

42ND ANNUAL REPORT

2006-2007



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ARE YOU **EM**POWERED?



Transformer Plant, Jalgaon

Contents

Directors' Report	04
Annexure to Directors' Report	09
Management Discussion & Analysis	12
Corporate Governance Report	15
Auditors' Report	32
Annexure referred to Auditors' Report	33
Balance Sheet	35
Profit & Loss Account	36
Cash Flow Statement	37
Schedules forming part of Accounts	38
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	63

[OUR VALUES]



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

[VISION]

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 dreams, fulfill 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, ACA
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

Chief Financial Officer
Sunil Rustagi

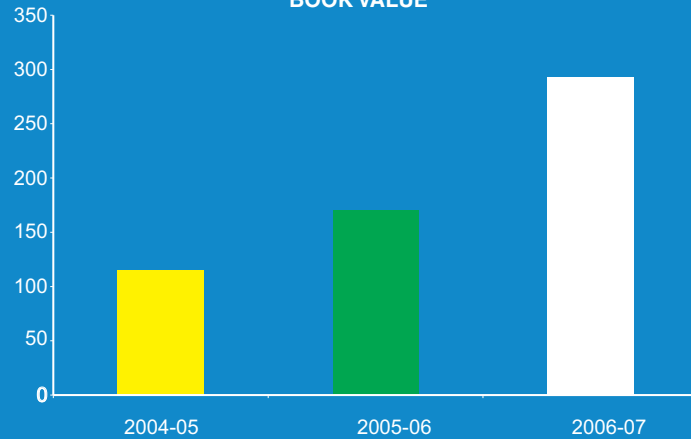
Company Secretary
William Fernandes

Auditors
P. Raj & Co.
Chartered Accountants

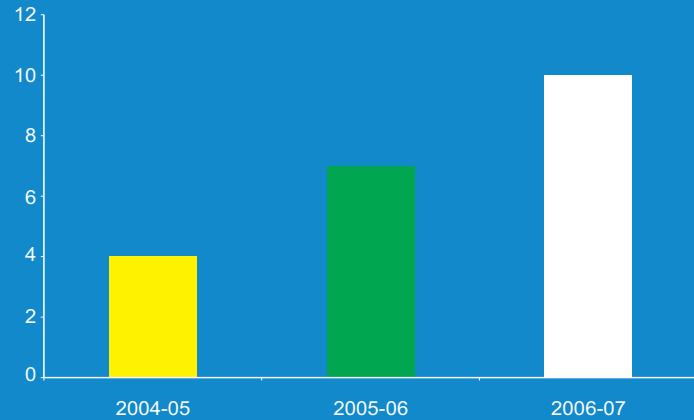
Bankers
Dena Bank
State Bank of India
Bank of India
State Bank of Hyderabad
ING Vysya Bank Limited
The Federal Bank Limited
Andhra Bank
Union Bank of India

Solicitors
A.R.A. Law

BOOK VALUE



ASSET (NET FIXED ASSETS) TURNOVER RATIO



FINANCIAL HIGHLIGHTS

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(Rupees in Crores)

PARTICULARS	2004-05	2005-06	2006-07
Revenue Account			
Net Sales	235.95	405.37	655.88
EBIDT	30.86	45.80	86.70
Profit Before Tax (PBT)	12.06	28.39	60.91
Taxation	2.45	9.32	20.31
Profit After Tax (PAT)	9.61	19.07	40.60
Capital Account			
Share Capital	6.37	8.49	12.38
Reserves and Surplus	66.86	125.70	286.85
Shareholders Funds	73.23	134.19	299.23
Borrowings	116.85	106.28	185.28
Financial Ratios			
PAT to Sales – (%)	4.07	4.70	6.19
Return on Equity (%)	14	18	19
Debt/Equity Ratio	1.60	0.79	0.62
Book Value	115	170	293
Asset (Net Fixed Assets) Turnover Ratio	4	7	10
EPS (Rs.) – Basic	16.50	26.60	45.92

DIRECTORS' REPORT

To,

The Members of EMCO Limited,

Your Directors take pleasure in presenting their 42nd Annual Report on the business and operations of the Company and statement of accounts for the year ended 31st March, 2007.

Financial Results:

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

(Rs. In Lacs)

	Current Year 2006-2007	Previous Year 2005-2006
TOTAL INCOME	73226.66	44547.76
Profit Before Taxation	6091.27	2839.39
Less: Provision for Tax – Current	2010.00	850.00
Fringe Benefit Tax	41.10	30.00
Deferred Tax	118.98	10.29
Earlier Year Tax	(138.48)	42.00
Add: Balance brought forward from previous year	2694.21	1248.53
Balance Available For Appropriation	<u>6753.88</u>	<u>3155.63</u>
APPROPRIATIONS:		
General Reserve	500.00	200.00
Proposed Dividend	510.47	229.18
Tax on Dividend	86.76	32.14
Dividend Provision of Earlier Year	—	0.10
Balance carried forward to P & L A/c	5656.65	2694.21
TOTAL APPROPRIATIONS:	<u>6753.88</u>	<u>3155.63</u>

Dividend:

In view of the improved performance, your Directors are pleased to recommend for your approval, a dividend of 50% (Previous Year 30%) for the year ended 31st March, 2007, aggregating to Rs. 597.23 Lacs (Previous Year Rs. 261.32 Lacs), inclusive of tax on distribution of dividend.

