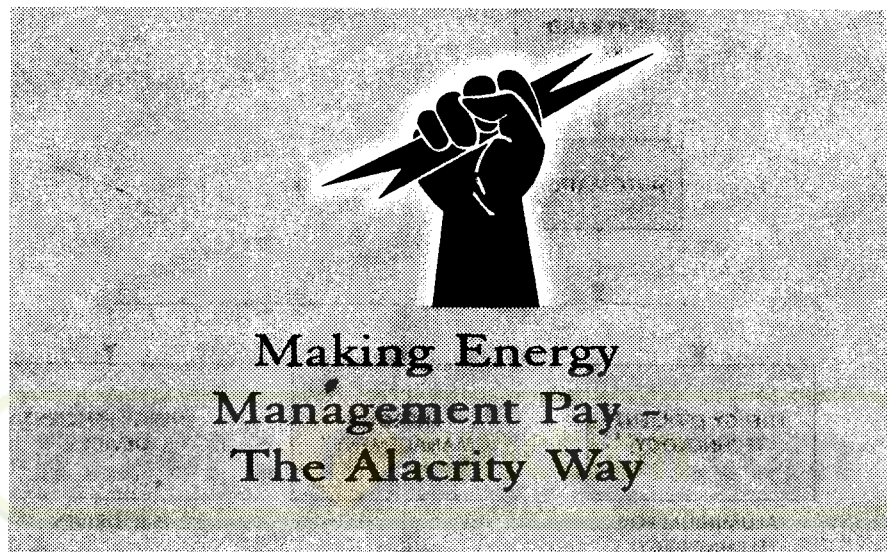
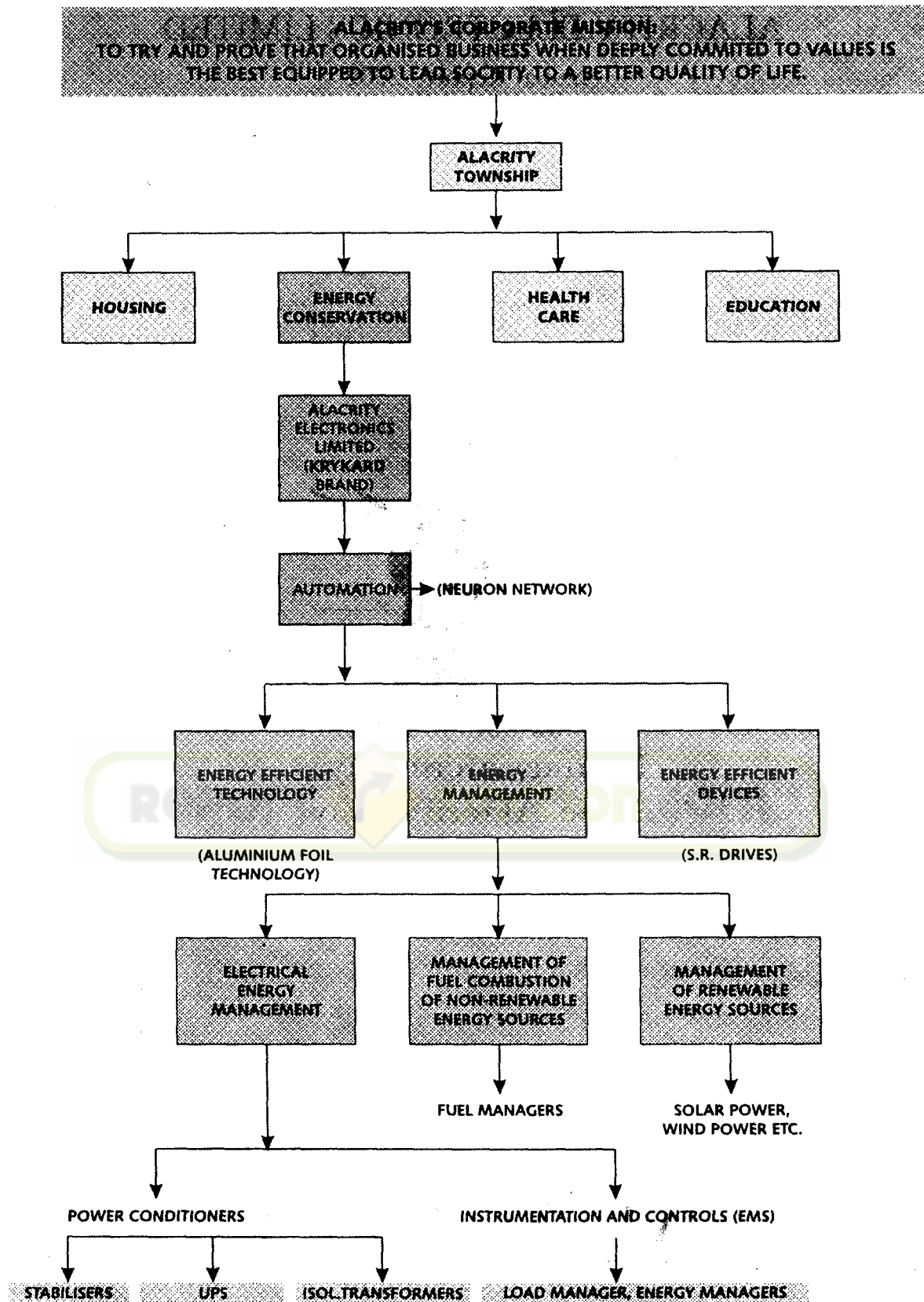


