

18th Annual Report 2003-04



A TATA & AVAYA Company

Every time your business excels, we get
a little closer to realising our vision.



Our vision is to be recognised as the most customer responsive organisation. Enabling our customers to enhance **their** business performance, we strive to provide best-in-class converged communication solutions. We bring them the latest technological advances in converged voice, video and data solutions, IP-based communication solutions and contact center solutions. We aspire to be their most trusted partners enabling corporate India, to play an important role in the global market.

Converged Solutions: ► ECLIPS: VoIP, Data Networking, Unified Messaging

► Videoconferencing Solutions ► Telephony Solutions

Contact Center Solutions

Customer Services

TATA
TELECOM

A **TATA** & **AVAYA** Company

www.tatatelecom.com

TATA TELECOM LIMITED

DIRECTORS

K. A. CHAUKAR	<i>Chairman</i>
NIRU MEHTA	<i>Vice-Chairman</i>
MARK LEIGH	
HORATIO WONG	<i>Resigned w.e.f. 08.01.04</i>
S. CHANDRASEKAR	<i>Resigned w.e.f. 05.03.04</i>
S. RAMAKRISHNAN	
N. SRINATH	
PRADEEP MALLICK	
C. B. BHAVE	
PETER KWAN	<i>Appointed w.e.f. 22.01.04</i>

COMPANY SECRETARY

VISHAL KOHLI

AUDITORS

M/s. C. C. CHOKSHI & CO.
Chartered Accountants

REGISTERED OFFICE

Matulya Centre, 'A' Block,
249, Senapati Bapat Marg,
Lower Parel (West),
Mumbai-400 013.

CORPORATE OFFICE

DLF Square, II Floor, M-Block,
Jacaranda Marg,
DLF City, Phase II,
Gurgaon-122 002.

WORKS

E-1/I, Gandhinagar Electronics Estate,
Gandhinagar-382 044,
Gujarat.

REGIONAL OFFICES

BANGALORE, CHENNAI, DELHI, KOLKATA,
MUMBAI, PUNE

BRANCHES AND SERVICE CENTRES

AHMEDABAD, ASANSOL, BARODA,
BHATINDA, BHOPAL, BHUBANESHWAR,
BILASPUR, CHANDIGARH, COCHIN,
COIMBATORE, GOA, GUWAHATI,
HYDERABAD, INDORE, JABALPUR, JAIPUR,
JAMMU, JAMSHEDPUR, JODHPUR,
LUCKNOW, NAGPUR, RANCHI,
SAMBALPUR, SHILLONG, SILIGURI,
SRINAGAR, SURAT, TENGA, TEZPUR,
TRIVANDRUM, VIZAG

BANKERS

BANK OF INDIA
CALYON BANK – *Formally known as*
CREDIT AGRICOLE INDOSUEZ
IDBI BANK LTD.

REGISTRARS AND SHARE TRANSFER AGENTS

TATA SHARE REGISTRY LTD. (TSRL)
Army & Navy Building,
148, Mahatma Gandhi Road,
Fort, Mumbai-400 001.

AUDIT COMMITTEE

S. CHANDRASEKAR — *Chairman - Resigned w.e.f. 05.03.04*
S. RAMAKRISHNAN
C. B. BHAVE
PRADEEP MALLICK — *Appointed w.e.f. 29.07.03*

SHAREHOLDERS' / INVESTORS'

GRIEVANCE COMMITTEE

PRADEEP MALLICK — *Chairman*
S. CHANDRASEKAR — *Resigned w.e.f. 05.03.04*
NIRU MEHTA

ETHICS AND COMPLIANCE COMMITTEE

PRADEEP MALLICK — *Chairman*
S. CHANDRASEKAR — *Resigned w.e.f. 05.03.04*
C. B. BHAVE
NIRU MEHTA

CONTENTS

PAGE NO.

