

D. Risk Factors.

This section describes the risks that we currently believe may materially affect our business. The factors below should be considered in connection with any forward-looking statements in this annual report and the cautionary statements on page 2. The risks below are not the only ones we face – some risks may be unknown to us, and some risks that we do not currently believe to be material could later turn out to be material. Whilst we would be making all reasonable efforts to mitigate or minimize these risks, one or more of a combination of these risks could materially impact our business, revenues, sales, net assets, results of operations, liquidity and capital resources.

Risk associated with Our Business and the Indian Automotive Industry.

General economic conditions could have a significant adverse impact on our sales and results of operations.

The Indian automotive industry is substantially affected by general economic conditions in India. The demand for automobiles in the Indian market is influenced by factors including the growth rate of the Indian economy, increase in disposable income among Indian consumers, interest rates and fuel prices. There can be no assurance that the Indian economy will not experience a downturn, and weakening of economic activity. An increase in interest rates and/or increases in fuel prices are examples of developments that could lead to a decline in the demand for automobiles in the Indian market, which could significantly affect our sales and future results of operations in an adverse manner.

Currency and exchange rate fluctuations could adversely affect our results of operations.

We are sensitive to fluctuations in foreign currency exchange rates. We engage in currency hedging in order to decrease our foreign exchange exposure and a weakening of the rupee against the dollar or other major foreign currencies may have an adverse effect on our cost of borrowing and consequently may increase our financing costs, which could have a significant adverse impact on our results of operations.

In addition, we have experienced and can be expected to continue to experience foreign exchange losses and gains on obligations denominated in foreign currencies in respect of our borrowings and foreign currency assets and liabilities. Although the fluctuations in the value of the rupee against the dollar has not had a material adverse effect on our financial condition and results of operations in recent periods, the depreciation in the value of the rupee against the dollar in the last year may lead to adverse effects on our financial condition and results of operations during the current fiscal year and in future periods, partly due to an increase in our dollar and/or Japanese yen denominated debt.

Intensifying competition in the Indian market could materially and adversely affect our sales and results of operations.

The Indian automobile industry is highly competitive. We face strong competition in the Indian market from domestic as well as foreign automobile manufacturers, and competition from foreign competitors is likely to intensify further in the future. There can be no assurance that we will be able to implement our future strategies in a way that will mitigate the effects of increased competition in the Indian automotive industry.

Our future success depends on our ability to satisfy changing customer demands by offering innovative products in a timely manner and maintaining such products' competitiveness.

In the competitive automotive industry, our competitors can gain significant advantage if they are able to offer products satisfying customer needs earlier than we are able to, which could adversely impact our sales and results of operations. Unanticipated delays in our proposed expansion plans resulting in delays in capacity enhancements could adversely impact our results of operations. In addition, there can be no assurance that the market acceptance of our future products will meet our expectations, in which case we could be unable to realize the intended economic benefits of our investments and our results of operations may be adversely affected.

We are subject to risks associated with product liability, warranty and recall.

We are subject to risks and costs associated with product liability, warranty and recall should we supply defective products, parts, or related after-sales services, which could generate adverse publicity and adversely affect our business, results of operations and financial condition.

Underperformance of our distribution channels and supply chains may adversely affect our sales and results of operations.

We have selected and developed exclusive dealers across India and a network of distributors and local dealers in select international markets for distribution of our products and we believe that we provide adequate incentives and support to ensure that such dealers perform to our expectations. There can be no assurance, however, that our performance expectations will be met, which could adversely affect our sales and results of operations. In addition, while we believe that we have a robust and efficient supply chain, we rely on some key vendors for some raw materials, parts and components used in the manufacture of our products. Our ability to procure these supplies in a cost effective and timely manner is subject to various factors, some of which are not always within our control. While we have not experienced significant problems with our supply chain in the past, that have materially affected our results of operations, any significant problems with our supply chain in the future could affect our results of operations in an adverse manner.

