



INDIA NIPPON ELECTRICALS LIMITED



**19th ANNUAL REPORT
2003-2004**



State of the art Electronics facility
at Pondicherry Unit



INDIA NIPPON ELECTRICALS LIMITED

Board of Directors

Chairman

T K BALAJI

Directors

R D FLINT

A TERASAKI

H NANJO

GOPAL SRINIVASAN

S S SUNDHARESAN

K SESHADRI

K N RAMASWAMI

K R ANANDAKUMARAN NAIR

Audit Committee

K SESHADRI

(Chairman)

S S SUNDHARESAN

K R ANANDAKUMARAN NAIR

Investors' Grievance Committee

T K BALAJI

S S SUNDHARESAN

K SESHADRI

Manager

G MURALI

Financial Controller & Secretary

A R RAJAGOPALAN

Auditors

M/S. BRAHMAYYA & CO

156 Thambu Chetty Street

Chennai 600 001

Bankers

BANK OF BARODA

ICICI BANK LIMITED

UTI BANK LIMITED

Listing of Shares with

Madras Stock Exchange Ltd., Chennai

National Stock Exchange of India Ltd., Mumbai

The Stock Exchange, Mumbai

Registered Office

'Aalim Centre'

82 Dr. Radhakrishnan Salai, Mylapore

Chennai 600 004

Ph : 28110063 / 28110074

Factories

1. Hosur-Thalli Road

Uliveeranapalli 635 114

Denkanikotta Taluk

Krishnagiri District - Tamilnadu

Ph : 04347 - 233432 - 233438

email : inelhsr@blr.vsnl.net.in

2. Madukarai Road

Kariamanickam

Nettapakkam Commune

Pondicherry 605 106

Ph : 0413 - 2699052 / 2699402

email : inelpondy@vsnl.net

3. Masani Village

Rewari District, Haryana 122 106

Ph : 01274 - 240860 / 240212

email : inelrewari@indiatimes.com

Website : www.indianippon.com

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INDIA NIPPON ELECTRICALS LIMITED**FINANCIAL HIGHLIGHTS OF TEN YEARS PERFORMANCE**