Notice	2
Directors' Report	6
Management Discussion and Analysis Report	12
Corporate Governance Report	16
Auditors' Report	25
Balance Sheet	28
Profit and Loss Account	29
Cash Flow Statement	30
Schedules to Accounts	32
Financial Highlights	46

NOTICE

NOTICE IS HEREBY GIVEN THAT THE EIGHTEENTH ANNUAL GENERAL MEETING OF THE MEMBERS OF TATA TELECOM LIMITED will be held on Friday, the 23rd day of July, 2004 at 11:00 A.M. at the Bombay House Auditorium, Bombay House, 24, Homi Mody Street, Mumbai - 400 001, to transact the following business :

Ordinary Business

1. To receive and adopt the Directors' Report, audited Profit and Loss Account for the year ended March 31, 2004 and the Balance Sheet as at that date.
2. To declare dividend on equity shares.
3. To appoint a Director in place of Mr. S. Ramakrishnan who retires by rotation and is eligible for re-appointment.
4. To appoint a Director in place of Mr. N. Srinath who retires by rotation and is eligible for re-appointment.
5. To appoint a Director in place of Mr. Pradeep Mallick who retires by rotation and is eligible for re-appointment.

Special Business

6. Appointment of Auditors

To consider and if thought fit, to pass, with or without modification(s), the following resolution as an Ordinary Resolution :-

"RESOLVED that pursuant to the provisions of Section 224, 225 and other applicable provisions of the Companies Act, 1956, M/s. Lovelock & Lewes, Chartered Accountants, Mumbai, be and are hereby appointed Auditors of the Company, to hold office from the conclusion of this meeting upto the conclusion of the next Annual General Meeting of the Company, to examine and audit the accounts of the Company for the financial year 2004-05 on such remuneration as may be mutually agreed upon between the Board of Directors and the Auditors in addition to reimbursement of service tax, out-of-pocket expenses, travelling and other expenses, in connection with the work of audit to be carried out by them."

Notes :

- a. A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote instead of himself / herself and the proxy need not be a member. In order to be effective, the proxy must be received by the Company not less than 48 hours before the meeting.
- b. Member / Proxy holder must bring the attendance slip to the meeting and hand it over at the entrance duly signed.
- c. The Register of Members and the Share Transfer Books of the Company will remain closed from July 01, 2004 to July 23, 2004 (both days inclusive).
- d. The dividend on Equity Shares as recommended by the Directors for the year ended March 31, 2004, if declared at the meeting will be paid on and after August 06, 2004, to those Members whose names appear on the Register of Members of the Company on July 23, 2004. In respect of shares held in electronic form, the dividend will be payable to the beneficial owners of shares as at the end of business hours on June 30, 2004, as per details furnished by National Securities Depository Limited and Central Depository Services (India) Limited.
- e. As per the provisions of the Companies Act, 1956, facility for making nominations is now available for shareholders in respect of the shares held by them. Nomination forms can be obtained from the Registrars and Share Transfer Agents of the Company.
- f. Members are requested to notify, immediately, any change in their address to the Company's Registrars and Share Transfer Agents.
- g. Corporate Members intending to send their authorized representatives are requested to send a duly certified copy of the Board Resolution authorizing their representatives to attend and vote at the Annual General Meeting.
- h. Members are requested to bring their copy of the Annual Report.
- i. Members are advised to avail ECS facility for the credit of dividend directly to their bank accounts. This facilitates quick credit of the dividend amount and eliminates any delay or loss of the dividend warrants in transit and also ensures safety against fraudulent encashment.

2003-2004

NOTICE (Contd.)

- j. As the members are aware, your Company's shares are tradable compulsorily in electronic form. In view of the numerous advantages offered by the Depository system, members are requested to avail of the facility of dematerialisation of the Company's shares on either of the Depositories viz. National Securities Depository Limited (NSDL) or Central Depository Services (India) Limited (CDSL).

By Order of the Board of Directors

Place : Mumbai
Date : May 13, 2004

VISHAL KOHLI
Company Secretary

Registered Office :
Matulya Centre, 'A' Block,
249, Senapati Bapat Marg,
Lower Parel (West),
Mumbai - 400 013.

EXPLANATORY STATEMENT

EXPLANATORY STATEMENT U/S 173(2) OF THE COMPANIES ACT, 1956

Item No. 6 :

The Company has received a 'Special Notice', in terms of Section 225 of the Companies Act, 1956, from a member of the Company, proposing the appointment of M/s. Lovelock & Lewes, Chartered Accountants, Mumbai, as the Statutory Auditors of the Company, in place of M/s. C. C. Chokshi & Co., Chartered Accountants, Mumbai, the retiring auditors of the Company. The said special notice stated that in view of the execution of an agreement between the Tata Group and Avaya, for Tata's to sell their 25.1% shareholding in the Company to Avaya, it recommends the appointment of M/s. Lovelock & Lewes, Chartered Accountants, Mumbai, as the Statutory Auditors of the Company, as M/s. Lovelock & Lewes is a member firm, in India, of M/s. PricewaterhouseCoopers - the statutory auditors of Avaya worldwide.