ALACRITY ELECTRONICS LIMITED

Annual Report - 2002



ALACRITY
No wealth or power greater than our dignity and integrity



Board of Directors

AMOL KARNAD Chairman

DILIP D DHARMASTHAL Managing Director

VIJAY NAGASWAMI Director

Top Management Team

N JAYA PRAKASH Senior Vice President (R & D)

KANAGARAJ ALEXANDER Vice President (Technology Development)

R CHANDRASEKHAR Vice President (Product Development)

SUDESH KUMTA Vice President (Business Development)

B HARIKRISHNAN Vice President (Marketing)

Bankers

CANARA BANK

Auditor

RAJAN VERGHESE CHACKO Chartered Accountant, Chennai

Registered Office

'Atandra', 25, Thirumalai Road, T.Nagar, Chennai 600 017. Tel: 5212 3432/3435/3436

Fax: 2825 9406 E-mail: shares@alacritymail.com Web: www.alacritygroup.com

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Research & Development, Design & Product Development Centre

49 & 50, Ranganathan Street, Karapakkam, Chennai 600 096.

Factory

No.10, MGR Road, Sholinganallur, Chennai 600 119.

Branches

Ahmedabad

No. 4, Hirabaug Society, Bhuyangdev, Ghatlodia, Ahmedabad 380 061.

Bangalore

85, 6th Main Road, Between 9th & 11th Cross, Malleswaram, Bangalore 560 003.

Chennai

12-B, Valmiki Street, T.Nagar, Chennai 600 017.

Coimbatore

Plot No. 3 & 4, Anna Nagar 1st Street, Ganapathy, Coimbatore 641 006.

Delhi

57, Pratap Nagar, Street No.15, Opp. Pocket - IV, Mayur Vihar Phase- I, New Delhi 110 091.

Mumbai (Navi Mumbai)

107, The Great Eastern Summit-B, Plot No. 66, Sector 15, CBD Belapur, Navi Mumbai 400 614.

Secunderabad

Plot No. 163, Road No. 1, West Marredpally, Secunderabad 500 026.

NOTICE

ALACRITY ELECTRONICS LIMITED
25, Thirumalai Road, T.Nagar, Chennai - 600 017

NOTICE is hereby given that the Tenth Annual General Meeting of ALACRITY ELECTRONICS LIMITED will be held at 11.00 A.M. on Friday, the 28th February, 2003, at Sri Thyaga Brahma Gana Sabha (Vani Mahal), 103, G.N.Chetty Road, T.Nagar, Chennai 600 017 to transact the following business:

ORDINARY BUSINESS

1. To receive, consider, approve and adopt the Audited Profit and Loss Account for the financial year ended 31st December 2002, the Balance Sheet as at that date, together with the reports of the Directors and the Auditor.
2. To appoint a Director in place of Mr. Amol Karnad who retires by rotation and being eligible offers himself for re-appointment.
3. To appoint an auditor and fix his remuneration.

