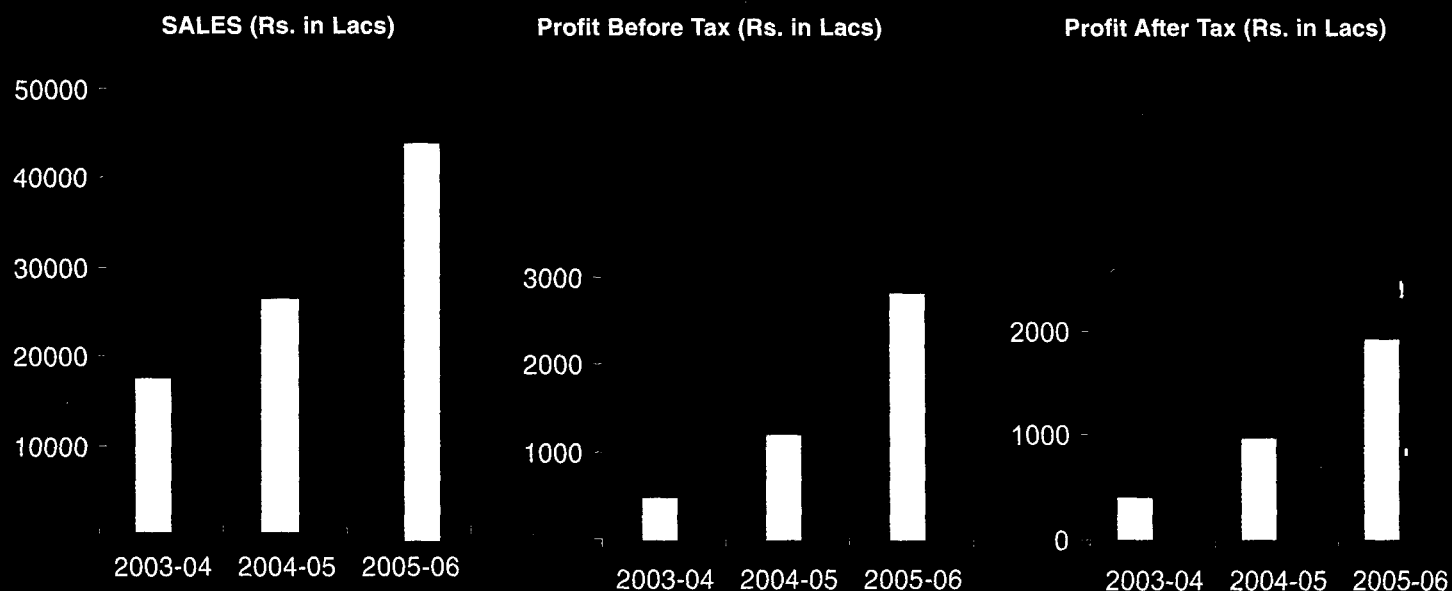





**EMCO LIMITED**  
Annual Report 2005- 2006



# EXCEEDS

## CONTENTS

Directors Report	04
Annexure to Directors' Report	10
Management Discussion & Analysis	13
Corporate Governance Report	16
Auditor's Report	31
Annexure referred to Auditor's Report	32
Balance Sheet	34
Profit and Loss Account	35
Cash Flow Statement	36
Schedules forming part of Accounts	37
Balance Sheet Abstract and Company's General Business Profile	51
Statement pursuant to Section 212 of the Companies Act, 1956	52
Subsidiary - Emco Energy Ltd.	53
Consolidated Annual Accounts	61



- Customer centric
- Reliability
- Ownership
- Result Orientation
- Trust and Integrity
- Openness and Transparency

# EXPECTATIONS

To build a world class Company through reliability and be a great place to work

Our Vision is to make our Company the best in class in what we do, in the world. The products and services we offer should be comparable to the best in the world, our business processes and systems should set a benchmark for others. We should earn the respect of our competitors and be loved by our stakeholders.

Our Company should be the most preferred Company to work, for any employee. Here he should feel like a owner, be able to live his dream, fulfil all his professional goals and have fun while doing so.