In view of the above, the Board of Directors proposes the appointment of M/s. Lovelock & Lewes, Chartered Accountants, Mumbai, as Auditors of the Company to hold office from the conclusion of this meeting to the conclusion of the next Annual General Meeting of the Company, on terms and conditions to be mutually agreed upon between the Board of Directors and the Auditors as set out in the Resolution. M/s. Lovelock & Lewes, have confirmed that they are eligible for appointment in accordance with the provisions of Section 224(1B) of the Companies Act, 1956.

None of the Directors of the Company is concerned or interested in the said resolution.

By Order of the Board of Directors

Place : Mumbai
Date : May 13, 2004

VISHAL KOHLI
Company Secretary

Registered Office :
Matulya Centre, 'A' Block,
249, Senapati Bapat Marg,
Lower Parel (West),
Mumbai - 400 013.

2003-2004

Brief Resume and other information in respect of the Directors seeking re-appointment at the Annual General Meeting :

Mr. S. Ramakrishnan

Mr. S. Ramakrishnan aged 55 years holds a B. Tech (Mechanical) degree from IIT, Madras and a Management degree from IIM, Ahmedabad.

Mr. S. Ramakrishnan has been associated with the Tata Group for more than 30 years. He joined the Tata Administrative Services in 1972 and during his long tenure handled a multitude of national as well as international projects. Since October 1999, he has been the Managing Director of Tata Teleservices Limited.

Mr. S. Ramakrishnan is also a member of the Audit Committee of the Board of Directors of the Company.

Nature of expertise in specific functional areas - Project Management.

Mr. S. Ramakrishnan is a Director and Member of Committees of Boards of other companies as under :

Directorship

Tata Teleservices Limited

Tata Teleservices (Maharashtra) Limited

Tata Industries Limited

THDC Limited

Tata Projects Limited

Tata Petrodyne Limited

Tata Internet Services Limited

Member of Committees of Board

Audit Committee

– Tata Projects Limited

– THDC Limited

– Tata Petrodyne Limited

Mr. N. Srinath

Mr. N. Srinath aged 42 years holds a Mechanical Engineering degree from IIT, Madras and a Management degree from IIM, Kolkata specializing in Marketing and Systems.

Mr. N. Srinath has been associated with the Tata Group for about 18 years. Joining the Tata Administrative Services in 1986 as a TAS Probationer, he has held positions in Project Management and Sales & Marketing in different Tata companies. He has been responsible for setting up new projects in High Technology areas like process automation and control, computers and telecommunications. In late 2000, he assumed office of Chief Executive Officer of Tata Internet Services, a position he held till February, 2002. Mr. N. Srinath is also the Director (Operations) of Videsh Sanchar Nigam Limited (VSNL).

Nature of expertise in specific functional areas - Sales & Marketing and Project Management.

Mr. N. Srinath is a Director of other companies as under :

Directorship

Videsh Sanchar Nigam Limited

Telstra Vishesh Communications Private Limited

Tata Teleservices Limited

VSNL Lanka Limited

Mr. Pradeep Mallick

Mr. Pradeep Mallick aged 62 years holds an Electrical Engineering degree from IIT, Madras and a Diploma in Business Management from UK. He is a 'Chartered Engineer', Fellow of the Institution of Electrical Engineers (FIEE), London.

During the period 1967-88, Mr. Pradeep Mallick has worked with Companies in the field of Power Distribution & Power Transmission, primarily in managing large turnkey projects in India, Gulf, West Asia and North Africa. From 1988 to April, 2003, he was the Managing Director of Wartsila India Limited, a company engaged in gas and heavy fuel based power for IPPs / Utilities and Industrial captive use as well as for marine propulsion. Presently, he is associated as an 'Adviser' and 'Mentor' to several companies.

2003-2004

Brief Resume and other information in respect of the Directors seeking re-appointment at the Annual General Meeting : (Contd.)

He is a Member of the Audit Committee and Chairman of the 'Shareholders' / Investors' Grievance Committee' and 'Ethics & Compliance Committee' of the Board of Directors of the Company.