Chennai
January 30, 2003

By order of the Board
Dilip Dharmasthal
Managing Director

NOTES:

1. A member entitled to attend and vote is entitled to appoint a proxy to attend and vote in his stead and a proxy need not be a member.
2. A form of proxy and admission slip is enclosed. The completed proxy forms must be deposited with the Company at its Registered Office not less than 48 hours before the meeting.
3. The Register of Members and the Share Transfer Books of the Company will remain closed from 18/2/2003 to 28/2/2003 (both days inclusive).
4. Members are requested to notify any change in their address to the Company/Depository Participant as the case may be.
5. Members are requested to bring the copies of the Annual Report to the meeting. In view of the high cost of printing, additional copies of the Annual report will not be distributed at the meeting.
6. Consequent upon the amendment to Section 205A of the Companies Act, 1956, and insertion of Section 205C by the Companies (Amendment) Act, 1999, the amount of dividend remaining unpaid or unclaimed for a period of seven years shall henceforth be transferred to the Investor Education and Protection Fund. Accordingly, the unclaimed dividend for the financial year ended 31st March 1999 will be deposited by the Company into the Investor Education and Protection Fund upon expiry of the prescribed period of seven years after which the shareholders will not have any claim over their dividends. Hence shareholders who have not yet claimed their dividend for the abovesaid year are requested to claim the same before the respective statutory period is over.
7. Admission restricted to members or proxies only.
8. Members who have queries on the accounts of the Company are requested to send the same to the Company at the earliest, to enable gathering of data needed for the replies.
9. Members/Proxy holders are requested to produce their admission slips at the entrance of the meeting hall.

Chennai
January 30, 2003

By order of the Board
Dilip Dharmasthal
Managing Director

DIRECTORS' REPORT

We are presenting this, the Tenth Annual report of your Company for the fifteen-month period ended 31st December, 2002 together with the audited accounts.

FINANCIAL RESULTS

The Sales Projections indicated in our last report rested on two key factors:

1. The Company had in hand letters of intent / agreements from major players (OEMs) in the AC industry indicating their large volume requirements of our Power Conditioners (related sales value estimated around Rs.10 crores per annum)
2. The operating group would need to sustain a very high efficiency of the turnover cycle if the Company were to realise the above sales within the constraints of its working capital limits and modest profit margins.

The promising prospect however turned out to be a disaster. The AC market unexpectedly revealed itself to be quite unstable. Payments from the first OEM for supplies in the first cycle itself got held up on various accounts while the OEM itself was progressively reported to be in a financial crisis. The hold-up of collections choked both the temporary overdraft as well as the Bills Discounting facilities provided by bankers and set in motion its own financial crisis. It not only setback supplies and further sales to the second OEM (which also in due course was reported to be in financial trouble, thus indicating the unpredictable nature of the market) but also adversely affected business across all products. In the hope of compensating and improving the results by the sale of know-how for some new products / technologies (explained later in this report), the Board extended the financial year by three months. But these sales have taken more time than anticipated. As a result of all these developments, the Company has completed the extended 15 month period with a turnover of only Rs.12.5 crores and a loss of about Rs.65 lacs.

	Period ended 31/12/2002 (Rs. Lacs)	Period ended 30/9/2001 (Rs. Lacs)
Profit/(Loss) before depreciation and tax	(51.35)	(5.99)
Less : Depreciation	13.21	17.80
Profit before tax	(64.56)	(23.79)
Less : Provision for tax	Nil	Nil
Profit/(Loss) after tax	(64.56)	(23.79)
Appropriations :		
Income Tax short provision of earlier year	Nil	12.12
	(64.56)	(35.91)
Add : Balance brought forward from previous year	54.27	90.18
Balance carried to Balance sheet	(10.29)	54.27

DIVIDEND

The Board has not recommended any dividend for the year under review.

DIRECTORS' REPORT

THE YEAR UNDER REVIEW

The Company's financial crisis affected various products and their sales as well as the organisation's morale and working as follows:

Servo Automatic Voltage Stabilisers (SAVS): Against a projected Sales of Rs.10 crores, a sale of Rs.92 lacs was realised with resultant pressure from the bank to reverse the temporary overdraft facility. The new assembly line production facility set up specifically for supplying the AC market segment had to be dismantled and the additional work force hired on probation for this purpose sent home.

Servo Controlled Voltage Stabilisers (SCVS): Although the Company had orders from every major player in the fast growing Telecom sector, supplies were delayed and its excellent product quality did not sufficiently balance the poor deliveries as a result of which, several orders were lost in the second round.