Increases in commodity prices may have a material adverse impact on our result of operations.

In fiscal 2004, 2005, and 2006, consumption of raw materials and components formed approximately 77.6%, 81.2% and 79.3%, respectively of our cost of sales. Prices of these commodity items used in manufacturing automobiles, including steel, rubber, copper, and zinc, etc are on the rise. While we have been pursuing various cost reduction programs to partially offset these price increases, there can be no assurance that we will be able to recover any future cost increases in commodity products through cost-saving measures elsewhere or that we will be able to increase the selling prices of our products, which could materially and adversely impact our sales and results of operations.

The performance of our subsidiaries and affiliates may adversely affect our results of operations.

We have made and may continue to make capital commitments to our subsidiaries and affiliates, and if the business and operations of subsidiaries and affiliates, to whom we make capital commitments, deteriorate our results of operations may be adversely affected in the future.

We are subject to risks associated with growing our business through mergers and acquisitions.

We continuously evaluate growth opportunities through suitable mergers and acquisitions. These involve business risks, including unforeseen contingent risks or latent business liabilities that may only become apparent after the merger or acquisition is finalized, successful integration and management of the merged/acquired entity with us, retention of key personnel, joint sales and marketing efforts, management of a larger business and diversion of management's attention from other ongoing business concerns. If we are not able to manage these risks successfully our results of operations could be adversely affected.

We may be adversely affected by labor unrest.

All of our regular employees and those of some of our consolidated subsidiaries in India, other than officers and management, are members of labor unions and are covered by our wage agreements with those labor unions which have different tenures (typically three years) at different locations. In general, we consider our labor relations with all of our employees to be good. However, we may in the future be subject to labor unrest, which may delay or disrupt our operations in the affected regions, including the acquisition of raw materials and parts, the manufacture, sales and distribution of products and the provision of services. If work stoppages or lock-outs at our facilities or at the facilities of our major vendors occur or continue for a long period of time, our business, financial condition or results of operations may be adversely affected.

Risk associated with Political and Regulatory Risk

India's obligations under the World Trade Organisation Agreement.

India's obligation under its World Trade Organization agreement could lower the level of relatively high tariffs on imports of components and vehicles particularly with respect to cars in completely built units and/or completely knocked down units, which could adversely affect, our sales and results of operations.

Environmental and Government regulations.

As an automobile company, we are subjected to extensive governmental regulations regarding vehicle emission levels, noise, safety and levels of pollutants generated by our production facilities. These regulations are likely to become more stringent and the costs to comply with the same may significantly impact our future results of operations. Imposition of any additional taxes and levies by the Indian government designed to limit the use of automobiles could adversely affect the demand for our products and our results of operations. Regulations in the areas of investments, taxes and levies may also have an impact on Indian securities, including our shares and ADSs.

We may be adversely impacted by political instability, wars, terrorism, multinational conflicts, natural disasters, fuel shortages/prices, epidemics and labor strikes.

Our products are exported to other geographical markets from India and South Korea and we plan to expand our international operations, further in the future. As such, we are subject to various risks associated with conducting our business worldwide and our operations may be subject to political instability within and outside India, wars, terrorism, regional and/or multinational conflicts, natural disasters, fuel shortages, epidemics and labor strikes. Any significant or prolonged disruptions or delays in our operations related thereto could adversely impact our results of operations.

Compliance with new and changing corporate governance and public disclosure requirements adds uncertainty to our compliance policies and increases our costs of compliance.

Changing laws, regulations and standards relating to accounting, corporate governance and public disclosure, including the Sarbanes-Oxley Act of 2002 and new Securities and Exchange Commission (SEC) regulations, Securities and Exchange Board of India (SEBI) regulations, New York Stock Exchange (NYSE) listing rules and Indian stock market listing regulations, have increased complexity for us. These new or changed laws, regulations and standards may lack specificity and are subject to varying interpretations. Their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies. This could result in continuing uncertainty regarding compliance matters and higher costs of compliance as a result of ongoing revisions to such governance standards.