# THE BOARD OF DIRECTORS

**Rajesh S. Jain** – B.E. (Electronics)

Chairman & Managing Director

Entrepreneur & Youngest Ex-President of IEEMA

**Shailesh S. Jain** – B.E. (Chemical)

Managing Director

Entrepreneur

**R.S. Shah** – B.Sc (Electrical Engineering)

Director – Technical

Transformer Technology Expert

Ex-President of ERDA

**S.V. Deo** – B.E. (Electrical), DBM, MIE

Independent Director

Ex-Technical Member – MSEB

**K.N. Shenoy** – B.E. (Electrical), PGDBA

Independent Director

Ex-President of CII, IEEMA & ERDA

Ex-Chairman ABB, India

**T.N.V. Ayyar** – B.Com, FCA

Independent Director

Director on GE Capital TFSL, Tata Ceramics,  
Crest Animation,  
Sahara India Life Insurance

**Bheru Choudhary** – B.Com, LLM

Independent Director

Solicitor, Partner of IC Legal

**Company Secretary**

Priti Alkari

**Auditors**

P. Raj & Co.

Chartered Accountants

**Bankers**

Dena Bank

Bank of India

State Bank of Hyderabad

State Bank of India

ING Vysya Bank Limited

The Federal Bank Limited

Andhra Bank

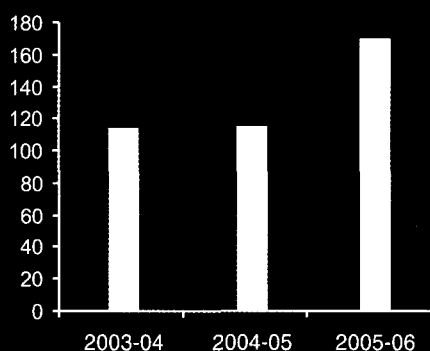
Union Bank of India

Vijaya Bank

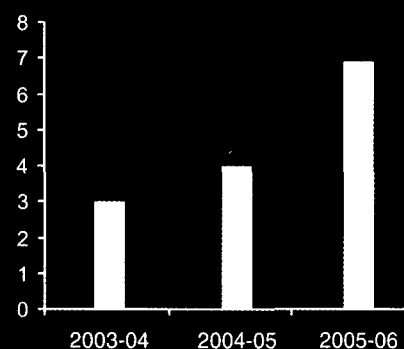
**Solicitors**

A.R.A. Law

BOOK VALUE



ASSET TURNOVER RATIO



# FINANCIAL

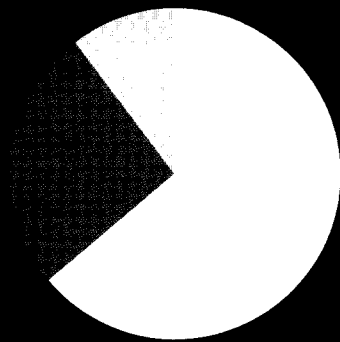
# HIGHLIGHTS

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(Rupees in Crores)

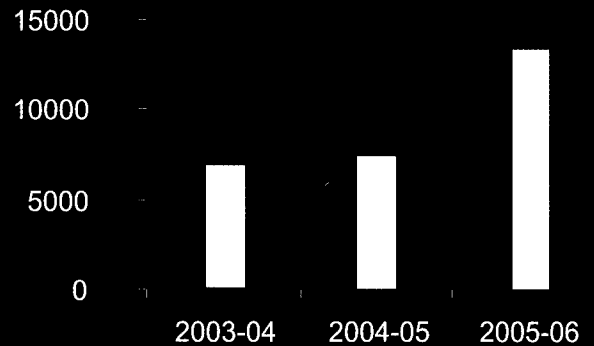
PARTICULARS	2005-06	2004-05	2003-04
<b>Revenue Account</b>			
Net Sales	405.37	235.95	153.65
<b>EBIDT</b>	45.79	30.86	22.29
Profit Before Tax (PBT)	28.39	12.06	4.92
Taxation	9.32	2.45	0.90
<b>Profit After Tax (PAT)</b>	19.07	9.61	4.02
<b>Capital Account</b>			
Share Capital	8.49	6.37	5.81
Reserves and Surplus	125.70	66.86	63.50
<b>Shareholders Funds</b>	134.19	73.23	69.31
Borrowings	106.28	116.85	80.93
<b>Financial Ratios</b>			
PAT to Sales – (%)	4.70	4.07	2.62
Return on Capital Employed (%)	18	14	10
Debt/Equity Ratio	0.79	1.60	1.17
Book Value	170	115	114
Asset Turnover Ratio	7	4	3
EPS (Rs.) – Basic	26.60	16.50	7.27