Nature of expertise in specific functional areas – Marketing & Power Projects.

Mr. Pradeep Mallick is a Director and Member of Committees of Boards of other companies as under :

Directorship

ACCOR Radhakrishna Corporate Services Private Limited

Beck India Limited

Blue Star Limited

Bry-Air (Asia) Private Limited

DISA India Limited

ESAB India Limited

Maersk India Private Limited

SBI Funds Management Private Limited

Tube Investments of India Limited

Member of Committees of Board

Audit Committee

– Beck India Limited

– Blue Star Limited

– DISA India Limited

– ESAB India Limited

– Tube Investments of India Limited

Remuneration Committee

– DISA India Limited

Share Transfer / Investor Grievance Committee

– ESAB India Limited



DIRECTORS' REPORT

- The Directors hereby present the Eighteenth Annual Report and the audited statement of accounts for the year ended March 31, 2004.

2. Financial Results

Rs. in Lakhs

	Year ended 31/03/2004	Year ended 31/03/2003
Sales & Services (Gross)	4,01,93.27	3,25,74.81
Sales & Services (Net)	3,95,16.17	3,19,02.01
Profit before interest, depreciation & tax (EBIDA)	65,56.58	37,17.45
Less : Interest and finance charges (Net)	1,11.23	2,09.43
Depreciation	11,76.35	5,11.53
Profit before tax	52,69.00	29,96.49
Less : Provision for tax (including deferred tax)	20,01.72	11,40.66
Profit after tax	32,67.28	18,55.83
Balance brought forward from previous year	8,00.43	3,46.02
Amount available for appropriations	40,67.71	22,01.85
<u>Appropriations :</u>		
Proposed dividend	6,40.50	3,55.83
Corporate Dividend Tax	82.06	45.59
Transfer to General Reserve	20,00.00	10,00.00
Balance carried to Balance Sheet	13,45.15	8,00.43

3. Dividend

Your Directors are pleased to recommend the payment of dividend at the rate of Rs. 4.50 per share (45%) on 1,42,33,232 Equity Shares of Rs. 10/- each for the year ended March 31, 2004, subject to the sanction of the shareholders in the ensuing Annual General Meeting.

4. Operations

Your Company continues to position itself as a Solutions provider for Contact Center, Business Process Outsourcing (BPO) and end-to-end Converged Communications for large and medium enterprises in India. Converged Communication systems are becoming essential for successful running of businesses. The communication needs include Voice, Data and Video on a single converged platform.

The in-house team of solution architects develop and design a customized network to meet the specific needs for converged enterprise communication. Your Company's Contact Center Solutions enable multi-channel interface between the enterprises and their customers. A wide and

varied suite of applications provided by the Company, helped to address the needs of the market place in a better manner.

The enterprise customers continue to focus on enhancing revenue, reducing cost and mitigating risk. The Converged Solution and Contact Center Solutions provide various benefits to customers for enhancing their business performance.

Your Company increased focus on customer centricity by deploying IT infrastructure to enable customer facing employees better access to information. The use of systems enabled the front-end teams to be more productive with increased availability of quality time to engage with more customers. This has enabled your Company to be a better Customer Responsive organization.

In order to focus on higher level of Customer Responsiveness, your Company launched 'CEO Forum on Customer Responsiveness' during the previous financial year. As a part of this Forum, a number of round table discussions were held between September-October'03.

DIRECTORS' REPORT (Contd.)

These round table discussions had participation of CEOs from diverse industry segments. During the discussions, views emerged on how product design, pricing, technology and organizational structure could lead to building a 'Customer Responsive' organization. A total of 22 CEOs participated in this round table discussion. This was telecast by CNBC during November-December'03 as five weekly episodes.

The product portfolio was further enhanced to include higher performance media gateways and media servers for IP Network, which will enhance your Company's capability to deliver end-to-end solutions to the customer.

Customer Service continued to be one of the major thrust areas. As part of differentiation strategy, 'Service Plus' initiatives were launched with the theme 'Walk-the-Talk'. Customer's acceptance of these special services and additional value offering has been encouraging.

The people working for the Company are one of the most important assets. The focus has been to enable people perform in an environment of excellence thereby maximizing their productivity. Some of the practices on reward & recognition, peer level feedback, specific functional and behavioural trainings have contributed towards the development of people. The emphasis of the Company has been to provide good quality of work life for its employees.

