

Message from the Chairman

Dear Shareholder,

It is my pleasure and privilege to reach you through this annual report. The year 2010-11 has been, in many ways, a very exciting year. The market surprised everyone with its strength. In the context of the events of 2008 and 2009, the predictions were that 2010-11 would see moderate growth of about 10-12 per cent. In fact, the car industry grew at about 29 per cent. A very pleasant surprise but it posed huge challenges to your Company and its vendors, in terms of production capacity. The Gurgaon plant was already working to full capacity. At Manesar we had planned that the second line would be commissioned in the second half of 2011-12, as it did not seem that the market demand would require earlier completion. The vendors had also planned their production schedules for the targets projected by us and other experts.

It is to the credit of our production team that they could bring in many innovations on the production system, which resulted in total sales increasing in 2010-11 to 1.27 million cars from 1.02 million in the previous year- an increase of 25 per cent. Producing 250,000 extra cars, without any new additions to capacity was really an outstanding achievement. At the same time, our supply chain teams worked with vendors to enable them to increase their output to match our requirements. Vendors indeed rose to the occasion and enabled us to reach a record level of production. This ability to improvise and find solutions when faced with difficulties is one of the strengths of your company and its vendors, and augurs well for the future.

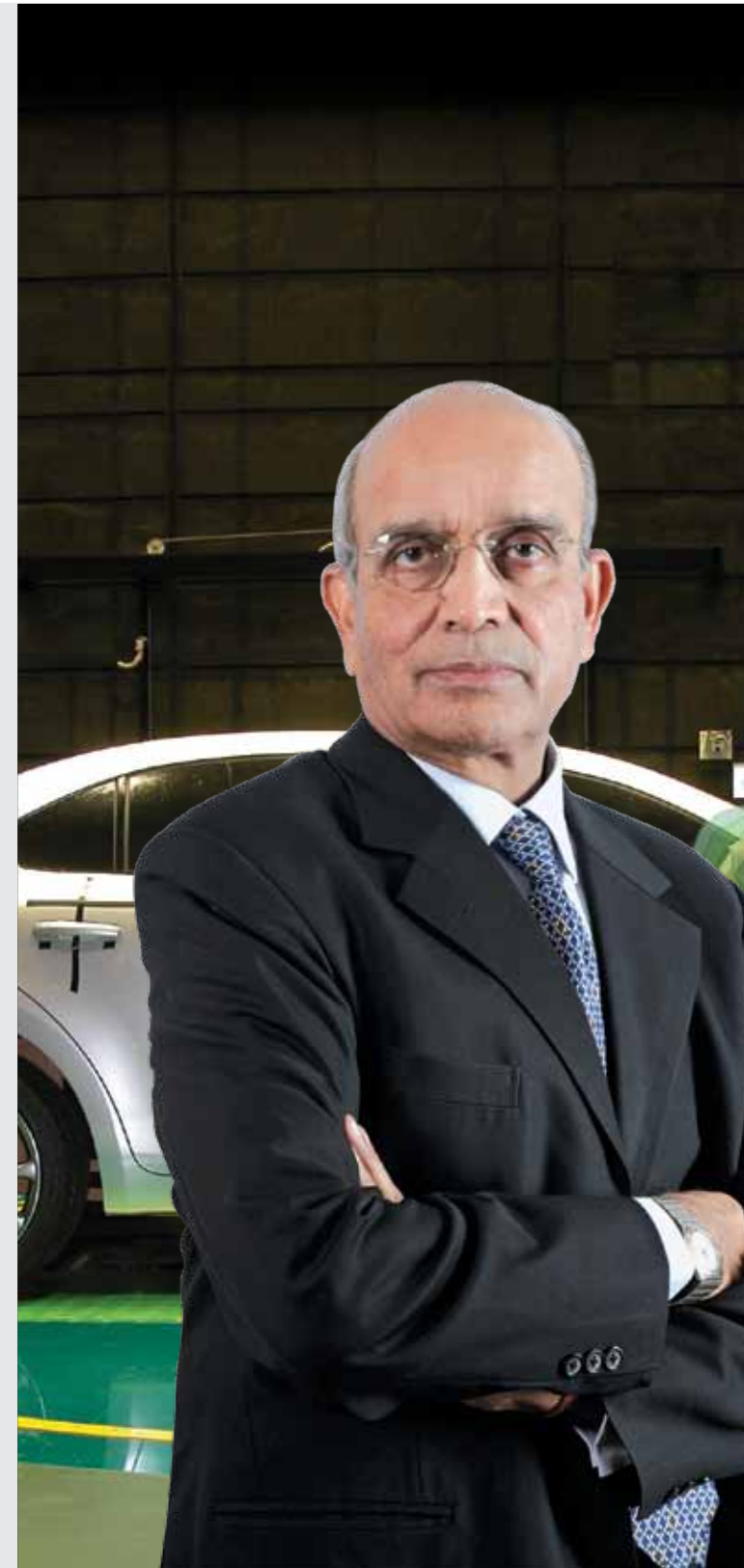
We carried out in-depth studies to determine the likely trends in consumer demand for cars in the future. It was interesting to note that in the last few years the real cost of buying cars in India had declined sharply, due to the high rates of growth of the economy and consequently per capita incomes, and the relatively much slower increase in car prices. On the basis of these studies, we expect the demand for cars to double in the next five years and grow at this rate through the rest of the decade. We also realised, on the basis of past experience, that the growth curve was very unlikely to be linear, but instead would have sharp ups and downs. That is exactly what is happening this year, when the demand, which was projected by the auto industry in the 10-15 per cent range, may even be somewhat lower. This is also partly the result of the large increases in petrol prices and interest rates on car loans. However, we have confidence that in the longer term the Indian market for cars will continue to be strong. On that basis we decided to move forward the