CUSTOMER MIX



- State Electricity Board
- Industry
- Export

NET WORTH (Rs. in Lacs)



# THE DIRECTORS' REPORT

To,

The Members of EMCO Limited,

Your Directors take pleasure in presenting their 41st annual report on the business and operations of the Company and statement of accounts for the year ended 31st March 2006.

## Financial Results:

During the year the performance of the Company was as under:

(Rs. In Lacs)

	Current Year 2005-2006	Previous Year 2004-2005
<b>TOTAL INCOME</b>	44547.76	26191.50
Profit Before Taxation	2839.40	1205.76
Less: Provision for Tax – Current	850.00	330.00
Fringe Benefit	30.00	—
Deferred	(10.29)	(84.84)
Short Tax	42.00	—
<b>Provision – Earlier Year</b>		
Less: Adjustment for Impairment Loss of Earlier Years	—	(698.99)
Add: Balance brought forward from previous year	1248.53	1229.83
Balance Available For Appropriation	3155.63	1491.44
<b>APPROPRIATION</b>		
General Reserve	200.00	75.00
Proposed Dividend	229.18	147.26
Tax on Dividend	32.14	20.65
Dividend Provision of Earlier Year	0.10	—
Balance carried forward to P & L A/c	2694.21	1248.53
<b>TOTAL APPROPRIATION</b>	3155.63	1491.44

### **Dividend:**

In view of the improved performance, your Directors are pleased to recommend for your approval, a dividend of 30% (Previous Year 20%) for the year ended 31st March 2006, aggregating to Rs.261.32 Lacs (Previous Year Rs. 167.91 Lacs), inclusive of tax on distribution of dividend.

### **Review of Operations:**

During the year under review, Income from Sales and Services were higher by 70% at Rs. 44547.76 Lacs compared to Rs. 26191.50 Lacs in the previous year. Profit before taxation was significantly higher by 135% at Rs. 2839.40 Lacs from Rs. 1205.76 Lacs in the previous year. Growth in sales and profit was mainly attributable to operational efficiencies.

Profit after tax at Rs. 1907.10 Lacs for the year has improved by 98% compared to Rs. 960.60 Lacs in the previous year. Earning per equity share improved by 61% at Rs. 26.60 as compared to Rs. 16.50 in the previous year. The detailed discussion of operation for the year ended 31st March 2006 is given in Management Discussion and Analysis section.

### **Subsidiary:**

During the year, Company has formed a wholly owned subsidiary Company viz. Emco Energy Limited, mainly to carry on business of generation, transmission and distribution or otherwise deal in all forms of electrical power and electrical energy both conventional and non-conventional. The said subsidiary had no operations during the period ended on 31st March 2006, hence no profit and loss account has been prepared by it. As required under Section 212 of the Companies Act, 1956, the Audited Statement of Accounts along with the reports of the Board of Directors of Emco Energy Limited and Auditors' Report thereon for the period ended 31st March 2006 are annexed.

The Consolidated Financial Statements of the Company and its subsidiary Company, prepared in accordance with Accounting Standard 21 prescribed by The Institute of Chartered Accountants of India, forms part of the Annual Report and Accounts.

### **Fixed Deposits:**

The Company has not accepted any deposits during the year.

