.66	20.03
Face value per share – Rs	10	10

6. Segmental Financials

(A) Primary segment analysis

Rupees in Crores

	CYCLES/ COMPONENTS		ENGINEERING		METAL FORMING		INSURANCE		OTHERS		ELIMINATIONS		CONSOLIDATED TOTAL	
	Current Year	Previous Year	Current Year	Previous Year	Current Year	Previous Year	Current Year	Previous Year	Current Year	Previous Year	Current Year	Previous Year	Current Year	Previous Year
REVENUE														
External sales / Income	466.93	449.04	638.72	601.64	51.43	35.89	23.83	0.93	78.72	65.94	(0.66)	-	1258.97	1153.44
Inter-segment sales	-	-	16.22	9.89	-	-	-	-	-	-	(16.22)	(9.89)	-	-
Total Revenue	**466.93**	**449.04**	**654.94**	**611.53**	**51.43**	**35.89**	**23.83**	**0.93**	**78.72**	**65.94**	**(16.88)**	**(9.89)**	**1258.97**	**1153.44**
Unallocated Corporate expenses	-	-	-	-	-	-	-	-	-	-	-	-	(8.82)	(6.01)
RESULT														
Operating profit	17.35	19.52	53.34	43.44	15.55	10.06	(6.15)	(3.10)	5.97	4.21	(6.21)	-	71.03	68.12
Profit/(loss) on sale of assets	6.55	0.90	0.36	0.04	(0.02)	-	-	-	-	-	-	-	6.89	0.94
Net Operating profit	**23.90**	**20.42**	**53.70**	**43.48**	**15.53**	**10.06**	**(6.15)**	**(3.10)**	**5.97**	**4.21**	**(6.21)**	**-**	**77.92**	**69.06**
Dividend income	-	-	-	-	-	-	-	-	-	-	-	-	29.12	9.07
Interest expense	-	-	-	-	-	-	-	-	-	-	-	-	(13.31)	(17.27)
Income taxes -	-	-	-	-	-	-	-	-	-	-	-	-	(24.10)	(17.11)
Profit/(loss) on sale of investments	-	-	-	-	-	-	-	-	-	-	-	-	(20.40)	0.63
Non recurring item	-	-	-	-	-	-	-	-	-	-	-	-	24.76	-
Share of Associates profit/(loss)	-	-	-	-	-	-	-	-	-	-	-	-	14.98	2.65
Minority interest in net income	-	-	-	-	-	-	-	-	-	-	-	-	2.74	0.19
Net profit	**23.90**	**20.42**	**53.70**	**43.48**	**15.53**	**10.06**	**(6.15)**	**(3.10)**	**5.97**	**4.21**	**(6.21)**	**-**	**91.71**	**47.22**
OTHER INFORMATION														
Segment assets	221.49	204.39	390.50	414.27	47.04	40.24	197.10	121.16	124.44	67.63	(101.93)	(1.12)	878.64	846.57
Unallocated corporate assets	-	-	-	-	-	-	-	-	-	-	-	-	253.69	173.35
Total assets	**221.49**	**204.39**	**390.50**	**414.27**	**47.04**	**40.24**	**197.10**	**121.16**	**124.44**	**67.63**	**(101.93)**	**(1.12)**	**1132.33**	**1019.92**
Segment liabilities	82.81	68.73	144.49	146.87	8.89	5.14	64.40	19.26	24.28	12.42	(101.93)	(1.12)	222.94	251.30
Unallocated corporate liabilities	-	-	-	-	-	-	-	-	-	-	-	-	122.62	36.09
Capital expenditure	14.41	4.99	18.40	8.68	5.65	1.45	4.17	6.57	5.01	2.21	-	-	47.64	23.90
Unallocated corporate capital expenditure	-	-	-	-	-	-	-	-	-	-	-	-	3.83	4.47
Depreciation	3.96	4.25	19.93	18.95	3.39	2.98	2.55	0.88	3.06	2.86	-	-	32.89	29.92
Unallocated corporate depreciation	-	-	-	-	-	-	-	-	-	-	-	-	2.32	1.99
Non-cash expenses other than depreciation - Segments	6.76	6.73	3.00	2.35	0.42	0.56	-	-	1.15	0.34	-	-	11.32	9.98

(B) Secondary segment

Sales revenue by geographical market is given as under:

Market	2003-04	2002-03
Europe	17.57	2.52
North America	28.56	16.07
India	1144.97	1097.46
Rest of the World	67.87	37.39
TOTAL	**1258.97**	**1153.44**

7. **Disclosure in respect of Related Parties pursuant to Accounting Standard**

a) **List of Related Parties**

I. **Subsidiaries / Joint Venture**
Cholamandalam MS General Insurance Company Ltd
TI Diamond Chain Ltd.
TI Diamond Chain Limited which was hitherto a Joint venture company has become a subsidiary in March 2004.

II. **Associates**
Cholamandalam Investment & Finance Company Ltd

III. **Key Management Personnel (KMP) and Enterprise in which Key Management Personnel holds substantial interest**
Mr. M A Alagappan
Mr. A Sarin
Mr. M Anandan
Mr. Partho S Datta
Mr. Arun Agarwal
Presmet Pvt.Ltd – Enterprise in which Key Management Personnel holds substantial interest.

IV. **Company having Substantial Interest in Voting Power in Cholamandalam MS General Insurance Company Ltd.**
Mitsui Sumitomo Insurance Company Ltd.

V. **Associate / Joint Venture of TI Diamond Chain Ltd.**
BorgWarner Morse TEC Murugappa Pvt, Ltd
Amsted Industries Inc.

b) **During the year the following transactions were carried out with related parties in the ordinary course of business:**

Rupees in Crores

	2003-04	2002-03
1) Sales, Services and other income		
Joint Ventures	4.17	14.29
2) Purchase of goods		
Joint Ventures	0.60	–
3) Receipt of dividend		
Joint Ventures	–	1.33
4) Payment of dividend		
Joint Ventures	0.06	–
5) Sale of Fixed Assets		
Joint Ventures	–	0.05
6) Purchase of Fixed Assets		
Joint Ventures	–	0.03
7) Purchase of Investments		
Subsidiaries	–	10.96
8) Loans from		
Subsidiaries	–	14.50
9) Outstanding balances as at 31st March		
Amounts Receivable		
Joint Ventures	–	5.62
Key Management Personnel	–	0.54
Enterprise in which KMP holds substantial interest	0.03	0.03
10) Amounts Payable		
Subsidiaries	–	25.40
Joint Ventures	0.91	–
11) Remuneration		
Key Management Personnel	–	2.15

8. Previous year's figures are not comparable for the reasons stated under para I (b) of schedule 17 and para 2 of schedule 18.

9. Figures for the previous year have been re-grouped wherever necessary.

Signature to Schedules 1 to 18

For **Fraser & Ross**
Chartered Accountants

Geetha Suryanarayanan
Partner

On behalf of the Board

M A Alagappan
Chairman

Chennai
9th June, 2004

S Suresh
Company Secretary

K Balasubramanian
Chief Financial Officer

Adhiraj Sarin
Managing Director