figs. in Rs. lacs

| S.No. | Description | Year ended 31st March | | | | | | | | | |
|--------------------------------|--|-----------------------|-------------|-------------|-------------|-------------|--------------|--------------|--------------|--------------|--------------|
| | | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 |
| Profit and Loss Account | | | | | | | | | | | |
| 1. | Sales (including Excise duty) | 3084 | 4829 | 6602 | 7108 | 8507 | 9797 | 11130 | 11779 | 16902 | 17346 |
| 2. | Other income | 65 | 94 | 87 | 96 | 192 | 248 | 344 | 276 | 459 | 608 |
| 3. | Total income (1 + 2) | <u>3149</u> | <u>4923</u> | <u>6689</u> | <u>7204</u> | <u>8699</u> | <u>10045</u> | <u>11474</u> | <u>12055</u> | <u>17361</u> | 17954 |
| 4. | Gross Profit before interest and tax | 514 | 764 | 1365 | 1470 | 1754 | 2165 | 2411 | 2633 | 4103 | 3991 |
| 5. | Depreciation | 55 | 78 | 225 | 225 | 211 | 240 | 291 | 283 | 327 | 476 |
| 6. | Profit before interest & tax | 459 | 686 | 1140 | 1245 | 1543 | 1925 | 2120 | 2350 | 3776 | 3515 |
| 7. | Interest | 29 | 43 | 35 | 16 | 18 | 13 | 24 | 10 | 39 | 13 |
| 8. | Profit before tax | 430 | 643 | 1105 | 1229 | 1525 | 1912 | 2096 | 2340 | 3737 | 3502 |
| 9. | Profit after tax | 300 | 413 | 675 | 753 | 909 | 1191 | 1386 | 1762 | 2770 | 2499 |
| Balance Sheet | | | | | | | | | | | |
| 10. | Net Fixed Assets (including revaluation) | 373 | 594 | 609 | 1111 | 1092 | 1211 | 1391 | 1356 | 1905 | 2576 |
| 11. | Investments | 270 | 202 | 206 | 301 | 700 | 2182 | 2619 | 2903 | 4674 | 5647 |
| 12. | Net Current Assets | 512 | 792 | 1187 | 1464 | 1848 | 1118 | 1393 | 1666 | 1330 | 1410 |
| 13. | Total (10+11+12) | <u>1155</u> | <u>1588</u> | <u>2002</u> | <u>2876</u> | <u>3640</u> | <u>4511</u> | <u>5403</u> | <u>5925</u> | <u>7909</u> | 9633 |
| 14. | Share capital | 198 | 198 | 198 | 198 | 515 | 515 | 515 | 475 | 808 | 808 |
| 15. | Reserves & Surplus | 791 | 1133 | 1699 | 2562 | 2808 | 3599 | 4539 | 5055 | 6718 | 8442 |
| 16. | Net Worth (14+15) (including revaluation reserves) | 989 | 1331 | 1897 | 2760 | 3323 | 4114 | 5054 | 5530 | 7526 | 9250 |
| 17. | Loan funds | 166 | 257 | 105 | 116 | 317 | 397 | 349 | 395 | 383 | 383 |
| 18. | Total | <u>1155</u> | <u>1588</u> | <u>2002</u> | <u>2876</u> | <u>3640</u> | <u>4511</u> | <u>5403</u> | <u>5925</u> | <u>7909</u> | 9633 |
| 19. | Return on Net Worth (%) (excluding revaluation reserves) | 39 | 37 | 40 | 33 | 32 | 33 | 30 | 35 | 39 | 28 |
| 20. | Return on Capital Employed (%) (excluding revaluation reserves) | 49 | 50 | 64 | 52 | 48 | 47 | 43 | 43 | 51 | 38 |
| 21. | Earning per share (Rs.) | 15 | 21 | 34 | 38 | 18 | 23 | 27 | 22 | 34 | 31 |
| 22. | Dividend per share (Rs.) | 4 | 4 | 5 | 6 | 6 | 7 | 9 | 10 | 8.5 | 8.5 |
| 23. | Book value per share (Rs.) (excluding revaluation reserves) | 39 | 56 | 84 | 116 | 56 | 71 | 89 | 107 | 88 | 109 |
| 24. | Fixed Assets Turnover* (No. of times) | 8 | 8 | 11 | 6 | 8 | 8 | 8 | 9 | 9 | 7 |
| 25. | Working Capital Turnover (No. of times) | 6 | 6 | 6 | 5 | 5 | 9 | 8 | 7 | 13 | 12 |
| 26. | Gross profit as % of total income | 16 | 16 | 20 | 20 | 20 | 22 | 21 | 22 | 24 | 22 |
| 27. | Net profit as % of total income | 10 | 8 | 10 | 10 | 10 | 12 | 12 | 15 | 16 | 14 |

NB: Fixed assets revalued in March '93 - Rs.230.71 lacs, in March '98 - Rs.233.30 lacs. Share Capital raised from Rs.4.75 crores to Rs.8.08 crores following the allotment of bonus shares during December 2002.



Notice to Shareholders

NOTICE is hereby given that the Nineteenth Annual General Meeting of the Shareholders of the Company will be held on Friday, the 3rd September, 2004 at Kasturi Srinivasan Hall (Music Academy Annexe) 306, TTK Road, Chennai 600 014 at 10.15 AM.

Ordinary Business

1. Adoption of audited accounts for the year ended 31.03.2004 and the Directors' and Auditors' report.

To consider and if thought fit, to pass with or without modification, the following resolution as an ordinary resolution :

Resolved that the audited Balance Sheet as at 31st March 2004 and the Profit and Loss account of the Company for the year ended on that date, together with the Directors' report and the Auditors' report thereon as presented to the meeting be and are hereby approved and adopted.

2. Declaration of dividend

To consider and if thought fit, to pass with or without modification, the following resolution as an ordinary resolution :

Resolved that pursuant to the recommendation of the Directors, a final dividend of Rs.0.50 per share (tax free) absorbing a sum of Rs.40.40 lacs be and is hereby declared on 80,79,080 Equity shares of Rs. 10/- each fully paid up. Further resolved that the above dividend be paid to those Shareholders whose names appear in the Company's register of Members as on 03.09.2004.

3. Election of a Director, liable to retire by rotation

To consider and if thought fit, to pass with or without modification, the following resolution as an ordinary resolution :

Resolved that Mr.R D Flint, who retires by rotation and being eligible for re-appointment, be and is hereby appointed as a Director of the Company.

4. Election of a Director, liable to retire by rotation

To consider and if thought fit, to pass with or without modification, the following resolution as an ordinary resolution:

Resolved that Mr. K Seshadri, who retires by rotation and being eligible for re-appointment, be and is hereby appointed as a Director of the Company.