Instrumentation & Controls (I&C): Delayed payments to M/s. Elcontrol Energy, the Company's Italian collaborators led to their discontinuing their marketing arrangement with the Company and set back the projected sales of lower-end meters and portable analysers. The high end meters imported from M/s. Power Measurements Ltd., Canada made an impact in the market and resulted in a good order position. However cash flow constraints did not enable capitalisation of this and some major orders got cancelled.

Building & Industrial Automation: The ground work for the installation of an automation network in the hospital complex, reported last year, is under way.

After Sales Service: Revenue from the stream though reduced from the previous period, remained steady.

Morale of Managers and Employees: With salaries delayed and with financial and market pressure as never before, the unrest in employees down the line reached a new level which led them to start an employees' union. The union has been affiliated to a labour union outside the Company but its members have thus far generally conducted themselves with patience and understanding.

There has been a small turnover in the senior ranks, but the majority of the managers have by and large stood firm and committed.

Lack of working capital affected supplier payments, tax payments, PF remittances and production. In fact production in the last two months of the period had reduced to almost a trickle. The Company's extraordinary circumstances have been explained to the various authorities to whom payments were delayed and given its market standing and past track record, the management has received their understanding and support substantially.

Inventories: The erratic behaviour of the markets for several products and consequently the production schedules has resulted in uneconomical production inventories in terms of specification mismatch, redundancy and some obsolescence. Although the excess production stock will be utilised in after sales service, it may tend to move at a slower pace and lock up working capital in the short term.

Receivables: The instability in the market, has resulted in the average age of the Company's receivables to be between 7 to 8 months. The receivables which are more than 6 months old are expected to be realised before the end of the current year. This assessment is based on the fact that the Company's brand value for quality and core market goodwill in terms of continuing faith from longstanding customers and dealers remains intact.

DIRECTORS' REPORT

Banking Operations: Given the extraordinary pressure of functioning within the severely constrained working capital available, the management in an effort to meet the pressing business commitments to its other constituents has fallen behind on its commitments to its bankers. The management has discussed this matter with the bankers who have extended understanding but advised the Company to correct the situation quickly.

Suppliers: Long standing suppliers have also extended their credit extraordinarily and been loyal partners in this hour of crisis.

MANAGING THE FINANCIAL CRISIS AND ENSURING RECOVERY IN THE CURRENT YEAR

The financial and organisational difficulties experienced during the year under review had awakened in the management, the need to quickly evolve and implement creative and innovative initiatives that would correct the situation and enable realisation of the true potential of the Company's long term market and product strategies within the current year. These are detailed below. It will be seen that, these plans can be implemented with little or no additional working capital from the Company.

Power Conditioners:

Servo Controlled Voltage Stabilisers (SCVS): The market for SCVS is extremely encouraging with the overall revival of industrial markets. The textile, automobile and telecom segments are in a growth phase and substantial business is expected from them. Some of the Company's Vendors and Dealers have come forward to invest working capital to facilitate the production of SCVS and Isolation Transformers. With production meeting the market requirements, the Company will be able to achieve a turn over of Rs.1350 lacs in the current financial year.

Servo Automatic Voltage Stabilisers (SAVS): Plans for tapping the market for the SAVS in the Air conditioner and Refrigerator segments have been put on hold on account of the low margins and unpredictable market conditions. However there is a good market for these Stabilisers in the Photocopier segment. This segment will be tapped through both the OEM and direct channels to ensure greater predictability and better margins. The volume of business expected from this segment in the current financial year is about Rs.66 lacs.

Uninterrupted Power Supply (UPS): The development of a state-of-art On-line UPS for the single and network PC market has been completed. Its price is comparable to the conventional line interactive UPS available in the market. It will be ready for release into the market by the end of March this year. The options available for making this into a large business are as follows:

1. Sell this technology for a consideration, which includes Royalty payments, to leading manufacturers of UPS. We are currently in negotiation with two such manufacturers.
2. Manufacture and sell the UPS to a large computer company, who will in turn market it throughout the country through their established network.

The Company believes that one of these two options, will establish its UPS in the market in the current year and generate substantial revenue in the forthcoming years.

Anticipating that negotiations will be concluded shortly and some of these financial gains could be booked in the year under review, the Company had extended the financial year by three months beyond September 2002. As it turned out, these negotiations progressed much more slowly than anticipated but are likely to be concluded soon.