During the year under review, a task was taken up, for getting the customer facing employees Avaya certified, which is a certification done by a third party authorized by Avaya. The certification process requires testing of individual competency skills and development of solutions for different applications. As on March 31, 2004, the company had 298 Associates, 54 Specialists and 8 Experts, duly certified by Avaya, which is around 98% of the total customer facing employees of your Company. The Company is proud to have the largest number of Avaya certified employees amongst all business partners of Avaya in the Asia Pacific Region.

5. Sale of equity stake of 'Tata' to 'Avaya'

Tata Group and Avaya have signed an agreement to sell Tata's 25.1% share holding in your Company to Avaya at Rs. 220/- per share and exit the Company. With this purchase, Avaya's holding would go up from 25.5% to 50.6%. In addition, as required under Securities and Exchange Board of India Regulations, Avaya has made a public announcement to purchase additional 20% shares from the market at the same price as offered to Tata. Depending upon market response, Avaya may hold anywhere from 50.6% to 70.6% of the shares of the Company at the completion of the transaction. The process of necessary government approvals and execution of the public offer would take a few months time. As a part of the agreement, the name of the company would change to a new name that does not include the word 'Tata'. The Board of Directors of the company would also be re-constituted.

6. Business Outlook

The enterprises, while upgrading their communication infrastructure have shown wider acceptance of Converged Communication Solutions for Voice, Video and Data. Enterprise customers have also supported deploying closed user group based IP telephony, which gives them benefit of cost saving on their telecom expenses.

In the Contact Center industry, global MNCs from different parts of the world have opted India as a destination for their Business Process Outsourcing Center. These BPO Centers have been in the shape of captive units providing cost advantage to these large corporations.

The Contact Center industry continued to grow, during the year under review and is expected to grow in the coming years. Your Company, in association with NASSCOM is facilitating the smooth transition of the businesses, which have decided to shift to India.

India has one of the fastest growing telecom systems in the world, expanding annually at more than 20% over the last four years and expected to grow by 19% per year till 2006. The country's telecom network, including cellular, is the fifth largest in the world and ranks second among emerging markets, after China. The national network comprises some 48 million fixed lines and 23 million mobile subscribers – up from just 11 million a year ago. More than 1 million mobile connections are being added every month and the industry analysts foresee 50% annual growth in cellular till 2007.

One of the signs of the telecom market's strength in India is surge in direct foreign investment, which increased tenfold last year to more than US\$ 2.17 billion (INR 9765 crores approx.). Telecom service providers continue to grow at over 20% adding new subscribers both for cellular and fixed line telephony. Cellular telephony continues to grow at over 100% with addition of subscribers for CDMA based technology apart from GSM based technology. The private telecom operators have been till now looking at increasing penetration in the retail market or individual subscribers. There are signs of their changing the focus to large corporates, which should enable upgradation and enhancing of communication infrastructure of these organizations.

However, during the last few months, there has been some debate on outsourcing of the jobs and other activities to countries like India, Philippines, China, etc., which may adversely impact the Contact Center industry. The Contact Center industry may also be adversely affected due to changes in global economy and competition from other destinations. Also, the IP Telephony Network continues to be limited for Closed User Group Application.

The government has been looking at removing obstacles for the Contact Center industry for ensuring smooth growth. Sharing of infrastructure for domestic and international call center operations as well as use of alternate technologies