5. To appoint Auditors and fix their remuneration

To consider and if thought fit, to pass with or without modification, the following resolution as an ordinary resolution :

Resolved that the retiring Auditors M/s.Brahmayya & Co., Chartered Accountants be and are hereby re-appointed as Auditors of the Company to hold office from the conclusion of this meeting until the conclusion of the next Annual General Meeting of the Company on such remuneration as may be determined by the Board of Directors of the Company in addition to travelling and other out-of-pocket expenses actually incurred by them in connection with audit, and fees if any, for the professional services rendered by them in any other capacity from time to time.

Special Business

6. Appointment of M/s.Sundaram-Clayton Ltd. as Share Transfer Agent

To consider and if thought fit, to pass with or without modification, the following resolution as a special resolution :

RESOLVED THAT approval be and is hereby accorded to the Board of Directors in terms of Section 163 and other applicable provisions of the Companies Act, 1956 (the Act) to keep the Register of Members, the Index of Members and Register and Index of Debenture Holders, if any, and copies of all annual returns prepared under Section 159 and 160 of the Act together with the certificates and documents required

INDIA NIPPON ELECTRICALS LIMITED

to be annexed thereto under Section 160 and 161 of the Act at the office of Sundaram-Clayton Limited (SCL), Share Transfer Agents of the Company (STA), at No.31, Railway Colony, III Street, Mehta Nagar, Chennai 600 029, or such other place within the city limits of Chennai where SCL decides to carry on the share registry work instead of keeping them at the Registered Office of the Company from such date as may be decided by the Board of Directors or a Committee of the Directors by giving not less than 30 days notice to the Shareholders / Debenture Holders.

By order of the Board

Chennai
30th June 2004 **A R RAJAGOPALAN**
Financial Controller & Secretary

Notes :

1. A Member entitled to attend and vote at the above meeting is entitled to appoint a proxy and the proxy need not be a member. The instrument appointing proxy and the power of attorney or other authority, if any, should be deposited at the registered office of the Company not later than 48 hours before the time fixed for holding the meeting
2. The Register of Members and Share Transfer Books of the Company will remain closed from 31st August, 2004 to 3rd September, 2004 (both days inclusive)
3. Consequent to the amendment to Section 205A read with 205C of the Companies Act, 1956, dividend declared for the year ended 31.03.1997 and remaining unclaimed as on 1st October 2004 will be transferred to the Investors Education and Protection Fund on 1st October 2004. Dividends declared by the Company in the subsequent years, which remain unclaimed for a period of 7 years will be transferred to the Investors Education and Protection Fund on due dates. Members who have not encashed their dividend warrants are requested to make their claims with the Company by surrendering the unencashed dividend warrants immediately.

4. In terms of Clause 49 of the Listing Agreement with Stock Exchanges, a brief resume of Directors who are proposed to be appointed/re-appointed at this meeting is given below :

Sl. No. 3 of the Notice to Shareholders

Mr.R D Flint (Age 72) is a science graduate from the University of Aston, and a Diploma holder in Engineering Production from the University of Birmingham. He is a Chartered Engineer and a Fellow of the Institution of Electrical Engineers. He was co-opted as a Director by the Board on 28.07.1986.

Starting his career as a Methods Engineer in Lucas Electricals, UK in 1957, he retired as Managing Director of Lucas-TVS Ltd., Chennai. He has over 45 years of experience in Methods Engineering, Production Engineering and Manufacturing, out of which 10 years as Managing Director. Currently he is a Director on the Board of Cramlington Precision Forge Ltd., UK.

Sl. No. 4 of the Notice to Shareholders

Mr.K Seshadri (Age 71), holds a Post graduate degree in Economics from the University of Madras. He is a fellow Member of the Institute of Chartered Certified Accountants, U.K., Institute of Cost Management Accountants, U.K., Institute of Company Secretaries, U.K., besides being an Associate Member of the Institute of Company Secretaries of India. He has 50 years of experience in Finance, Company Law and Taxation in Government, Public Sector and Private Sector organisations. He was co-opted as a Director by the Board on 23.04.1996. He is currently Executive Director of Lucas-TVS Ltd., Chennai. He is a Director in Delphi-TVS Diesel Systems Ltd., Hastham Swasthi Pvt. Ltd. and Lucas Indian Service Ltd.

He is also Chairman of the Audit Committee of Delphi-TVS Diesel Systems Ltd. and Lucas Indian Service Ltd., Chennai.



Explanatory statement pursuant to Section 173 (2) of the Companies Act, 1956.

The following explanatory statement sets out all material facts relating to the special business mentioned in the accompanying notice dated 30th June 2004 and shall be taken as forming part of the notice.