### **Preferential Issues:**

On 3rd December 2005, the Company has allotted 2,70,000 equity shares of Rs. 10/- each at a premium of Rs. 85/- per share to the promoters of the Company viz. Mr. Rajesh S. Jain and Mr. Shailesh S. Jain, on exercise of Part B of the warrants allotted to them on preferential basis in accordance with SEBI guidelines for preferential issue. The Company has received total Rs. 256.50 Lacs out of which Rs. 27.00 Lacs was towards share capital and Rs. 229.50 Lacs was towards share premium. There were no projections made while raising the funds but the funds has been utilised for the purpose as approved by the members at the time of the issue of warrants, i.e. augmenting the long-term working capital requirements of the Company.

Pursuant to approval of Members at the Extra-ordinary General Meeting of the Company held on 24th April 2006, the Company has allotted 3,00,000 warrants on 8<sup>th</sup> May 2006, on preferential basis to Mr. Shailesh S. Jain, a Promoter and Managing Director of the Company, entitling him to apply for and acquire 3,00,000 equity shares of Rs. 10/- each at a

price of Rs. 725/- per share (inclusive of premium) in the Company within 18 months from the date of allotment of warrants. The Company has received 10% of share price i.e. Rs. 72.50 per share, on allotment of above warrants. Further, there were no projections made while raising the funds but the funds has been utilised for the purpose as approved by the members at the time of the issue of warrants, i.e. enhancing financial resources for the long term working capital margins as well as capital expenditure.

#### **Issue of Global Depository Receipts (GDRs):**

Your Company's GDR issue of US\$ 10 Million made during the year was listed on the Luxembourg Stock Exchange on 28th June 2005. All the 12,50,000 equity shares of Rs. 10/- each underlying the said GDRs were issued at a premium of Rs. 338.24 per share. As on 31st March 2006 no GDRs were outstanding.

#### **Future Business Plans:**

With the ongoing power reforms in India and the thrust of Government of India on the developments in Power Sector by way of addition in generation capacity, curtailment in Transmission & Distribution losses and overall infrastructural improvement in the Transmission & Distribution networks by way of the Accelerated Power Development & Reforms Programme (APDRP), the industry outlook is very positive and the business scenario for your Company has improved considerably. In such a scenario, your Company is trying its best to maximize the shareholders' value by accelerating growth.

With growth oriented business plans on anvil, various measures are required to enhance financial resources for the long-term working capital margins as well as for capital expenditure, directly or through subsidiaries or for other permitted and general business purposes. Therefore, your Directors at their meeting held on 10th August 2006 has proposed to raise required funds upto USD 50 Millions (United States Dollar Fifty Millions) or equivalent sum in Indian Rupees by issue of Equity Shares and/or Securities representing/convertible into equity shares in domestic and/or International markets in the manner as set out in Special Resolutions of the Notice of the ensuing 41st Annual General Meeting, seeking approval of the members for the same.

Also, it is proposed to increase the present borrowing limits of the Board of Directors of the Company from Rs. 500 Crores to Rs. 1,000 Crores, your approval for which is being sought in the 41st Annual General Meeting.

#### **Directors:**

Mr. K.N. Shenoy was appointed as an Additional Director w.e.f 20th January 2006. The Company has received Notice under Section 257 of the Companies Act, 1956 proposing appointment of Mr. K.N. Shenoy as Director, subject to retirement by rotation.

In accordance with the Articles of Association of the Company, Mr. S.V. Deo retire by rotation at the ensuing Annual General Meeting and being eligible, offers himself for re-appointment.

The particulars of the retiring Director and Director seeking appointment is furnished in the Corporate Governance section annexed to this report.

With increasing activities and the need to broadbase the Board, more Independent Directors are required to be appointed. To attract good skills, it is proposed to remunerate the Non-Executive Directors of the Company by payment of commission upto 1% of Net Profit of the Company. Your approval is being sought in the 41st Annual General Meeting for the same.



**Management Discussion and Analysis:**

The Management Discussion and Analysis forms part of the Directors' Report and is annexed thereto.

**Corporate Governance:**

As required by recently amended Clause 49 of the listing agreement of stock exchanges, a report on Corporate Governance and a certificate confirming compliance with requirement of Corporate Governance forms part of this report.