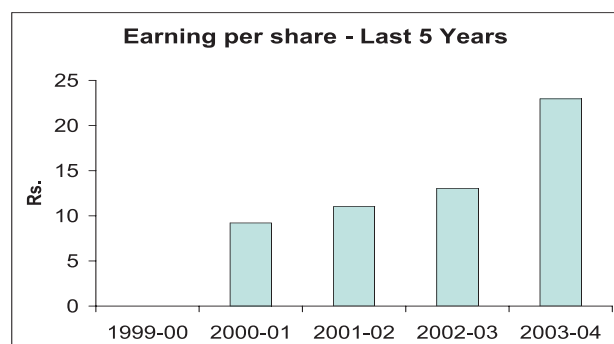
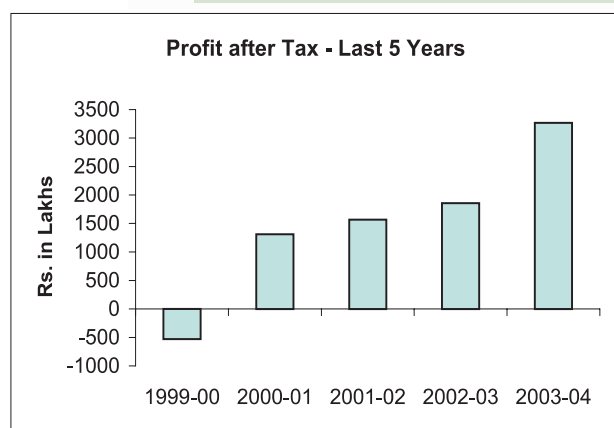
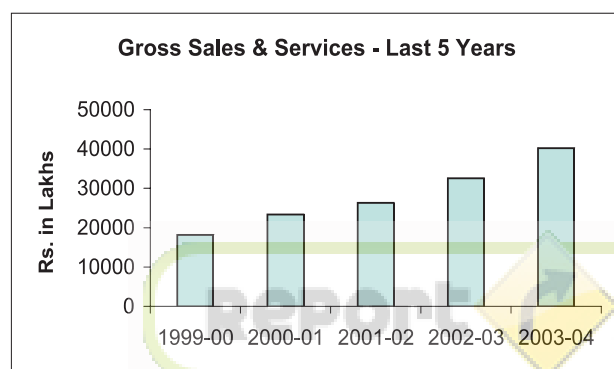
DIRECTORS' REPORT (Contd.)

for connecting with international gateway have been permitted by the government, which provides further opportunity for Solutions offered by your Company.

7. Financial Performance

The Company, for the year ended March 31, 2004 recorded a gross turnover of Rs. 4,01,93.27 lakhs, as compared to Rs. 3,25,74.81 lakhs for the year ended March 31, 2003, representing a growth of about 23%. The profit before tax is Rs. 52,69.00 lakhs for the year ended March 31, 2004 as compared to Rs. 29,96.49 lakhs for the previous year. The profit after tax is Rs. 32,67.28 lakhs as compared to Rs. 18,55.83 lakhs for the previous year.

Despite intense competition, the Company's performance was encouraging.



8. Recognition conferred on the Company

During the year under review, your Company has continued to get appreciation awards from Avaya, particularly for contributions made in the Asia Pacific Region. The Company continues to earn the distinction of being the 'Largest Business Partner' of Avaya in the Asia Pacific Region.

'Nice' of Israel recognized the Company as the 'Platinum Business Partner' for 2003 in respect of the revenues generated by the Company. The Company was also recognized as the 'Silver Business Partner' for 2003 by LG Electronics, South Korea, for the sales and support activities carried out by your Company.

Deloitte Touche Tohmatsu rated the Company 16th in the category of 'Fastest Growing Technology Company' in India and 238th in the Asia Pacific Region among Top 500 Companies in India and Asia Pacific Region, for the year 2003.

Dun & Bradstreet (D&B), the world's leading provider of business information services, has ranked your Company 339th among India's Top 500 Companies 2003.

During the year under review, Tata Telecom bagged the following "Frost & Sullivan" Awards in the Enterprise Voice Equipment Market in India :

- Market Leadership Award for 'Total Enterprise Voice Equipment Market'
- Market Leadership Award for 'PBX Market'
- Successful Competitive Strategy Award for 'IP Telephony Systems'
- Successful Competitive Strategy Award for 'KTS Market'

Voice and Data conferred 'Top Enterprise Voice Solutions Company' Award 2003 on Tata Telecom.

9. New Products

Your Company continues to enhance the product portfolio to address the enterprise customers' need for converged communication services covering Voice, Data and Video Networks and also Contact Center Solutions. During the year under review, your Company launched the following new products and solutions :

- (1) Headset Solutions for Call Centers.
- (2) Multipoint Video Conferencing Bridge.
- (3) Data Networking Products.

10. Finance

The Company, during the year under review, issued Commercial Paper amounting to Rs. 2100 lakhs, which was assigned credit rating of P1+ (highest short term credit rating) by the 'Credit Rating Information Services of India Limited' (CRISIL), thereby reducing working capital demand loan component of fund based limit sanctioned by its consortium of bankers. This has resulted in saving in interest cost for the Company. The Company has outstanding Commercial Paper amounting to Rs. 1200 lakhs, which was issued on May 12, 2004.