In particular, our efforts to comply with Section 404 of the Sarbanes-Oxley Act of 2002 and the related regulations regarding our required assessment of our internal controls over financial reporting and our independent accountants' audit of that assessment requires the commitment of significant financial and managerial resources. There is a risk that as yet unidentified control deficiency may be identified as a result of the assessment. We are committed to maintaining high standards of corporate governance and public disclosure, and our efforts to comply with evolving laws, regulations and standards in this regard have resulted, and are likely to continue to result in increased general and administrative expenses and a diversion of management time and attention from revenue-generating activities to compliance activities.

Risks associated with Investments in an Indian Company.

Political changes in the Government in India could delay the further liberalization of the Indian economy and adversely affect economic conditions in India generally and our business in particular.

Substantially our manufacturing and sales and distribution facilities are located in India, and in fiscal 2006, 2005 and 2004, approximately 82.4%, 86.1% and 92.1% respectively, of our revenues were derived from sales

within India. Our business, and the market price and liquidity of our ADSs and shares, may be affected by foreign exchange rates and controls, interest rates, changes in government policy, taxation, social and civil unrest and other political, economic or other developments in or affecting India.

Since 1991, successive Indian Governments have pursued policies of economic liberalization, including significantly relaxing restrictions on the private sector. Nevertheless, the roles of the Indian central and state governments in the Indian economy as producers, consumers and regulators have remained significant. Consequent to an election in April and May 2004, there was a change in government. Although the government has announced its intention to continue with economic reforms implemented by its predecessor, these reforms can be implemented only with agreement of the coalition partners of the government. Whilst the coalition government has already committed to a common minimum agenda, there can be no assurance that there will not be changes in the economic reform, and specific laws and policies affecting automotive companies, foreign investment, currency exchange and investment regulations governing India's capital markets that could negatively affect us. Uncertainty regarding possible policy changes immediately after elections has in the past resulted in significant volatility in price and trading volumes of securities of Indian companies. A significant change in India's economic liberalization and deregulation policies could adversely affect business and economic conditions in India generally, and our business in particular, if new restrictions on the private sector are introduced or if existing restrictions are increased.

Regional conflicts in Asia and other export markets could adversely affect the Indian economy and cause our business to suffer.

The Asian region has from time to time experienced instances of civil unrest and hostilities among neighboring countries, and military hostilities and civil unrest in other Asian countries. Events of this nature in the future could influence the Indian economy and could have a material adverse effect on the market for securities of Indian companies, including our ADSs and shares, and on the market for our vehicles.

Rights of shareholders under Indian law may be more limited than under the laws of other jurisdictions.

Our Articles of Association, which include regulations applicable to our Board of Directors, and Indian law govern our corporate affairs. Legal principles relating to these matters and the validity of corporate procedures, directors' fiduciary duties and liabilities, and shareholders' rights may differ from those that would apply to a company in another jurisdiction. Shareholders' rights under Indian law may not be as extensive as shareholders' rights under the laws of other countries or jurisdictions, including the United States. You may have more difficulty in asserting your rights as a shareholder than you would as a shareholder of a corporation organized in another jurisdiction.

Investors may have difficulty enforcing judgments against us or our management.

We are a limited liability company incorporated under the laws of India. Almost all of our directors and executive officers named in this annual report are residents of India. Further, most of our assets and the assets of these directors and executive officers are located in India. As a result, investors may find it difficult to (i) effect service of process upon us or these directors and executive officers in jurisdictions outside India, (ii) enforce court judgments obtained outside India, including those based upon the civil liability provisions of the U.S. federal securities laws, against us or these directors and executive officers, (iii) enforce, in an Indian court, court judgments obtained outside India, including those based upon the civil liability provisions of the U.S. federal securities laws, against us or these directors and executive officers, and (iv) obtain expeditious adjudication of an original action in an Indian court to enforce liabilities, including those based upon the U.S. federal securities laws, against us or these directors and executive officers.