Review of Operations:

During the year under review, Income from Sales and Services were higher by 64.38.% at Rs. 73226.66 Lacs compared to Rs. 44547.76 Lacs in the previous year. Profit before taxation was significantly higher by 114.53 % at Rs. 6091.27 Lacs from Rs. 2839.39 Lacs in the previous year. Growth in profit was mainly attributable to higher sales and operational efficiencies.

Profit after tax at Rs.4059.67 Lacs for the year has improved by 112.87 % compared to Rs.1907.10 Lacs in the previous year. Earning per equity share improved by 72.63% at Rs. 45.92 as compared to Rs. 26.60 in the previous year. The detailed discussion of operations for the year ended 31st March, 2007 is given in Management Discussion and Analysis section.

Scheme of Amalgamation:

During the year, the Board of Directors have pursuant to the provisions of Sections 391 to 394 of the Companies Act, 1956 approved a proposed scheme of Amalgamation of India Energy Investments Private Limited and Urja Engineers Limited with the Company subject to necessary approvals, permissions and sanctions.

Subsidiary:

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, 2007 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.

Qualified Institutional Placement:

Pursuant to the approval of the Shareholders at the 41st Annual General Meeting held on 15th September, 2006 the Company issued and allotted 20,00,000 Equity Shares of Rs.10/- each at an issue price of Rs. 600/- per share to Qualified Institutional Buyers under the Qualified Institutional Placements(QIP) route.

Directors:

In accordance with the Articles of Association of the Company, Mr. R. S. Shah and Mr. T. N. V. Ayyar, Directors of the Company, retire by rotation at the ensuing Annual General Meeting and being eligible, offer themselves for re-appointment. The particulars of the retiring Directors and seeking re-appointment is furnished in the Corporate Governance section annexed to this report.

Management Discussion and Analysis:

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

Corporate Governance Report:

As required by clause 49 of the Listing Agreement of Stock Exchange(s), a report on Corporate Governance and a certificate confirming compliance with requirements of Corporate Governance forms part of this report.

Directors' Responsibility Statement:

Pursuant to the requirement of 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, 2007, 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, 2007 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 with this in view has offered the Employee Stock Option Scheme in 2006 for the employees. The details of options under the said Scheme are given below :

Sr. No.	Description	Details
1.	Total number of Options under the Scheme.	: 4,00,000 Options (each Option represents one share)
2.	Options granted during the year	: 2,37,350 Options
3.	The pricing formula	: At the market value as on date of grant.
4.	Options vested	: Nil
5.	Options exercised during the year	: Nil
6.	Total No. of Shares arising as a result of exercise of Options	: Nil
7.	Options lapsed	: 33,300 options
8.	Variation of terms of Option	: No variations made.
9.	Money realised by exercise of Options	: N.A.
10.	Options in force at the end of the year	: 2,04,050
11.	Total Options at the end of the year	: 2,04,050
12.	Employee-wise details of Options granted during the year.	
(i)	Senior managerial personnel	: 90500
(ii)	Any other employee who receives a grant in any one year of Options amounting to 5% or more of Options granted during that year	: Nil
(iii)	Identified employees who were granted Options, 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 Options calculated in accordance with Accounting Standard (AS) 20.	: Rs. 45.61 per Share.

Sr. No.	Description	Details
14.	Where the Company has calculated the employee compensation cost using the intrinsic value of the stock Options, the difference between the employee compensation cost so computed and the employee compensation cost that have been recognised if it had used the fair value of the Options, 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 Options 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 Options granted.	Not Applicable

The maximum vesting period in respect of the Options granted in tranches is 3 years and the maximum period within which the Options vested may be exercised is on or before 31st March, 2011 as fixed by the Compensation Committee.

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.

Cost Accounting Records:

Your Company is required to maintain cost accounting records in respect of manufacture of power transformers pursuant to the Cost Accounting Records (Engineering Industries) Amendment Rules, 2001. The Company has complied with the above requirement for the year ended 31st March, 2007.

Auditors:

The Company's Auditors, M/s. P. Raj & Co., Chartered Accountants hold office up to the conclusion of the forthcoming 42nd Annual General Meeting and being eligible, offer themselves for re-appointment. The Company has received letter from them giving their consent to act as Auditors of the Company and stating that their re-appointment, if made, would be within the prescribed limits under Section 224(1-B) of the Companies Act, 1956. Your Directors recommend their re-appointment.

Insurance:

All the Assets of the Company are adequately insured.

Awards and Achievement:

Your Company continued to receive awards and gain recognition during the year 2006-2007 also. As was reported last year, in recognition of our Excellent Safety record, during the year 2006, Thane Manufacturers Association and Directorate of Industrial Safety and Health, Government of Maharashtra have awarded the Company a Certificate of Appreciation in April 2006. The Research & Development Centre of the Company got recognition from Government of India on 9th February, 2007. The Company was elected to the State Council of Maharashtra for the year 2007 by the Confederation of Indian Industries (CII).

Acknowledgement:

Your Directors would like to express their grateful appreciation for the assistance, support and co-operation received from the Financial Institutions, Banks, Government Authorities and Shareholders during the year under review. Your Directors would also like to take this opportunity to express their appreciation to the dedicated and committed employees for their contribution in trying to achieve the Company's vision to **"To Build A World Class Company Through Reliability And Be A Great Place To Work"**.

For and on behalf of the Board
of **EMCO LIMITED**

Place : Mumbai
Date : 14th May, 2007

Rajesh S. Jain
Chairman and Managing Director