DIRECTORS' REPORT

Instrumentation & Controls (I&C):

Panel mounted electrical power & energy meters: PML, the Canadian principals for the higher-end meters and network systems made no fuss about our falling short of a committed target and expressed their interest in expanding the scope of its association based on the excellent installation and service provided by your Company for their products. The prospects for this business are bright as the PML range offers comprehensive solutions for energy monitoring and management in industry. The Company already has a large pending order and to enable the import of meters against these orders, the Company had approached another Authorised Distributor of PML in India to open LCs on its behalf. This arrangement has been finalised and orders placed for the first lot of 250 nos. on PML in January 2003. With this arrangement in place, the Company will be able to achieve a turnover of about Rs. 400 lacs from this range of products in the current year.

Portable electrical power & energy analysers: Subsequent to cessation of the marketing arrangement with Elcontrol, the Company has now entered into a similar arrangement with a French meter manufacturer, M/s. Chauvin Arnoux, who are among the leading manufacturers for electrical power & energy meters and analysers in the world. Arrangements similar to that of importing PML meters have already been put in place for importing these meters. A turnover of about Rs. 180 lacs from this range of products is expected to be achieved in the current year.

Building & Industrial Automation: The Company has launched the marketing of its Building Automation Systems with an order from a hospital in Chennai. This project will be completed within the next couple of months and further orders for 3 to 4 such projects are expected in the current year.

Service Revenue: Service revenue is expected to remain steady in the current year.

Aluminium Foil Transformers: The Company has realised that its strategy of targeting the lower end of the market especially when the industry is in the grip of recession was inappropriate. It has now initiated discussions with manufacturers of aluminium foil itself for joint promotion of AFT technology. Earnest efforts will be made in the current year to finalise the sale of technology for AFT. The consideration towards sale of technology and Royalties from the same has the potential of generating revenue of about Rs.700 lacs over the next five years.

Switched Reluctance Motor (SR Motor): Efforts are now on to complete the engineering of this motor for automotive applications. The world over, Governments are becoming increasingly sensitive to pollution created by emission gases of automobiles. The SR motor will be used as an electrical drive to complement the functioning of the existing IC engine, thus forming a Hybrid Electric drive. This will help bring down emission levels substantially. Once completed, either the technology will be sold to an automotive major or the complete drive system itself will be manufactured and marketed to automobile manufacturers in India and abroad.

Morale of the Employees: Employees have been able to appreciate the efforts made so far to revive the business and the management expects their whole hearted support to make this possible.

Banking operations: The Company will discuss with its Bank these plans for reviving the business and the initiatives taken to implement them. The Company is confident of streamlining the banking operations and believes that the Bank will continue to give the support it has given so far.

CORPORATE GOVERNANCE

Provisions relating to Corporate Governance are applicable from the current financial year and necessary steps are being taken to comply with the same.

DIRECTORS' REPORT

DIRECTORS' RESPONSIBILITY

Pursuant to Section 217(2AA) of the Companies (Amendment) Act, 2000 the Directors confirm that:

1. In the preparation of the annual accounts, the applicable accounting standards had been followed along with proper explanation relating to material departures.
2. The directors had selected such accounting policies and applied them consistently and made judgements and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the company at the end of the financial year and of the profit or loss of the company for that period.
3. The directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities.
4. The directors had prepared the annual accounts on a going concern basis.

PUBLIC DEPOSITS

Your Company has neither invited nor accepted any deposits from the Public.

CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION, FOREIGN EXCHANGE EARNINGS AND OUTGO

The activities of the Company involve very little use of energy, electrical or otherwise and hence, no particulars are presented under this head. Disclosures relating to R & D, technology absorption and foreign exchange outgo are furnished in Annexure - A.

PARTICULARS OF EMPLOYEES

None of the personnel in the Company was in receipt of remuneration in excess of the limits prescribed in section 217(2A) of the Companies Act, 1956 during the period under report.

LISTING

Your Company's shares are listed at Chennai, Mumbai, Coimbatore and Hyderabad Stock Exchanges and the Company has paid the listing fees to Chennai and Mumbai Stock Exchanges for the year 2002-2003.

DIRECTORS

Mr. Amol Karnad retires by rotation at the ensuing Annual General Meeting and being eligible, offers himself for re-election.

SECRETARY

The Company Secretary's post in your Company has become vacant and efforts are on to fill the vacancy.

AUDITOR

Mr. Rajan Verghese Chacko, Chartered Accountant, Auditor of the Company, retires at the ensuing Annual General Meeting and is eligible for re-appointment.