India is not a party to any international treaty in relation to the recognition or enforcement of foreign judgments. Recognition and enforcement of foreign judgments is provided under Section 13 of the Code of Civil

Procedure, 1908, or the Civil Code. Section 13 and Section 44A of the Civil Code provide that a foreign judgment shall be conclusive as to any matter thereby directly adjudicated upon except (i) where it has not been pronounced by a court of competent jurisdiction, (ii) where it has not been given on the merits of the case, (iii) where it appears on the face of the proceedings to be founded on an incorrect view of international law or a refusal to recognize the law of India in cases where Indian law is applicable, (iv) where the proceedings in which the judgment was obtained were opposed to natural justice, (v) where it has been obtained by fraud or (vi) where it sustains a claim founded on a breach of any law in force in India.

Section 44A of the Civil Code provides that where a foreign judgment has been rendered by a superior court in any country or territory outside India which the Government has by notification declared to be a reciprocating territory, it may be enforced in India by proceedings in execution as if the judgment had been rendered by the relevant court in India. However, Section 44A of the Civil Code is applicable only to monetary decrees not being in the nature of any amounts payable in respect of taxes or other charges of a like nature or in respect of a fine or other penalty.

The United States has not been declared by the Government of India to be a reciprocating territory for the purpose of Section 44A of the Civil Code. Accordingly, a judgment of a court in the United States may be enforced only by a suit upon the judgment and not by proceedings in execution. The suit must be brought in India within three years from the date of the judgment in the same manner as any other suit filed to enforce a civil liability in India. It is unlikely that a court in India would award damages on the same basis as a foreign court if an action is brought in India. Furthermore, it is unlikely that an Indian court would enforce foreign judgments if it viewed the amount of damages awarded as excessive or inconsistent with Indian practice. A party seeking to enforce a foreign judgment in India is required to obtain approval from the Reserve Bank of India (RBI) to execute such a judgment or to repatriate outside India any amount recovered.

Risk associated with our Shares and ADSs.

Fluctuations in the exchange rate between the rupee and the dollar may have a material adverse effect on the value of the ADSs and the Shares, independent of our operating results.

Fluctuations in the exchange rate between the Rupee and the Dollar will affect, among others things, the Dollar equivalents of the price of the shares in Rupees as quoted on the Indian stock exchanges and, as a result, may affect the market price of the ADSs. Such fluctuations will also affect the Dollar equivalent of any cash dividends in Rupees received on the Shares represented by the ADSs and the Dollar equivalent of the proceeds in Rupees of a sale of shares in India.

The exchange rate between the rupee and the dollar has changed substantially in the last two decades and may substantially fluctuate in the future. On an annual average basis, the rupee declined against the dollar, since 1980. The value of the Rupee against the Dollar was Rs.45.87 = US\$ 1.00 as of June 30, 2006.

The market value of your investment may fluctuate due to the volatility of the Indian securities market.

The Indian stock exchanges have, in the past, experienced substantial fluctuations in the prices of their listed securities. The Indian stock exchanges, including the Bombay Stock Exchange Limited (BSE), have experienced problems that, if they continue or recur, could affect the market price and liquidity of the securities of Indian companies, including our shares. These problems have included temporary exchange closures, broker defaults, settlement delays and strikes by brokers. In addition, the governing bodies of the Indian stock exchanges have from time to time, imposed restrictions on trading in certain securities, limitations on price movements and margin requirements. Furthermore, from time to time disputes have occurred between listed companies and stock exchanges and other regulatory bodies, which in some cases may have had a negative effect on market sentiment.