Item No. 6 of the Notice

In terms of Section 163 of the Companies Act, 1956, (the Act), The Register of Members, Index of Members and Register and Index of Debenture Holders, and copies of all annual returns of the Company prepared under Section 159 of the Act together with copies of certificates and documents which are required to be annexed thereto are required to be kept at the registered office of the Company.

At present the Company is handling the share transfer work in-house in respect of shares held in physical form. In respect of shares held in electronic form in the depositories, the electronic connectivity is being provided by the depository registrars, M/s.Integrated Enterprises (India) Limited, Chennai.

Securities and Exchange Board of India (SEBI) in its circular No.D & CC / FITTC/ Cir-15 dated 27th December 2002 has stipulated that a Company should have a common agency for handling the share registry work for both physical and electronic transfers i.e., either in-house or by way of a SEBI registered Registrar and Transfer Agent (RTA).

The Board of Directors have appointed Sundaram-Clayton Limited (SCL) as Share Transfer Agents to carry out the registry work pertaining to transfer of shares and to provide connectivity with the depositories for handling transactions taking place in electronic form. Consequently, the records detailed in the Resolution will have to be shifted to the share registry office of SCL. In terms of Section 163 of the Companies Act, 1956, approval of the Shareholders is sought by a special resolution for keeping the Register and Index of Members and other records as set out in the Resolution outside the registered office of the Company.

Individual notices will be sent to the Shareholders 30 days in advance of the date on and from which the appointment of SCL as share transfer agent will take effect.

A copy of the proposed special resolution is being delivered to the Registrar of Companies, Tamilnadu.

Mr.T K Balaji, Chairman and Mr.Gopal Srinivasan, Director, being Directors of Sundaram-Clayton Limited, are deemed to be interested in the resolution.

The Directors recommend the resolution for adoption.

INDIA NIPPON ELECTRICALS LIMITED**Directors' Report to the Shareholders**

Your Directors have pleasure in presenting the nineteenth Annual Report and Audited Accounts for the year ended 31st March, 2004.

1. FINANCIAL HIGHLIGHTS

| | Rs. Lacs | |
|---|--------------|---------------|
| | Current Year | Previous Year |
| Sales (including Excise duty) | 17346 | 16902 |
| Profits from operations before depreciation and finance charges | 3383 | 3644 |
| Other income | 608 | 459 |
| Less: Depreciation | 476 | 327 |
| Finance charges | 13 489 | 39 366 |
| Profit before tax | 3502 | 3737 |
| Balance brought forward from previous year | 725 | 530 |
| Excess provision for earlier year written back | 14 | 20 |
| | 4241 | 4287 |
| Provision for taxation (including deferred tax) | 1017 | 987 |
| | 3224 | 3300 |
| Dividend | 687 | 687 |
| Provision for Dividend tax | 88 | 88 |
| Transfer to General reserve | 1650 | 1800 |
| Balance carried forward to next year | 799 | 725 |

2. OPERATIONS

During the year under review the two wheeler industry grew by 10.8% with motorcycle at 12.4%, scooter at 10.2% and moped showing a negative growth of 5%. Your Company's sales during the year showed a marginal increase of 2.6%. Your Company's sales would have been higher but for

the substantial price reduction that had to be offered to almost all the customers to maintain the share of business in a highly competitive market.

Profit before tax decreased by 6.30% from Rs.37.37 crores to Rs.35.02 crores due to increase in input costs and provision for diminution in value of investments by Rs.174 lacs and increase in depreciation by Rs.149 lacs. The diminution in the value of investments arose out of fall in Net Asset Values (NAV) of certain mutual fund investments. On these investments, however, the company made an overall annualised return of 5.94% even after factoring in the loss attributable to reduced NAVs. A higher provision for income tax, notwithstanding the lower profit is due to lower tax holiday benefits under Section 80IB of Income Tax Act, 1961.

Competition amongst vehicle manufacturers has become extremely intense with periodical price reductions to retain market share. Vehicle manufacturers are, therefore, demanding from component manufacturers progressive price reductions to be committed over a period. In this situation, Your Directors are taking steps to introduce technologically superior products, VAVE solutions and other cost reduction programmes in Your Company. Almost all the vehicle manufacturers are launching 3 to 4 models a year to offer a range of products to customers.

Your Directors are pleased to state that during the year under review a new state-of-the-art electronic facility was set up at Pondicherry unit at a cost of nearly Rs.4.50 crores to cater to requirements of customers.