second line at Manesar and it would be in production in September 2011. Work is also proceeding rapidly on the third line at Manesar, and it is scheduled to be completed by September 2012.

At the same time, looking at future demand, and the gestation time in starting production at a green field site, we have started to look for another site where we can establish our next production lines. We are keeping in view the strong possibility of increasing the export of small cars to world markets, particularly Europe, the need to reduce risk of production disruptions, the logistical and infrastructural imperatives and the availability of an industrially friendly environment.

The future success of the Company critically depends on our ability to meet the customer aspirations and needs. Technology, design skills and creativity and quality have to be combined in a manner where the customer gets the best value for money. Suzuki Motor Corporation is actively helping us to achieve this goal. Our R&D facility being established in Rohtak is a major step towards this end. The R&D engineers in Japan and India are working in very close cooperation with each other and we are now a part of the integrated development of cars which was earlier all done in Japan. I am sure that this R&D centre, and the knowledge which our engineers are acquiring will give us a competitive edge in the coming years. At the same time, we started production of the K-series engines, developed by Suzuki. These engines are lighter, give better fuel efficiency and are cleaner than the engines which we were using earlier. We continue joint efforts with Suzuki to make vehicles lighter, and to give better value to customers. The term 'techno_logical' has been coined to reflect what we are doing. It is the combination of technology and logic, from the customer's view point, so as to produce cars which best meet the needs of all segments of society. Our engineers remain very conscious of the changing environment, and its impact on customer needs and will use this approach to keep the 'value for money' edge.

Our biggest resource and asset are our employees. We have always been fully committed to developing the potential of this resource as that really creates a win-win situation not only for the employees and the Company, but for all the other stakeholders. We did have an unfortunate situation developing in Manesar in June 2011, and are determined to learn from this and re-double our efforts to create a mutually productive and beneficial relationship with our workers there.



Mr. R. C. Bhargava, Chairman

The prospects and future of the Indian economy are bright. We are an integral part of that economy and will continue to participate in accelerating economic growth and manufacturing, and giving our customers and our stakeholders the benefits of the technology and the values which have been our driving force. I thank all of you shareholders for your consistent support to the management and assure you that your Company will, as always, come up to your expectations.

R. C. Bhargava
Chairman



In the background is a clay model during the initial phases of model development.