There may be a different level of regulation and monitoring of the Indian securities markets and the activities of investors, brokers and other participants than in the United States. The SEBI received statutory powers in 1992 to assist it in carrying out its responsibility for improving disclosure and other regulatory

standards for the Indian securities markets. Subsequently, SEBI has prescribed regulations and guidelines in relation to disclosure requirements, insider dealing and other matters relevant to the Indian securities market. There may, however, be less publicly available information about Indian companies than is regularly made available by public companies in the United States.

Holders of ADSs have fewer rights than shareholders and must act through the depositary to exercise those rights.

Although holders of ADSs have a right to receive any dividends declared in respect of Shares underlying the ADSs, they cannot exercise voting or other direct rights as a shareholder with respect to the Shares underlying the ADSs evidenced by ADRs. Citibank, N.A., as depositary is the registered shareholder of the deposited shares underlying our ADSs, and therefore only Citibank, N.A. can exercise the rights of shareholders in connection with the deposited shares. Only if requested by us, the depositary will notify holders of ADSs of upcoming votes and arrange to deliver our voting materials to holders of ADSs. The depositary will try, in so far as practicable, subject to Indian laws and the provisions of our Articles of Association, to vote or have its agents vote the deposited securities as instructed by the holders of ADSs. If the depositary timely receives voting instructions from a holder of ADSs which fail to specify the manner in which the depositary is to vote the shares underlying such holder's ADSs, such holder will be deemed to have instructed the depositary to vote in favor of the items set forth in such voting instructions. If the depositary has not received timely instructions from a holder of ADSs, the holder shall be deemed to have instructed the depositary to give a discretionary proxy to a person designated by us, subject to the conditions set forth in the deposit agreement. If requested by us, the depositary is required to represent all shares underlying ADSs, regardless whether timely instructions have been received from the holders of such ADSs, for the sole purpose of establishing a quorum at a meeting of shareholders. Additionally, in your capacity as an ADS holder, you will not be able to bring a derivative action, examine our accounting books and records, or exercise appraisal rights. Registered holders of our shares withdrawn from the depositary arrangements will be entitled to vote and exercise other direct shareholder rights in accordance with Indian law. However, a holder may not know about a meeting sufficiently in advance to withdraw the underlying shares in time. Furthermore, a holder of ADSs may not receive voting materials, if we do not instruct the depositary to distribute such materials, or may not receive such voting materials in time to instruct the depositary to vote.

Further, pursuant to Indian regulations, we are required to offer our shareholders pre-emptive rights to subscribe for proportionate number of shares to maintain their existing ownership percentages prior to the issue of new shares. These rights may be waived by a resolution passed by at least 75% of our shareholders present and voting at a general meeting. Holders of ADSs may be unable to exercise pre-emptive rights for subscribing to these new shares unless a registration statement under the Securities Act is effective or an exemption from the registration requirements is made available to us. Our decision to file a registration statement would be based on the costs, timing, potential liabilities and the perceived benefits associated with any such registration statement and we do not commit that we would file such a registration statement. If any issue of securities is made to our shareholders in the future, such securities may also be issued to the Depositary, which may sell such securities in the Indian securities market for the benefit of the holders of ADSs. There can be no assurance as to the value, if any, the Depositary would receive upon the sale of these rights/securities. To the extent that the holder of the ADSs are unable to exercise pre-emptive rights, their proportionate interest in us would stand reduced.

As a result of Indian Government regulation of foreign ownership the price of the ADSs could decline.

Foreign ownership of Indian securities is regulated and is partially restricted. In addition, there are restrictions on the deposit of Shares into our ADS facilities. ADSs issued by companies in certain emerging markets, including India, may trade at a discount to the underlying equity shares, in part because of the restrictions on foreign ownership of the underlying equity shares and in part because ADSs are sometimes perceived to offer less liquidity than underlying shares which can be traded freely in local markets by both local and international investors. See Item 10.D "Exchange Controls". The ADSs could trade at a discount to the market price of the underlying Shares.