Your Company's exports during the year amounted to Rs.26.83 lacs. It has secured orders worth Rs.125 lacs from Kokusan Denki Co Ltd., Japan and Lombardini, Italy.



Your Company continues to pursue development of human resources and is providing facilities for acquisition of specialised knowledge by engineers and advanced skills by workmen.

3. DIVIDEND

Your Directors recommend a final dividend of Rs.0.50 per share (tax free) for the year 31.03.2004 absorbing an amount of Rs.40.40 lacs; thus totalling to Rs.8.50 per share amounting to Rs.686.72 lacs including two interim dividends already paid for the year 2003-04.

Dividend, if approved by the Shareholders, would be payable to those Shareholders whose names appear in the Register of Members as on 3rd September, 2004.

4. SUBSIDIARY COMPANY

IN Investment was sold during the year.

5. PUBLIC DEPOSITS

Your Company has not accepted any deposits under Section 58A of the Companies Act, 1956 read with Companies (acceptance of Deposits) Rules 1975.

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

Please refer to Annexure-I to the Directors' Report to the Shareholders.

7. CORPORATE GOVERNANCE

A report on corporate governance prescribed by the Listing Agreement appears as part of this report-please refer to Annexure-II.

Your Company has made arrangements with the Stock Holding Corporation of India Ltd. to make one single payment in lieu of annual payment as a facility to Shareholders to demat their shares.

8. DIRECTORS' RESPONSIBILITY STATEMENT

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

a) That in the preparation of accounts for the financial year ended 31st March, 2004 the applicable accounting standards have been followed.

b) That the Directors have selected the 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 under review and of the Profit of the Company, for the year under review.

c) That the Directors have 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.

d) That the Directors have prepared the annual accounts for the year ended 31st March, 2004 on a "going concern" basis.

9. DIRECTORS

M/s. R D Flint and K Seshadri retire by rotation and being eligible offer themselves for re-appointment.

10. AUDITORS

M/s. Brahmayya & Co., Chartered Accountants, retire at the conclusion of the Annual General Meeting and are eligible for re-appointment.

11. PARTICULARS OF EMPLOYEES

Section 217(2A) of the Companies Act, 1956, is not applicable as the remuneration payable to any employee does not exceed the prescribed limit.

12. GENERAL

Your Directors wish to place on record their appreciation for the good work of all the employees of the Company.

Your Company acknowledges the continued support received from Lucas Indian Service Limited, Chennai; Kokusan Denki Co. Ltd., Japan and also wish to thank the Government of Tamil Nadu, Haryana and Pondicherry, Bank of Baroda, ICICI Bank Ltd., UTI Bank Ltd. and SIPCOT for the assistance rendered by them from time to time.

for and on behalf of the Board of Directors

Chennai
30th June 2004

T K BALAJI
Chairman

INDIA NIPPON ELECTRICALS LIMITED**Annexure I to Directors' Report to the Shareholders**

Information as required under Section 217(1)(e) of the Companies Act, 1956 :

1. CONSERVATION OF ENERGY**a) Energy Conservation measures taken up during the year under review are :**

Replacement of V Belt on machines with flat belt drive, minimisation of idle time losses by installing auto on/off switches for power in hydraulic presses, automatic on/off switches for water chilling plant, air lines modification to reduce losses have been taken up during the year 2003-04.

b) Additional Investment Proposals :

Installation of controller for compressor for energy saving.

2. TECHNOLOGY ABSORPTION, ADAPTATION AND INNOVATION :**a) Specific areas in which capabilities have been acquired by R&D are :**

- i) Design and development of Digital Control units which can be used in future products such as electronic fuel injection
- ii) Improvements in test methods to simulate field failures for improving reliability
- iii) Development of computer based tool to enable engine tuning by customers
- iv) VE design for reducing cost of products

R & D activities are being pursued to develop innovative products to meet customer expectations in a situation where engine performance is constantly being improved. These activities are carried out by our engineers trained in-house as well as at collaborator factory in Japan.

- b) The Company continues to absorb technology from the collaborators under a license agreement for purposes of developing new products.

Expenditure on R & D :

| | Rs. Lacs |
|--|----------|
| Capital | 55.87 |
| Revenue | 82.22 |
| Total | 138.09 |
| Total R&D expenditure as a % of net turnover | 0.92% |

3. FOREIGN EXCHANGE OUTGO AND EARNINGS :

The foreign exchange outgo and earnings for the Company under review were Rs.1179.42 lacs and Rs.26.83 lacs respectively.

For and on behalf of the Board of Directors

Chennai
30th June 2004

T K BALAJI
Chairman