**Directors' Responsibility Statement:**

Pursuant to the requirement under Section 217 (2AA) of the Companies Act, 1956, with respect to the Directors' Responsibility Statement, it is hereby confirmed;

- (i) that in the preparation of the accounts for the financial year ended on 31st March 2006, the applicable accounting standards have been followed along with proper explanation relating to material departures;
- (ii) that the Directors had selected such accounting policies and applied them consistently and made judgements and estimates that were 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 the year under review;
- (iii) that the Directors had taken proper and sufficient care 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;
- (iv) that the Directors had prepared the accounts for the financial year ended on 31st March 2006 on a 'going concern' basis.

**Employees Stock Option Scheme (ESOS):**

Your Company has always worked on the idea that its greatest strength is its human resources and it is this resource, which makes your Company a force to reckon with in the highly competitive environment. Your Company had introduced the Employee Stock Option Scheme in 2000 for the employees. The details of options under the said Scheme are given below:

Sr. No.	Description	Details
1.	Total number of options at the beginning of the year	: 6,500 options (each option represents one share)
2.	Options granted during the year	: Nil
3.	The pricing formula	: At the fair market value as on date of grant.
4.	Options vested	: 6,500 options
5.	Options exercised during the year	: 6,500 options
6.	Total No. of Shares arising as a result of exercise of option	: 6,500 shares
7.	Options lapsed	: Nil
8.	Variation of terms of option	: No variations made.
9.	Money realised by exercise of option	: Rs. 3,32,100/-
10.	Options in force at the end of the year	: Nil
11.	Total option at the end of the year	: Nil

Sr. No.	Description	Details
12.	Employee-wise details of options granted during the year:	
	(i) Senior managerial personnel.	: Nil
	(ii) Any other employee who receives a grant in any one year of option amounting to 5% or more of option granted during that year.	: Nil
	(iii) Identified employees who were granted option, during any one year equal to or exceeding 1% of the issued capital (excluding outstanding warrants and conversions) of the Company at the time of grant.	: Nil
13.	Diluted Earnings Per Share (EPS) pursuant to issue of shares on exercise of option calculated in accordance with Accounting Standard (AS) 20.	: Rs. 28.43 per share.
14.	Where the Company has calculated the employee compensation cost using the intrinsic value of the stock option, the difference between the employee compensation cost so computed and the employee compensation cost that shall have been recognised if it had used the fair value of the option, shall be disclosed. The impact of this difference on profits and on EPS of the Company shall also be disclosed.	: Not Applicable
15	Weighted average exercise prices and weighted average fair values of option shall be disclosed separately for option whose exercise price either equals or exceeds or is less than the market price of the stock.	: Not Applicable
16	A description of the method and significant assumptions used to estimate the fair values of options, including the following weighted average information: i. Risk Free Interest Rate ii. Expected Life iii. Expected Volatility iv. Expected Dividends v. The Price of the underlying share in market at the time of option granted.	: Not Applicable

As there were no options outstanding under the Employee Stock Option Scheme 2000, the Board of Directors have closed the Scheme w.e.f. 14th March 2006.

Further, the Members of the Company at their Extra-ordinary General Meeting held on 24th April 2006 approved the Employee Stock Option Scheme 2006 (ESOS 2006) and authorised the Board of Directors to grant 4,00,000 equity stock options to the eligible employees of the Company. The Committee of Board of Directors at its meeting held on 21st June 2006 granted 2,15,000 equity stock options to the eligible employees of the Company. As the ESOS 2006 was approved by Members and grant of equity stock options was made in F.Y. 2006-07, the disclosure pursuant to Clause 12 of the SEBI (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999 are not applicable.

Your approval is being sought in the 41st Annual General Meeting to grant equity options under ESOS 2006 to Non-Executive Directors of the Company and to employees of Subsidiary Companies.

#### **Particulars of Employees:**

As required by the provisions of Section 217 (2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975 the names and other particulars of employees are set out in the annexure to the Directors' Report.

#### **Conservation of Energy, Technology Absorption and Foreign Exchange Earnings & Outgo:**

Information as required under the provisions of Section 217(1)(e) of the Companies Act, 1956 read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 is annexed to and forms part of this report.